

CommonWealth

Resource Management Corporation

April 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 Second Quarter of 2015

Dear Members of the MRC:

In April 2015, 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 2015 (the Quarterly Adjustment, which is provided as Attachment 1). The Quarterly Adjustment calculates a tipping fee of **\$ 79.50** 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 March 2015.

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, Net Cash Flow and other MRC assets are provided in a separate letter.

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

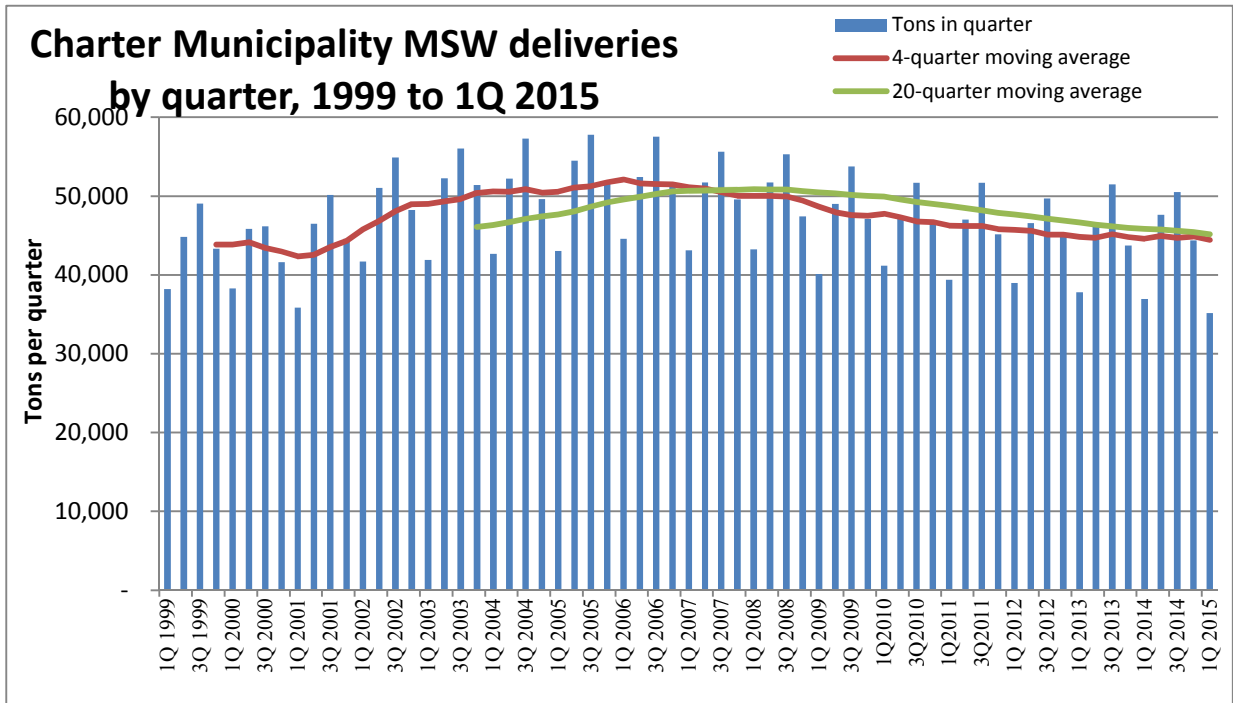
- Actual 2015 deliveries vs. 2014. The Charter Municipalities as a group are noted in Exhibit C-2 as having delivered 35,195 tons in the past quarter as compared to 36,974 tons in the first quarter of 2014 --- a decrease of 1,779 tons (-4.8%), which likely reflects the extreme winter weather experienced in the quarter. The deliveries reported by PERC in 2015 to date represent 19.1 percent of the GAT for 2015 of 184,252 tons. These deliveries do not include 5,063 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 therefore should have been counted toward the GAT.
- Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 31,543 tons in the past quarter as compared to 33,122 tons in the first quarter of 2014 --- a decrease of 1,579 tons (-4.8%).
- New Charter Municipalities. The New Charter Municipalities delivered 3,652 tons in the past quarter, as compared to 3,852 tons delivered in the first quarter of 2014 --- a decrease of 200 tons (-5.2 percent).

