

# CommonWealth

Resource Management Corporation

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October 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 Fourth Quarter of 2013

Dear Members of the MRC:

In October 2013, the Municipal Review Committee (the MRC) received from the Penobscot Energy Recovery Company (PERC) a calculation of the tipping fee for the third quarter of 2013 (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 September 2013.

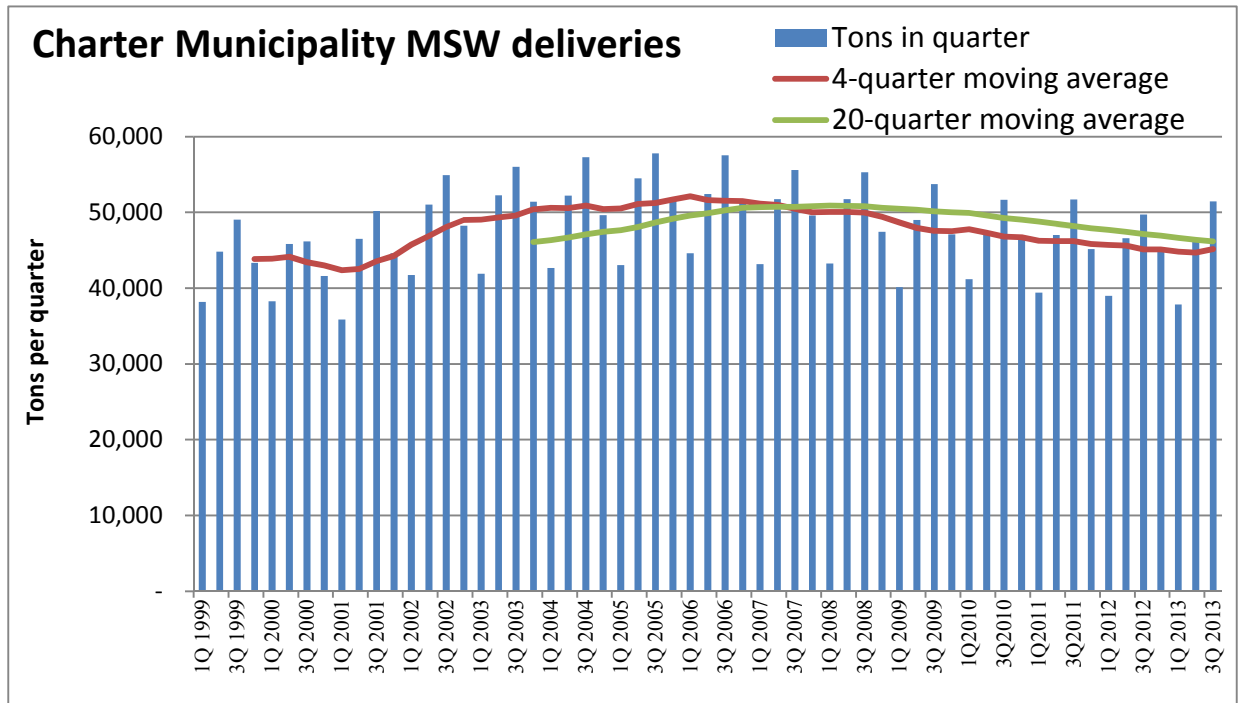
CommonWealth Resource Management Corporation (CommonWealth) has reviewed and duplicated PERC's calculations of the Quarterly Adjustment, and has reviewed various aspects of the performance of the Facility. This letter presents our review of the Quarterly Adjustment. Comments and recommendations on management 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 51,471 tons in the past quarter as compared to 49,705 tons in the third quarter of 2012 --- an increase of 1,767 tons (+3.6%). The Charter Municipalities are noted in Exhibit C as having delivered 135,434 tons in 2013 to date, which constitutes 73.5 percent of the GAT of 184,252 tons per year for 2013.
- Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 46,090 tons in the past quarter as compared to 44,652 tons in the third quarter of 2012 --- an increase of 1,438 tons (+3.2%).
- New Charter Municipalities. The New Charter Municipalities delivered 5,381 tons in the past quarter, as compared to 5,052 tons delivered in the third quarter of 2012 --- an increase of 329 tons (+6.5 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%



- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute or percentage declines in tonnage in the third quarter of 2013 compared to the third quarter of 2012: **Eddington, Mattawamkeag, Pleasant River, Old Town, Thorndike and Winslow** (Equity Charters); and **Abbott, Medway, N. Katahdin and Wiscasset** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2013 over the third quarter of 2012 include **Bangor, Bar Harbor, Clinton, Fairfield, Hampden, Millinocket and Rockland** (Equity Charters), and **Freedom, Machias, Oakfield, Piscataquis County, Sherman, Springfield and Tri-County SWMO** (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 79 tons in the quarter. The host community of **Orrington** delivered 452 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Monroe, Pittsfield, Prospect and Winterport** delivered 1,820 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Willimantic** (18 tons in the quarter), the Town of **Warren** (241 tons in the quarter) and the Towns of **Nobleboro and Jefferson** (1,132 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 (1,583 actual tons vs. 1,500 budgeted tons). PERC used 149 tons of wood chips as supplemental fuel in the quarter.
- Pine Tree Waste contracts. Pine Tree Waste delivered 13,025 tons to PERC in the quarter, of which 496 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:

	3Q 2013		2013 year to date	
	Tons	Share of total	Tons	Share of total
<b>Municipal waste</b>				
Charter Municipalities				
Equity	46,090.22	56.4%	121,394.16	52.1%
New	5,381.23	6.6%	14,040.28	6.0%
Total	51,471.45	63.0%	135,434.44	58.1%
Carryover towns	78.60	0.1%	195.40	0.1%
Other (OWL and short-term)	3,469.27	4.2%	8,945.07	3.8%
Host community	451.64	0.6%	1,263.91	0.5%
Subtotal	55,470.96	67.9%	145,838.82	62.6%
<b>Commercial waste</b>				
In-state commercial	17,374.21	21.3%	56,716.63	24.3%
Out-of-state	8,866.48	10.9%	30,376.22	13.0%
Subtotal	26,240.69	32.1%	87,092.85	37.4%
<b>Total</b>	<b>81,711.65</b>	<b>100.0%</b>	<b>232,931.67</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 5.6 percent less than PERC had projected. The quantity of MSW received was 0.89 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 7.4 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 6.6 percent below the projections. PERC sent no non-processable material to the landfill in the quarter. PERC's financial statements for August 2013 reflect an underaccrual of costs for disposal of non-processible waste, which was corrected in the statements for September 2013. The Adjustment accounts for these costs correctly on a quarterly basis.
  - 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 \$715,469, equivalent to \$9.17 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 \$632,592, equivalent to \$8.11 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 \$155,000, equivalent to \$1.99 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.

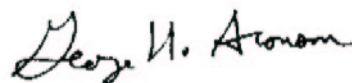
4. Changes in rate of interest cost. Commonwealth has reviewed PERC's calculations of the changes of rate of interest cost for the prior and upcoming quarters and agrees that the calculations are acceptable to the MRC. The calculations reflect the recent re-financing of PERC's outstanding bonds with 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. Overall, PERC paid interest, including the cost of the swaps, at a rate equivalent to 3.42 percent in the quarter.

5. Reconciliation from the prior quarter. The Quarterly Adjustment includes a negative reconciliation amount of \$50,622 (about \$1.12 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 \$1.12 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.
7. CMRA Deposits: On September 10, 2013, PERC made a deposit of \$520,294.56 into the CMRA Fund for the preceding quarter. Such deposit was made later than required pursuant to Article VII, Section I, of the Waste Disposal Agreement. Because the deposit was ultimately made, CRMC recommends that the Charter Municipalities not put into escrow the corresponding portion of the cumulative CMRA shortfall from 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 fourth 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,



George H. Aronson  
Principal

Attachment 1 Quarterly Adjustment Received from PERC

Copies: Bangor Hydro, PERC