

CommonWealth

Resource Management Corporation

January 13, 2015

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 2015

Dear Members of the MRC:

In January 2015, 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 2015 (the Quarterly Adjustment, which is provided as Attachment 1). The Quarterly Adjustment calculates a tipping fee of **\$ 78.25** 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 2014 to date 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 December 2014.

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 management of Performance Credits and Net Cash Flow, and on compliance with annual performance standards, are provided in separate letters.

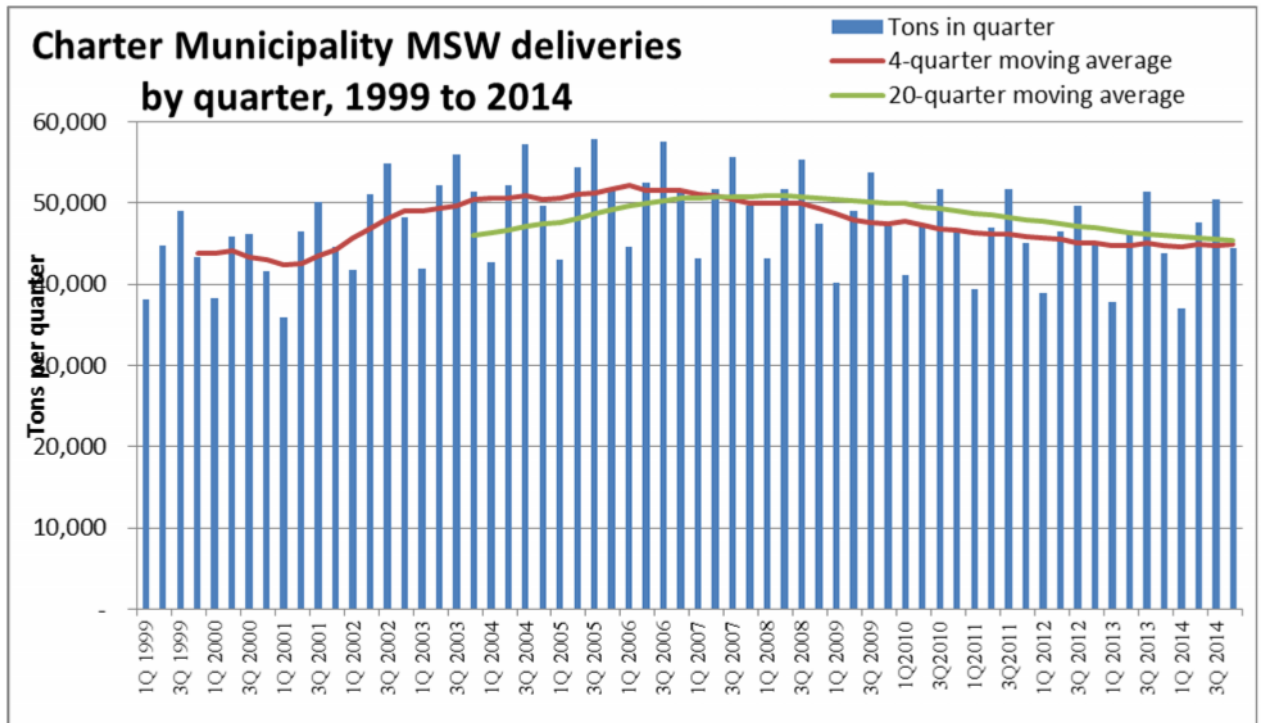
1. Base Fee inflation. PERC adjusted the Base Rate to \$63.08 in 2015 from \$62.02 in 2014, an increase of 1.7 percent. This escalation is based on the percentage change to September 2014 from September 2013 of the Consumer Price Index-All Urban Consumers (CPI-U), U.S. cities average, all items index, 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 2014 deliveries vs. 2013. The Charter Municipalities as a group are noted in Exhibit C-2 as having delivered 44,381 tons in the past quarter as compared to 43,742 tons in the fourth quarter of 2013 --- an increase of 649 tons (+1.5%). The deliveries reported by PERC in 2014 represent 97.4 percent of the GAT for 2014 of 184,252 tons. These deliveries do not include 28,618 tons of in-state MSW delivered to the PERC facility in the quarter under commercial contract accounts, much of which originated within the boundaries of Charter Municipalities and should have been counted toward the GAT.
 - Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 39,857 tons in the past quarter as compared to 39,299 tons in the fourth quarter of 2013 --- an increase of 557 tons (+1.4%).
 - New Charter Municipalities. The New Charter Municipalities delivered 4,524 tons in the past quarter, as compared to 4,443 tons delivered in the fourth quarter of 2013 --- an increase of 81 tons (+1.8 percent).

