

CommonWealth

Resource Management Corporation

January 13, 2014

Municipal Review Committee, Inc.
c/o Greg Louder, Executive Director
395 State Street
Ellsworth, Maine 04605

RE: Review of the Tip Fee for the First Quarter of 2014

Dear Members of the MRC:

In January 2014, the Municipal Review Committee (the MRC) received from the Penobscot Energy Recovery Company (PERC) a calculation of the tipping fee for the first quarter of 2014 (the Quarterly Adjustment, which is provided as Attachment 1). The Quarterly Adjustment calculates a tipping fee of **\$ 76.00** per ton that would be in effect for (a) Charter Municipalities that have executed the Second Amended, Restated and Extended Waste Disposal Agreements (the Waste Disposal Agreement); and (b) other entities with contracts that use the Quarterly Adjustment as a basis for contract tip fees.

PERC supplied the following materials to document the Quarterly Adjustment: (1) data and information in support of the calculation of bond interest costs applicable to the quarter and projected for the upcoming quarter, provided as Exhibit A; (2) tons of and disposal costs for ash, glass and grit, non-processibles and ferrous materials on both a cash and accrual basis, provided as Exhibit B; and (3) tons of waste delivered for each month in 2013 for all customers, for each of the Charter Municipalities and other municipalities having disposal contracts with PERC; and for sources of out-of-state spot market waste, provided as Exhibits C-1 through C-3. PERC had separately provided monthly performance reports for its facility (the Facility) through November 2013.

CommonWealth Resource Management Corporation (CommonWealth) has reviewed and duplicated PERC's calculations of the Quarterly Adjustment, and has reviewed various aspects of the performance of the Facility. This letter presents our review of the Quarterly Adjustment. Comments and recommendations on compliance with Performance Standards and on management of Performance Credits and Net Cash Flow are provided in a separate letter.

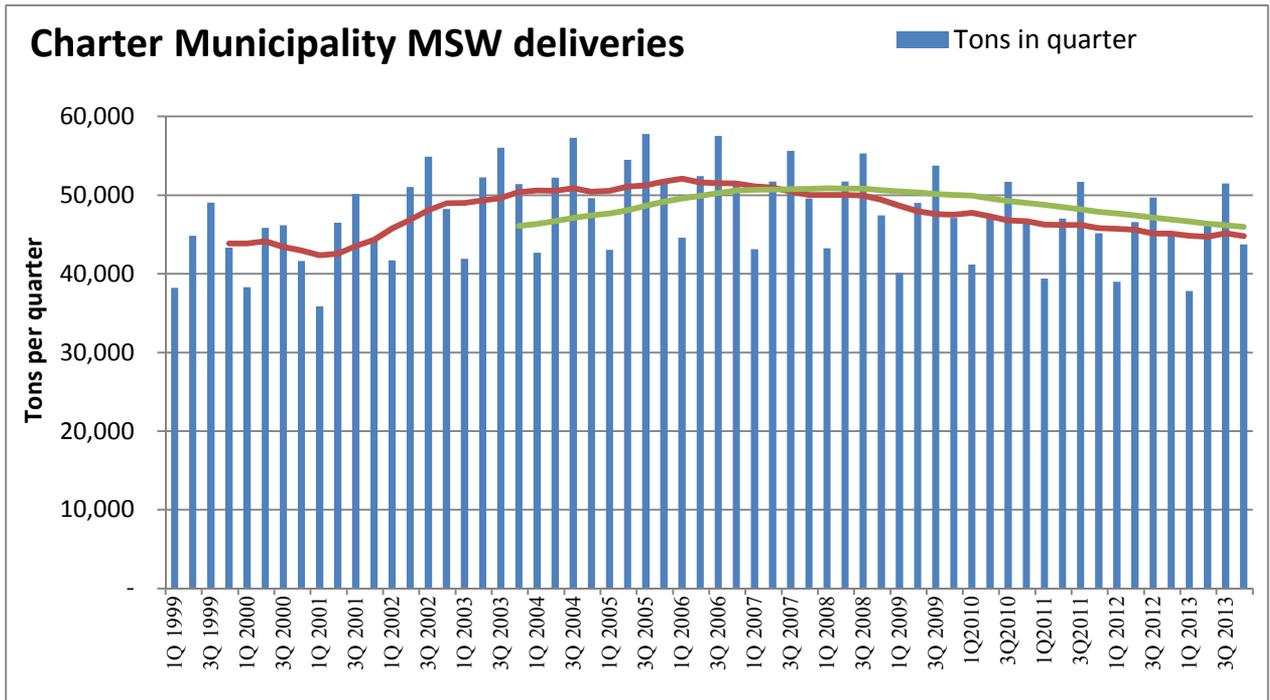
1. Base Fee inflation. PERC adjusted the Base Rate to \$62.02 in 2013 from \$61.29 in 2012, an increase of 1.2 percent. This escalation is based on the percentage change to September 2013 from September 2012 of the Consumer Price Index-All Urban Consumers (CPI-U), U.S. cities average, all items index, as published by the United States Bureau of Labor Statistics. Having reviewed the CPI-U data, Commonwealth concurs that PERC's escalation of the Base Rate complies with the Agreement.

