

# CommonWealth

Resource Management Corporation

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April 15, 2013

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

RE: Review of the Tip Fee for the Second Quarter of 2013

Dear Members of the MRC:

In April 2013, the Municipal Review Committee (the MRC) received from the Penobscot Energy Recovery Company (PERC) a calculation of the tipping fee for the second quarter of 2012 (the Quarterly Adjustment, which is provided as Attachment 1). The Quarterly Adjustment calculates a tipping fee of \$ **74.75** 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 March 2013.

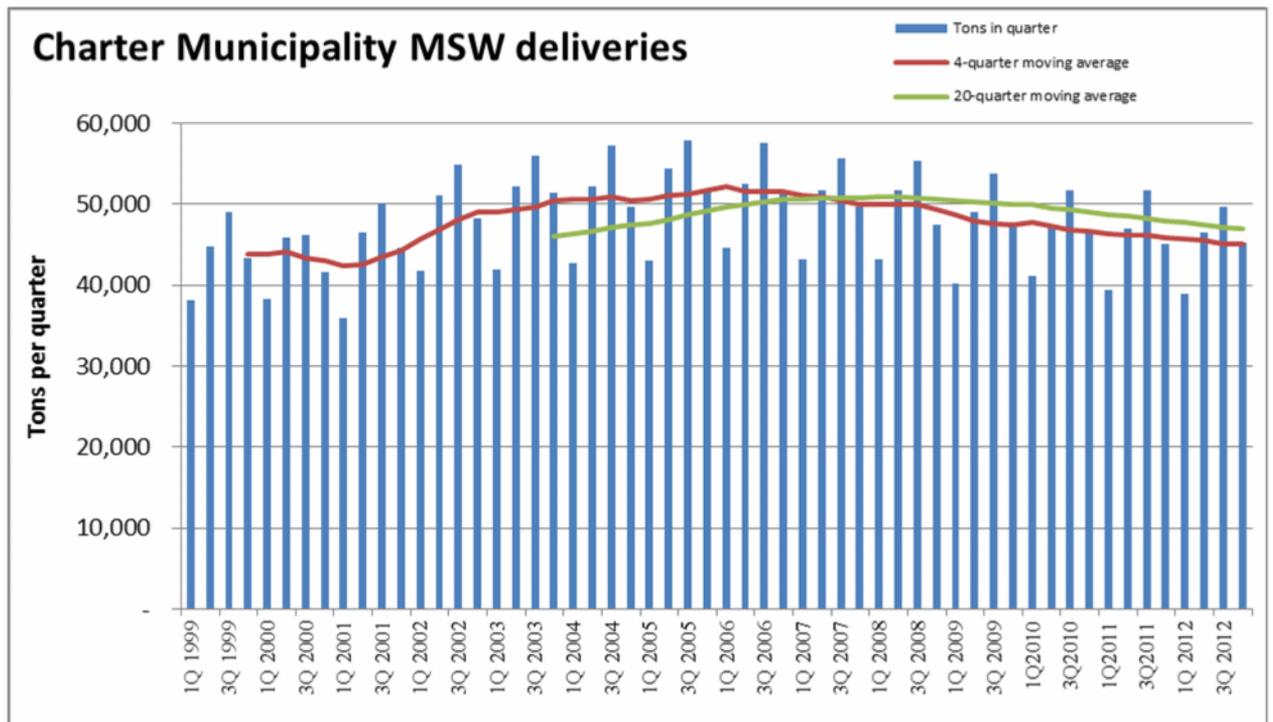
CommonWealth Resource Management Corporation (CommonWealth) has reviewed and duplicated PERC's calculations of the Quarterly Adjustment, and has reviewed various aspects of the performance of the Facility. This letter presents our review of the Quarterly Adjustment. Comments and recommendations on management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

1. Charter Municipalities and tonnage data. Regarding the customer and tonnage data and estimates provided by PERC:

- Actual 2013 deliveries vs. 2012. The Charter Municipalities as a group delivered 37,835 tons in the past quarter as compared to 38,993 tons in the first quarter of 2012 --- a decrease of 1,159 tons (-3.0%). The 37,835 tons delivered constitute 20.5 percent of the GAT of 184,252 tons per year for 2013. Among other factors, heavy snows in the quarter likely contributed to the decrease in MSW deliveries.
- Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 34,012 tons in the past quarter as compared to 35,116 tons in the first quarter of 2012 --- a decrease of 1,104 tons (-3.1%).
- New Charter Municipalities. The New Charter Municipalities delivered 3,822 tons in the past quarter, as compared to 3,877 tons delivered in the first quarter of 2012 --- a decrease of 55 tons (-1.4 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%



- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute or percentage declines in tonnage in the first quarter of 2013 compared to the first quarter of 2012: **Bangor, Old Town, Brewer, Rockland, Lincoln, Central Penobscot, Bar Harbor and Thorndike** (Equity Charters); and **Belfast, Franklin, Sherman and Machias** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2013 over the first quarter of 2012 include **Millinocket, Waterville, Fairfield, Mt. Desert and Newburg** (Equity Charters), and **Tri-County SWO, Montville, Freedom, North Katahdin and Abbott** (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 47 tons in the quarter. The host community of **Orrington** delivered 373 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Monroe, Pittsfield, Prospect and Winterport** delivered 1,314 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Willimantic** (9 tons in the quarter), the Town of **Warren** (183 tons in the quarter) and the Towns of **Nobleboro and Jefferson** (750 tons in the quarter) are shown as delivering waste 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 less out-of-state spot market waste in the quarter than had been budgeted in the prior quarterly adjustment (1,029 actual tons vs. 2,500 budgeted tons). PERC used 665 tons of wood chips as supplemental fuel in the quarter.
- Pine Tree Waste contracts. Pine Tree Waste delivered 17,664 tons to PERC in the quarter, of which 16,192 tons were in-state MSW.
- Summary of all sources of waste. The sources of waste to PERC in the quarter and the year to date are summarized in the following table:

	1Q 2013	
	Tons	Share of total
<b>Municipal waste</b>		
Charter Municipalities		
Equity	34,012.38	49.9%
New	3,822.44	5.6%
Total	37,834.82	55.5%
Carryover towns	46.62	0.1%
Other (OWL and short-term)	2,429.22	3.6%
Host community	373.20	0.5%
<b>Subtotal</b>	<b>40,683.86</b>	<b>59.6%</b>
<b>Commercial waste</b>		
In-state commercial	19,514.75	28.6%
Out-of-state	8,028.42	11.8%
<b>Subtotal</b>	<b>27,543.17</b>	<b>40.4%</b>
<b>Total</b>	<b>68,227.03</b>	<b>100.0%</b>

2. Actual residuals disposal costs. PERC's actual total residuals disposal costs for the prior quarter included in the tip fee calculation were 11.6 percent less than PERC had projected. The quantity of MSW received was 3.5 percent more than PERC had projected. In addition,

- Actual costs for glass and grit disposal were 16.5 percent below the projections. The glass and grit generation rate, which had been particularly elevated in November (21.3 percent) and December (24.9 percent), dropped dramatically to 11.2 percent in March 2013 after annual maintenance was performed. The costs reflect escalation of the disposal rate in February 2013.
- Actual costs for ash disposal were 3.5 percent below the projections, which is attributable to the increase in MSW received. The costs reflect escalation of the disposal rate in February 2013.
- 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 31.3 percent below the projections. PERC sent 8 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.

PERC bypassed 7,298 tons of waste to the Juniper Ridge Landfill during February and March in and around the period of the turbine-generator major inspection and maintenance outage.

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

3. Projected residual stream disposal costs. PERC projects the cost for ash disposal for the upcoming quarter to be \$790,855, equivalent to \$9.44 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 \$723,500, equivalent to \$8.64 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 \$1.19 per ton of MSW to be received, which reflects prior levels of disposal of this material.

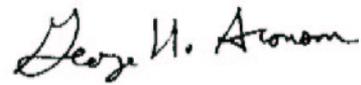
PERC projects no cost for disposition of recovered ferrous material.

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.