MSW Deliveries to PERC in 2014 and 2013, tons by calendar quarter

	Equity Charters				New Charters				All Charters			
	2014	2013	Change	%	2014	2013	Change	%	2014	2013	Change	%
1Q	33,392	34,012	(620)	-1.8%	3,852	3,822	29	0.8%	37,244	37,835	(591)	-1.6%
2Q	42,704	41,292	1,413	3.4%	4,928	4,837	91	1.9%	47,632	46,128	1,504	3.3%
3Q	45,215	46,090	(875)	-1.9%	5,291	5,381	(91)	-1.7%	50,506	51,471	(965)	-1.9%
4Q	39,857	39,299	557	1.4%	4,524	4,443	81	1.8%	44,381	43,742	639	1.5%

- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute or percentage declines in tonnage in the fourth quarter of 2014 compared to the four quarter of 2013: **Alton, Fairfield, Hampden, Mariaville, Lee, Newburgh, Old Town, Palmyra and Waterville** (Equity Charters); and **Abbot, E. Millinocket, Etna, Garland, Montville and Wiscasset** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2014 over the fourth quarter of 2013 include **Bangor, Blue Hill/Surry, Mt. Desert ADD and Thomaston Group** (Equity Charters), and **Cherryfield, Harrington, Machias, Milbridge and Stockton Springs** (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 51 tons in the quarter. The host community of **Orrington** delivered 424 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Monroe, Pittsfield, Prospect** and **Winterport** delivered 1,561 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Greenville** (195 tons in the quarter), the Town of **Willimantic** (10 tons in the quarter), the Town of **Warren** (253 tons in the quarter), the Towns of **Nobleboro and Jefferson** (837 tons in the quarter), and starting in October, the Town of **Eastbrook** (56 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 more out-of-state spot market waste in the quarter than had been budgeted in the prior quarterly adjustment (2,163 actual tons vs. 930 budgeted tons). PERC received 13,630 tons of out-of-state MSW and combusted 111 tons of wood chips for use as supplemental fuel in the quarter.
- Pine Tree Waste contracts. Pine Tree Waste delivered 20,960 tons in the quarter, of which 16,168 tons were in-state MSW and 4,791 tons were out-of-state MSW.
- Summary of sources of waste. PERC's sources of waste are summarized below:

	4Q 2014		2014 year to date	
	Tons	Share of total	Tons	Share of total
Municipal waste				
Charter Municipalities				
Equity	39,856.58	48.5%	160,898.04	51.5%
New	4,524.31	5.5%	18,594.59	6.0%
Total	44,380.89	54.1%	179,492.63	57.5%
Carryover towns	50.59	0.1%	250.28	0.1%
Other (OWL and short-term)	2,912.33	3.5%	11,572.72	3.7%
Host community	424.41	0.5%	1,655.09	0.5%
Subtotal	47,768.22	58.2%	192,970.72	61.8%
Commercial waste				
In-state commercial	20,706.99	25.2%	67,960.53	21.8%
Out-of-state	13,630.04	16.6%	51,383.72	16.5%
Subtotal	34,337.03	41.8%	119,344.25	38.2%
Total	82,105.25	100.0%	312,314.97	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 7.1 percent more than PERC had projected. The quantity of MSW received was 2.3 percent more than PERC had projected, so the actual cost per ton of residuals disposal for the quarter was very close to the projected cost per ton. In particular,

- Actual costs for glass and grit disposal were 20.7 percent above the projections, with a steep rise in the generation rate in December as the disk screens approach the end of their annual maintenance cycle.
- Actual costs for ash disposal were 5.3 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 3.2 percent above the projections. PERC did not send 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 \$622,142, equivalent to \$9.39 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 \$620,000, equivalent to \$9.36 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 \$119,500, equivalent to \$1.80 per ton of MSW to be received, which reflects prior levels of cost to process this material.

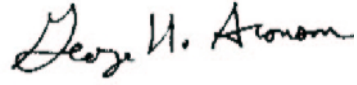
PERC projects no cost for disposition of recovered ferrous material.