2. Charter Municipalities and tonnage data. Regarding the customer and tonnage data and estimates provided by PERC in Exhibit C:
 - Actual 2013 deliveries vs. 2012. The Charter Municipalities as a group delivered 43,742 tons in the past quarter as compared to 45,183 tons in the fourth quarter of 2012 --- a decrease of 1,441 tons (-3.2%). Charter Municipalities are noted in Exhibit C as having delivered 179,177 tons in 2013, which constitutes 97.2 percent of the GAT of 184,252 tons per year for 2013.
 - Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 39,299 tons in the past quarter as compared to 40,411 tons in the fourth quarter of 2012 --- a decrease of 1,112 tons (-2.8%).
 - New Charter Municipalities. The New Charter Municipalities delivered 4,443 tons in the past quarter, as compared to 4,772 tons delivered in the fourth quarter of 2012 --- a decrease of 329 tons (-6.9 percent).

MSW Deliveries to PERC in 2013 and 2012, tons by calendar quarter

	Equity Charters				New Charters				All Charters			
	2013	2012	Change	%	2013	2012	Change	%	2013	2012	Change	%
1Q	34,012	35,116	(1,104)	-3.1%	3,822	3,877	(55)	-1.4%	37,835	38,993	(1,159)	-3.0%
2Q	41,292	41,917	(625)	-1.5%	4,837	4,658	179	3.8%	46,128	46,574	(446)	-1.0%
3Q	46,090	44,652	1,438	3.2%	5,381	5,052	329	6.5%	51,471	49,705	1,767	3.6%
4Q	39,299	40,411	(1,112)	-2.8%	4,443	4,772	(329)	-6.9%	43,742	45,183	(1,441)	-3.2%
Total	160,693	162,096	(1,403)	-0.9%	18,483	18,359	124	0.7%	179,177	180,456	(1,279)	-0.7%

- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute or percentage declines in tonnage in the fourth quarter of 2013 compared to the fourth quarter of 2012: **Bangor, Clinton, Glenburn, Hermon, Mid-Maine SWD, Old Town, Thorndike and Union River SWD** (Equity Charters); and **Oakfield, Springfield and Tri-County SWO** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2013 over the fourth quarter of 2012 include **Brewer, Brooks, Hampden, Mariaville, Rockland and Winthrop** (Equity Charters), and **Abbot, Medway, North Katahdin and Sherman** (New Charters).