MSW Deliveries to PERC in 2015 and 2014, tons by calendar quarter

	Equity Charters				New Charters				All Charters			
	2015	2014	Change	%	2015	2014	Change	%	2015	2014	Change	%
1Q	31,543	33,122	(1,579)	-4.8%	3,652	3,852	(200)	-5.2%	35,195	36,974	(1,779)	-4.8%

- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute or percentage declines in tonnage in the first quarter of 2015 compared to the first quarter of 2014: **Bangor, Bucksport, Clinton, Mid-Maine SWD, Newburgh, Pleasant River SWD, Thorndike, Waldoboro Group and Waterville** (Equity Charters); and **Abbot, Castine, Cherryfield, Etna, Knox, Machias, Montville, Oakfield and Wiscasset** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2015 over the first quarter of 2014 include **Midcoast SWD, Mt. Desert area ADD, Searsport, Winthrop and Winslow** (Equity Charters), and **East Millinocket, Garland, North Katahdin, Harrington, Stockton Springs and Sullivan** (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 43 tons in the quarter. The host community of **Orrington** delivered 343 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Monroe, Pittsfield, Prospect and Winterport** delivered 1,261 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Greenville** (161 tons in the quarter), the Town of **Willimantic** (8 tons in the quarter), the Town of **Warren** (194 tons in the quarter), the Towns of **Nobleboro and Jefferson** (546 tons in the quarter), and the Town of **Eastbrook** (43 tons in the quarter) are shown on the list of

PERC customers on Exhibit C-1, but are not shown as 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 (3,065 actual tons vs. 2,067 budgeted tons). PERC received 14,067 tons of out-of-state MSW and combusted 1,085 tons of wood chips for use as supplemental fuel in the quarter.
- Pine Tree Waste contracts. Pine Tree Waste delivered 19,575 tons in the quarter, of which 14,273 tons were in-state MSW and 5,302 tons were out-of-state MSW.
- Summary of sources of waste. PERC’s sources of waste are summarized below:

	1Q 2015	
	Tons	Share of total
Municipal waste		
Charter Municipalities		
Equity	31,543.15	45.3%
New	3,651.51	5.2%
Total	35,194.66	50.5%
Carryover towns	42.67	0.1%
Other (OWL and short-term)	2,213.63	3.2%
Host community	343.10	0.5%
Subtotal	37,794.06	54.3%
Commercial waste		
In-state commercial	17,799.81	25.6%
Out-of-state	14,066.50	20.2%
Subtotal	31,866.31	45.7%
Total	69,660.37	100.0%

2. Actual residuals disposal costs. PERC's actual total residuals disposal costs for the prior quarter included in the tip fee calculation were 12.2 percent more than PERC had projected. The quantity of MSW received was 5.1 percent more than PERC had projected, so the actual cost per ton of residuals disposal for the quarter exceeded the projected cost per ton. In particular,
- Actual costs for glass and grit disposal were 20.7 percent above the projections. Glass and grit generation rates were elevated throughout the quarter, especially in February, despite replacement of the screens on both process lines in January and subsequent attempts to adjust screen speed controls. Generation rates then declined below 20 percent near the end of March as weather conditions became more moderate. The pattern over the quarter is consistent with the idea that the elevated glass and grit generation rates were caused at least in part by cold weather that froze or otherwise affected the waste. Although the exact explanation is not yet clear, it is reasonable to project that glass and grit generation rates in the second and third quarters will stay below those experienced in the first quarter. Whether the disk screens suffered wear or damage in the first quarter that will accelerate the rate of increase in glass and grit generation rate over the rest of the annual maintenance cycle is also not clear.
 - Actual costs for ash disposal were 8.4 percent below the projections, in part because more inert material than had been anticipated was diverted through the disk screens prior to combustion.
 - 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 1.7 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.

3. Projected residual stream disposal costs. PERC projects the cost for ash disposal for the upcoming quarter to be \$725,000, equivalent to \$8.83 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 \$658,500, equivalent to \$8.02 per ton of MSW to be received in the quarter. This projection assumes that glass and grit generation rates will decline significantly from the elevated rates experienced in the first quarter, which elevated rates are attributed to the severe weather conditions.

PERC projects the cost for disposal of non-processibles for the upcoming quarter to be \$150,000, equivalent to \$1.83 per ton of MSW to be received, which reflects prior levels of cost to process this material.

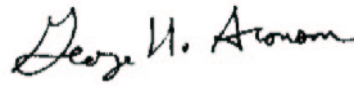
PERC projects no cost for disposition of recovered ferrous material.

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.

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 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 **3.16 percent** in the quarter.
5. Reconciliation from the prior quarter. The Quarterly Adjustment includes a positive reconciliation amount of \$75,524 (about \$2.15 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 \$2.15 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.
6. Environmental Performance. PERC reported one emission exceedance during the quarter, which involved excessive emissions of carbon monoxide (CO) during an extended start-up of B Boiler after the outage for annual maintenance.
7. CMRA Deposits: On February 9, 2015, PERC made a deposit of \$506,594.08 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.
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 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