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 (one of which expired in July 2014). Overall, PERC paid interest, including the cost of the swaps, at a rate equivalent to **3.18 percent** in the quarter.
6. Reconciliation from the prior quarter. The Quarterly Adjustment includes a positive reconciliation amount of \$48,075 (about \$1.27 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 \$1.27 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 tip fee in the prior quarter.
7. Environmental Performance. PERC reported that all emissions were below applicable licensed limits during the quarter.
8. CMRA Deposits: On November 14, 2014, PERC made a deposit of \$576,512.59 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.
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, Commonwealth believes that PERC's Quarterly Adjustment for the first quarter of 2015 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, LLC.
Plant Operator

January 5, 2015

PERC Municipal Review Committee
c/o Mr. Greg Louder
Eastern Maine Development Corporation
395 State Street
Ellsworth, Maine 04605

Subject: First Quarter 2015 Tipping Fee Calculation

Committee Members:

Attached for your review is the first quarter 2015 Tipping Fee Calculation along with appropriate back-up information to support a "Charter Municipality" tipping fee rate of \$78.25.

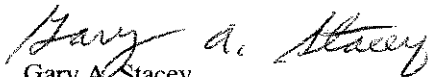
The information in Exhibits A through C, supplied herewith, along with the monthly Plant Performance Reports, should be sufficient to duplicate and verify the tipping fee calculation.

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, 2014.

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
Orrington, Maine 04474
(207) 825 - 4566

ESOCO ORRINGTON, LLC.
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, 2014, 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 5, 2015

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

TIPPING FEE CALCULATION			
05-Jan-15			
	4th QTR '14	4th QTR '14	1st QTR '15
	ESTIMATE	ACTUAL	ESTIMATE
=====			
TIPPING FEE:			
BASE RATE COMPONENT	\$62.02	\$62.02	\$63.08
CPI-U			1.70%
VARIABLE RATE COMPONENT	\$14.97	\$14.97	\$15.17
=====			
TOTAL TIPPING FEE	\$77.00	\$77.00	\$78.25
TOTAL MSW DELIVERED (TONS)	80,289	82,105	66,265
CHARTER MSW DELIVERED (TONS)	45,000	44,381	38,000
CHARTER MSW FACTOR #1	0.5605	0.5405	0.5735
OUT-OF-STATE SPOT MSW (TONS)	930	2,163	2,067
CHARTER MSW FACTOR #2	0.5670	0.5552	0.5919
PASSTHROUGH COSTS:			
CHANGE IN DISPOSAL COSTS	\$371,168	\$417,404	\$267,907
SUPPLEMENTAL FUEL COSTS (RECYCLING)	\$0	\$0	\$0
RECONCILIATION OF PREVIOUS QTR	(\$11,273)	(\$11,273)	\$48,075
OPERATING STANDARDS CREDIT	\$0	\$0	\$0
CHANGE IN RATE OF INTEREST COSTS	(\$21,346)	(\$24,165)	(\$22,580)
=====			
AMOUNT OWED TO PERC IN QTR	\$338,549	\$381,967	\$293,402
VARIABLE RATE CHANGE (C.I.L. COSTS)			
VARIABLE RATE CHANGE (OTHER PASSTHI	\$7.52		\$7.72
=====			
TOTAL VARIABLE RATE CHANGE \$\$\$/TON	\$7.52		\$7.72
AMOUNT ACTUALLY BILLED IN QTR		\$333,891	

TIPPING FEE CALCULATION 05-Jan-15 =====		4th QTR '14 ESTIMATE	4th QTR '14 ACTUAL	1st QTR '15 ESTIMATE
TIPPING FEE:				
CHANGE IN DISPOSAL COSTS =====	BASE COST			
RESIDUE DISPOSAL COST	\$368,188	\$720,000	\$681,662	\$622,142
G&G DISPOSAL COST	\$382,746	\$695,000	\$838,723	\$620,000
FERROUS DISPOSAL COST	\$63,791	\$0	\$0	\$0
NON-PRO DISPOSAL COST	\$79,737	\$141,700	\$146,280	\$119,500
BYPASS DISPOSAL COST	\$0	\$0	\$0	\$0
FEPR DISPOSAL COST	\$526,274	\$836,700	\$985,003	\$739,500
TOTAL DISPOSAL COST	\$894,462	\$1,556,700	\$1,666,665	\$1,361,642
CHANGE IN DISPOSAL COST (COST-BASE)		\$662,238	\$772,203	\$467,180
CHARTER SHARE OF COSTS (FACTOR #1)		\$371,168	\$417,404	\$267,907
CHANGE IN RATE OF INTEREST COSTS =====				
ACTUAL TOTAL INTEREST FOR QTR.		\$48,033	\$42,150	\$40,272
INTEREST CALC. @ 6.40% BASE RATE		\$85,678	\$85,678	\$78,419
CHANGE IN RATE OF INTEREST COSTS		(\$37,645)	(\$43,527)	(\$38,147)
CHARTER SHARE OF COSTS (FACTOR #2)		(\$21,346)	(\$24,165)	(\$22,580)