- Towns without Charter or long-term agreements. The long-term communities that have not yet switched to charter status (two as of the end of the quarter – **Burlington, and Lowell**) delivered 58 tons in the quarter. The host community of **Orrington** delivered 423 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Monroe, Pittsfield, Prospect** and **Winterport** delivered 1,546 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Greenville** (200 tons in the quarter), the Town of **Willimantic** (10 tons in the quarter), the Town of **Warren** (235 tons in the quarter) and the Towns of **Nobleboro and Jefferson** (829 tons in the quarter) are shown on the list of PERC customers on Exhibit C-1, but are not Charter Municipalities per Exhibit C-2.
- Out-of-state spot waste and supplemental fuel. PERC received slightly more out-of-state spot market waste in the quarter than had been budgeted in the prior quarterly adjustment (2,246 actual tons vs. 1,500 budgeted tons). PERC received 99 tons of wood chips in the quarter for use as supplemental fuel.
- Pine Tree Waste contracts. Pine Tree Waste delivered 14,560 tons to PERC in the quarter, of which 11,339 tons were in-state MSW and 3,221 tons were out-of-state MSW.
- Summary of sources of waste. PERC’s sources of waste are summarized below:

	4Q 2013		2013 year to date	
	Tons	Share of total	Tons	Share of total
Municipal waste				
Charter Municipalities				
Equity	39,299.29	53.1%	160,693.45	52.4%
<u>New</u>	<u>4,443.02</u>	<u>6.0%</u>	<u>18,483.30</u>	<u>6.0%</u>
Total	43,742.31	59.2%	179,176.75	58.4%
Carryover towns	57.60	0.1%	253.00	0.1%
Other (OWL and short-term)	2,819.78	3.8%	11,764.85	3.8%
Host community	423.05	0.6%	1,686.96	0.5%
<u>Subtotal</u>	<u>47,042.74</u>	<u>63.6%</u>	<u>192,881.56</u>	<u>62.9%</u>
Commercial waste				
In-state commercial	15,462.69	20.9%	72,179.32	23.5%
Out-of-state	11,437.70	15.5%	41,813.92	13.6%
<u>Subtotal</u>	<u>26,900.39</u>	<u>36.4%</u>	<u>113,993.24</u>	<u>37.1%</u>
Total	73,943.13	100.0%	306,874.80	100.0%

3. Actual residuals disposal costs. PERC's actual total residuals disposal costs for the prior quarter included in the tip fee calculation were 6.4 percent more than PERC had projected. The quantity of MSW received was 5.2 percent less than PERC had projected. In addition,

- Actual costs for glass and grit disposal were 5.8 percent below the projections.
- Actual costs for ash disposal were 2.9 percent below the projections.
- Actual costs for non-processibles included in the tip fee calculation, accounting for landfill disposal and for the cost of the external grinding operation, were 28.9 percent below the projections. PERC sent 16 tons of non-processable material to the landfill in the quarter.
- PERC continues to have ferrous material removed at no charge, because the value of the material covers the cost of transportation to market.

Based on our review, Commonwealth agrees that PERC's calculations of actual passed-through disposal costs are reasonable.

4. Projected residual stream disposal costs. PERC projects the cost for ash disposal for the upcoming quarter to be \$615,382, equivalent to \$9.52 per ton of MSW to be received in the quarter.

PERC projects the cost for glass and grit disposal for the upcoming quarter to be \$525,000, equivalent to \$8.13 per ton of MSW to be received in the quarter.

PERC projects the cost for disposal of non-processibles for the upcoming quarter to be \$100,000, equivalent to \$1.55 per ton of MSW to be received, which reflects prior levels of cost to process this material.

PERC projects no cost for disposition of recovered ferrous material.

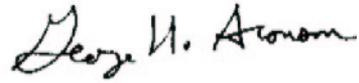
Overall, Commonwealth believes the costs projected by PERC for residuals disposal are reasonably consistent with calculations based on (1) the estimate of tons of waste to be processed in the upcoming quarter; (2) the generation rates of these residual

streams in previous quarters; (3) actual unit costs for transportation and disposal of each residual stream in previous quarters; and (4) projected unit costs for transport and disposal of each residual stream in the upcoming quarters. Differences between estimated and actual costs will be reconciled in the next quarterly adjustments.

