

CommonWealth

Resource Management Corporation

January 12, 2011

The Municipal Review Committee
c/o Greg Louder, Solid Waste Planner
Eastern Maine Development Corporation
40 Harlow Street
Bangor, Maine 04401

RE: Review of the Tip Fee for the First Quarter of 2011

Dear Members of the MRC:

In January 2011, 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 2010 (the Quarterly Adjustment, which is provided as Attachment 1). The Quarterly Adjustment calculates a tipping fee of **\$ 74.20** 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 Exhibits A-1 through A-6; (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 2010 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 2010. These exhibits can be made available for review on request.

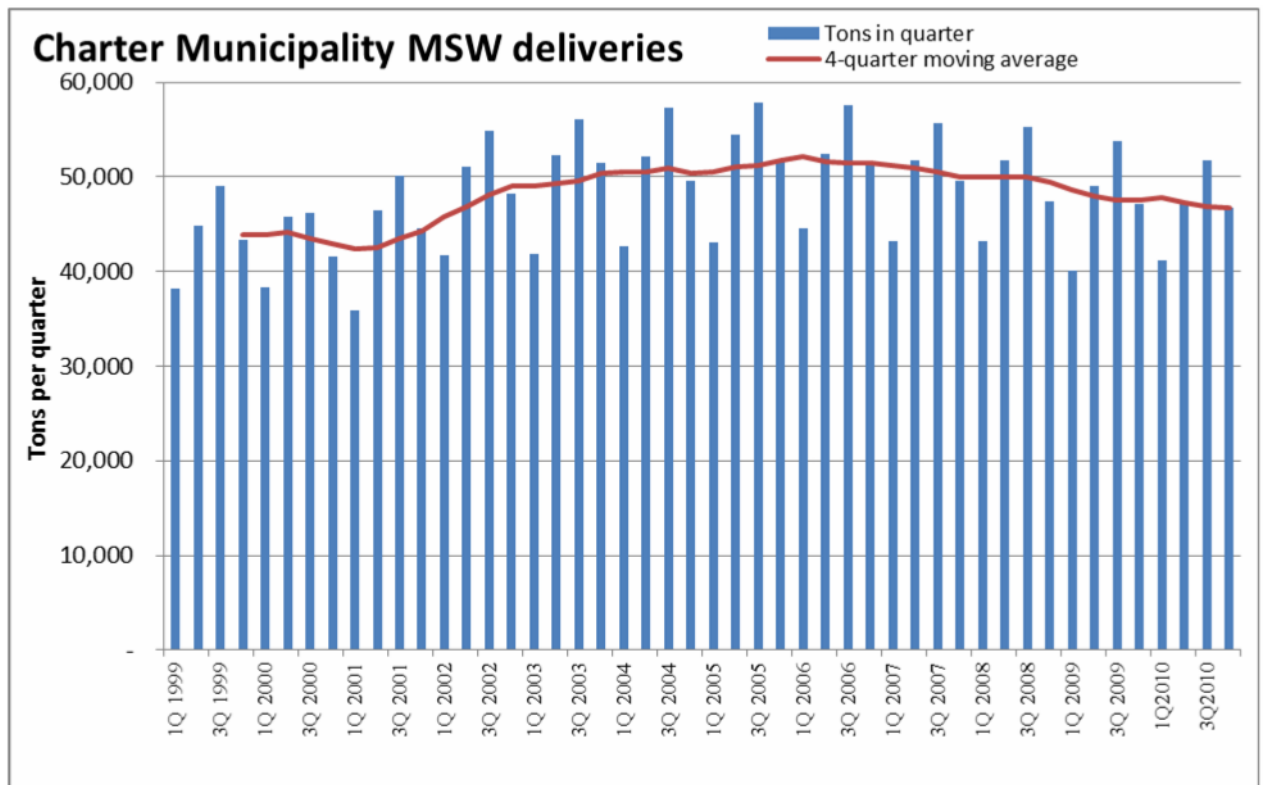
CommonWealth Resource Management Corporation (CommonWealth) has reviewed and duplicated PERC's calculations of the Quarterly Adjustment, and has reviewed various aspects of the performance of the Facility. This letter presents our review of the Quarterly Adjustment. Comments and recommendations on compliance 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 \$57.83 in 2011 from \$57.20 in 2010, an increase of 1.1 percent. This escalation is based on the percentage change to September 2010 from September 2009 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:
 - Actual 2010 deliveries vs. 2009. The Charter Municipalities as a group delivered 46,758 tons in the fourth quarter of 2010 as compared to 47,116 tons in the fourth quarter of 2009 --- a decrease of 358 tons (-0.8%).
 - Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 42,126 tons in the fourth quarter of 2010 as compared to 42,574 tons in the fourth quarter of 2009 --- a decrease of 448 tons (-1.1%).
 - New Charter Municipalities. The New Charter Municipalities delivered 4,632 tons in the quarter, an increase of 89 tons (+2.0 percent) from the 4,542 tons delivered in the fourth quarter of 2009.
 - Deliveries vs. GAT. The 186,857 tons that was reported in Exhibit C-2 as being the aggregate amount of Acceptable Waste delivered by the Charter Municipalities as a group in 2010 constitutes **99.1 percent of, or 1,709 tons below**, the aggregate Guaranteed Annual Tonnage (GAT) of 188,566 tons per year for 2009. Last year over the same period the Charter Municipalities were reported to have delivered 190,015 tons, which was 2,857 tons (2.5 percent) below the GAT in that year. The shortfall in GAT for tons reported as delivered in 2010 exposes the Charter Municipalities to shortfall payments pursuant to Article V.(I) of the Agreements. Note that the shortfall would apply to the aggregate amount of Acceptable Waste credited as delivered per Article V.(I) of the Waste Disposal Agreement. The status of the exposure to payments, including discussions with the PERC partners on adjustments to the amount credited as delivered in 2010, will be addressed at the MRC Board meeting.