4. 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 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 3.35 percent in the quarter.
5. Reconciliation from the prior quarter. The Quarterly Adjustment includes a negative reconciliation amount of \$86,584 (about \$1.86 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 \$1.86 per ton **higher** 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, which is larger than usual, has the effect of decreasing the current tip fee more than had been anticipated to compensate for the high tip fee in the prior quarter.
6. Environmental Performance. PERC reported that all emissions were below applicable limits during the quarter. There was one reportable exceedance of a temperature limit on B Boiler due to problems with an atomizer.
7. CMRA Deposits: On February 13, 2013, PERC made a deposit of \$509,634.25 into the CMRA Fund for the preceding quarter. Such deposit was made timely pursuant to Article VII, Section I, of the Waste Disposal Agreement, so the Charter Municipalities have no basis in the agreements for putting into escrow the corresponding portion of the cumulative CMRA shortfall from their tipping fee payments.
8. 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 second quarter of 2013 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

April 2, 2013

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

**Subject: Second Quarter 2013 Tipping Fee Calculation**

Committee Members:

Attached for your review is the second quarter 2013 Tipping Fee Calculation along with appropriate back-up information to support a "Charter Municipality" tipping fee rate of \$74.75.

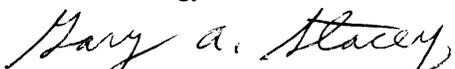
The information in Exhibits A through C, supplied herewith, along with the monthly Plant Performance Reports, should be sufficient to duplicate and verify the tipping fee calculation.

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

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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 March 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: April 2, 2013

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

TIPPING FEE CALCULATION

02-Apr-13

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TIPPING FEE:

BASE RATE COMPONENT

CPI-U

VARIABLE RATE COMPONENT

TOTAL TIPPING FEE

TOTAL MSW DELIVERED (TONS)

CHARTER MSW DELIVERED (TONS)

CHARTER MSW FACTOR #1

OUT-OF-STATE SPOT MSW (TONS)

CHARTER MSW FACTOR #2

PASSTHROUGH COSTS:

CHANGE IN DISPOSAL COSTS

SUPPLEMENTAL FUEL COSTS (RECYCLING)

RECONCILIATION OF PREVIOUS QTR

OPERATING STANDARDS CREDIT

CHANGE IN RATE OF INTEREST COSTS

AMOUNT OWED TO PERC IN QTR

VARIABLE RATE CHANGE (C.I.L. COSTS)

VARIABLE RATE CHANGE (OTHER PASSTHROUGH COSTS)

TOTAL VARIABLE RATE CHANGE \$\$\$/TON

AMOUNT ACTUALLY BILLED IN QTR

	4th QTR '12 ESTIMATE	4th QTR '12 ACTUAL	1st QTR '13 ESTIMATE	1st QTR '13 ACTUAL	2nd QTR '13 ESTIMATE
BASE RATE COMPONENT	\$60.09	\$60.09	\$61.29	\$61.29	\$61.29
CPI-U			2.00%		
VARIABLE RATE COMPONENT	\$13.91	\$13.91	\$14.71	\$14.71	\$13.46
TOTAL TIPPING FEE	\$74.00	\$74.00	\$76.00	\$76.00	\$74.75
TOTAL MSW DELIVERED (TONS)	74,661	78,692	65,902	66,227	83,757
CHARTER MSW DELIVERED (TONS)	46,500	45,183	39,100	37,835	46,500
CHARTER MSW FACTOR #1	0.6228	0.5742	0.5933	0.5545	0.5552
OUT-OF-STATE SPOT MSW (TONS)	3,502	1,119	2,500	1,029	2,500
CHARTER MSW FACTOR #2	0.6535	0.5825	0.6167	0.5630	0.5723
PASSTHROUGH COSTS:					
CHANGE IN DISPOSAL COSTS	\$345,449	\$414,943	\$241,201	\$141,654	\$399,668
SUPPLEMENTAL FUEL COSTS (RECYCLING)	\$0	\$0	\$0	\$0	\$0
RECONCILIATION OF PREVIOUS QTR	(\$4,512)	(\$4,512)	\$80,897	\$80,897	(\$86,584)
OPERATING STANDARDS CREDIT	\$0	\$0	\$0	\$0	\$0
CHANGE IN RATE OF INTEREST COSTS	(\$40,434)	(\$37,542)	(\$38,101)	(\$34,327)	(\$33,456)
AMOUNT OWED TO PERC IN QTR	\$300,503	\$372,888	\$283,997	\$188,224	\$279,628
VARIABLE RATE CHANGE (C.I.L. COSTS)	\$6.46		\$7.26		\$6.01
VARIABLE RATE CHANGE (OTHER PASSTHROUGH COSTS)	\$6.46		\$7.26		\$6.01
TOTAL VARIABLE RATE CHANGE \$\$\$/TON	\$12.92		\$14.52		\$12.02
AMOUNT ACTUALLY BILLED IN QTR		\$291,992		\$274,808	