5. Changes in rate of interest cost. Commonwealth has reviewed PERC's calculations of the changes of rate of interest cost for the prior and upcoming quarters and agrees that the calculations are acceptable to the MRC. The calculations reflect the recent re-financing of PERC's outstanding bonds with a bank loan from TDBank. The calculation of the change of rate of interest cost in the quarter also accounts for the costs of three interest rate swaps purchased by PERC to reduce its exposure to future interest rate increases. Overall, PERC paid interest, including the cost of the swaps, at a rate equivalent to 3.38 percent in the quarter.
6. Reconciliation from the prior quarter. The Quarterly Adjustment includes a positive reconciliation amount of \$70,914 (about \$1.62 per ton) to reconcile PERC's actual costs with the basis for its tipping fee in the previous quarter. That is, the tip fee in the previous quarter was set \$1.62 per ton **lower** than what would have been required for PERC to recover exactly the amount it was due from the Charter Municipalities in the quarter. This reconciliation amount has the effect of increasing the current tip fee more than had been anticipated to compensate for the high tip fee in the prior quarter.
7. Environmental Performance. PERC reported that all emissions were below applicable limits during the quarter.
8. CMRA Deposits: On November 8, 2013, PERC made a deposit of \$562,020.95 into the CMRA Fund for the preceding quarter. Such deposit was made as required pursuant to Article VII, Section I, of the Waste Disposal Agreement. CRMC recommends that the Charter Municipalities not put into escrow the corresponding portion of the cumulative CMRA shortfall from tipping fee payments.
9. Format of the Quarterly Adjustment. The format of the Quarterly Adjustment and the associated documentation provided by PERC are reasonable and sufficient for reviewing PERC's calculations. The version of the Quarterly Adjustment received by Commonwealth did contain a certification from the Facility controller regarding the validity of quarterly pass-through costs as required by Schedule C, Section F of the Agreement.

Subject to the comments above and receipt of the monthly performance report for December 2013, Commonwealth believes that PERC's Quarterly Adjustment for the first quarter of 2014 complies with the Waste Disposal Agreement and recommends acceptance by the MRC Board. If you have any further questions regarding the Quarterly Adjustment, please feel free to contact me.

Sincerely,

A handwritten signature in black ink that reads "George H. Aronson". The signature is written in a cursive style with a large initial 'G'.

George H. Aronson
Principal

Attachment 1 Quarterly Adjustment Received from PERC

Copies: Bangor Hydro, PERC



Penobscot Energy Recovery Company

P.O. Box 160 • 29 Industrial Way
Orrington, Maine 04474
(207) 825 - 4566

ESOCO ORRINGTON, INC.
Plant Operator

January 7, 2014

PERC Municipal Review Committee
c/o Mr. Greg Louder
Eastern Maine Development Corporation
40 Harlow Street
Bangor, Maine 04401-8520

Subject: First Quarter 2014 Tipping Fee Calculation

Committee Members:

Attached for your review is the first quarter 2014 Tipping Fee Calculation along with appropriate back-up information to support a "Charter Municipality" tipping fee rate of \$76.00.

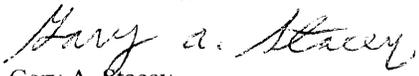
The information in Exhibits A through C, supplied herewith, along with the monthly Plant Performance Reports, should be sufficient to duplicate and verify the tipping fee calculation.

Also enclosed is a certificate, signed by the Plant Controller, certifying the validity of the quarterly pass-through costs for the quarter ending December 31, 2013.

Representatives from PERC will be available at your next board meeting to answer any questions concerning the new tipping fee and to provide additional information concerning plant operations.

If any questions arise in the interim please call.

Very truly yours,
Penobscot Energy Recovery Company


Gary A. Stacey
Plant Controller

Attachments:

Cc: G. Aronson, CWRM
P. Prata, PERC
J. Noer, SET
K. Nordby, PERC Holdings



Penobscot Energy Recovery Company

P.O. Box 160 • 29 Industrial Way
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ESOCO ORRINGTON, INC.
Plant Operator

CERTIFICATE

The undersigned controller of Penobscot Energy Recovery Company ("PERC") states that he has reviewed the quarterly Pass-through Costs as presented on the tipping fee calculation quarterly reconciliation statement for the quarter ending December 31, 2013, that the quarterly reconciliation statement is a correct representation of the matters set forth and was prepared in accordance with generally acceptable accounting principles consistent with PERC's historical operating practices.

Dated: January 7, 2014

Gary A. Stacey, Plant Controller
ESOCO Orrington, LLC, as Agent

TIPPING FEE CALCULATION

07-Jan-14

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TIPPING FEE:

BASE RATE COMPONENT	\$61.29	4th QTR '13 ESTIMATE	\$61.29	4th QTR '13 ACTUAL	\$61.29	1st QTR '14 ESTIMATE	\$62.02
CPI-U							1.20%
VARIABLE RATE COMPONENT	\$13.46	\$13.46	\$13.46	\$13.46	\$13.98	\$13.98	=====
TOTAL TIPPING FEE	\$74.75	\$74.75	\$74.75	\$74.75	\$76.00	\$76.00	=====

TOTAL MSW DELIVERED (TONS)	78,000	73,943
CHARTER MSW DELIVERED (TONS)	45,000	43,742
CHARTER MSW FACTOR #1	0.5769	0.5916
OUT-OF-STATE SPOT MSW (TONS)	1,500	2,246
CHARTER MSW FACTOR #2	0.5882	0.6101

PASSTHROUGH COSTS:

CHANGE IN DISPOSAL COSTS	\$351,115	\$416,889	\$199,432
SUPPLEMENTAL FUEL COSTS (RECYCLING)	\$0	\$0	\$0

RECONCILIATION OF PREVIOUS QTR

OPERATING STANDARDS CREDIT	\$0	\$0	\$0
CHANGE IN RATE OF INTEREST COSTS	(\$29,912)	(\$32,335)	(\$27,026)

AMOUNT OWED TO PERC IN QTR

	\$270,580	\$333,932	\$243,320
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VARIABLE RATE CHANGE (C.I.L. COSTS)

VARIABLE RATE CHANGE (OTHER PASSTHI)	\$6.01		\$6.53
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TOTAL VARIABLE RATE CHANGE \$\$\$/TON

	\$6.01		\$6.53
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AMOUNT ACTUALLY BILLED IN QTR

		\$263,018	
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TIPPING FEE CALCULATION

07-Jan-14

TIPPING FEE:

CHANGE IN DISPOSAL COSTS	4th QTR '13 ESTIMATE	4th QTR '13 ACTUAL	1st QTR '14 ESTIMATE
RESIDUE DISPOSAL COST	\$715,469	\$694,370	\$615,382
G&G DISPOSAL COST	\$632,592	\$794,573	\$525,000
FERROUS DISPOSAL COST	\$0	\$0	\$0
NON-PRO DISPOSAL COST	\$155,000	\$110,238	\$100,000
BYPASS DISPOSAL COST	\$0	\$0	\$0
FEPR DISPOSAL COST	\$787,592	\$904,812	\$625,000
TOTAL DISPOSAL COST	\$1,503,061	\$1,599,182	\$1,240,382
CHANGE IN DISPOSAL COST (COST-BASE)	\$608,599	\$704,720	\$345,920
CHARTER SHARE OF COSTS (FACTOR #1)	\$351,115	\$416,889	\$199,432

CHANGE IN RATE OF INTEREST COSTS

ACTUAL TOTAL INTEREST FOR QTR.	\$57,851	\$57,743
INTEREST CALC. @ 6.40% BASE RATE	\$110,850	\$103,531
CHANGE IN RATE OF INTEREST COSTS	(\$50,850)	(\$45,788)
CHARTER SHARE OF COSTS (FACTOR #2)	(\$29,912)	(\$27,026)