MSW Deliveries to PERC in 2010 and 2009, tons by calendar quarter

	Equity Charters				New Charters				All Charters			
	2010	2009	Change	%	2010	2009	Change	%	2010	2009	Change	%
1Q	37,067	36,180	888	2.5%	4,104	3,958	146	3.7%	41,172	40,138	1,034	2.6%
2Q	42,498	44,128	(1,630)	-3.7%	4,746	4,890	(144)	-2.9%	47,244	49,018	(1,774)	-3.6%
3Q	46,442	48,529	(2,087)	-4.3%	5,242	5,215	27	0.5%	51,683	53,744	(2,060)	-3.8%
4Q	42,126	42,574	(448)	-1.1%	4,632	4,542	89	2.0%	46,758	47,116	(358)	-0.8%
Total	168,134	171,411	(3,277)	-1.9%	18,723	18,605	119	0.6%	186,857	190,015	(3,159)	-1.7%



- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute declines in tonnage in the fourth quarter of 2010 compared to the fourth quarter of 2009: **Brewer, Mid-Maine SWD, Winslow and China** (Equity Charters); and **Sherman, Wiscasset, Springfield, Abbot, Penobscot and Freedom** (New Charters). The Charter Municipalities showing the most significant declines in deliveries compared to the fourth quarter of 2009 on a percentage basis also include **Thorndike, Gouldsboro, Stetson, Monson, Plymouth and Otis** (Equity Charters); and **Hudson and Dixmont** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2010 over the fourth quarter of 2009 include **Fairfield, Bangor, Clinton, Mars Hill and the Waldoboro Group** (Equity Charters), and **Machias, Knox, Oakfield and Medway** (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 76 tons in the quarter. The host community of **Orrington** delivered 453 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Monroe, Pittsfield, Prospect** and **Winterport** delivered 1,635 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Willimantic** (12 tons in the quarter), the Town of **Warren** (246 tons in the quarter) and the Towns of **Nobleboro and Jefferson** (877 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. PERC received less out-of-state spot market waste in the quarter than budgeted in the prior quarterly adjustment (1,695 actual tons vs. 2,500 tons estimated). PERC did not combust any wood in the quarter.
- 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:

	4Q 2010		Total 2010	
	Tons	Share of total	Tons	Share of total
Municipal waste				
Charter Municipalities				
Equity	42,126.13	54.4%	168,133.79	53.9%
New	4,631.50	6.0%	18,723.07	6.0%
Total	46,757.63	60.4%	186,856.86	59.9%
LT contracts expired in 200	76.34	0.1%	269.91	0.1%
Other (OWL and short-term)	2,770.28	3.6%	11,519.16	3.7%
Host community	452.57	0.6%	1,845.36	0.6%
Subtotal	50,056.82	64.7%	200,491.29	64.3%
Commercial waste				
In-state commercial	5,868.81	7.6%	22,100.12	7.1%
In-state spot	561.14	0.7%	1,873.75	0.6%
Out-of-state commercial	19,302.76	24.9%	77,672.33	24.9%
Out-of-state spot	1,587.89	2.1%	9,558.04	3.1%
Subtotal	27,320.60	35.3%	111,204.24	35.7%
Total	77,377.42	100.0%	311,695.53	100.0%

3. Actual residuals disposal costs. PERC's actual total residuals disposal costs for the prior quarter were 7.9 percent greater than PERC had projected, while the quantity of waste received was 3.3 percent lower than PERC had projected. Specifically,
- Actual costs for glass and grit disposal were 14.9 percent above the projections. The glass and grit generation rate was again elevated through the quarter, reaching 25 percent in the month of December. PERC has stated its intent to remove glass and grit at a conservatively high rate in order to reduce adverse impacts on boiler performance early in 2011.
 - Actual costs for ash disposal were 1.8 percent above the projections. Ash generation rates tend to decrease due to decreases in the amounts of inert materials passing through the boilers as the glass and grit generation rates increases. Ash generation rates also depend on the completeness of fuel combustion in the boiler and the amount of lime used for pollution control.
 - Actual costs for non-processibles grinding were 2.7 percent below the projections. Note that the disposal cost for non-processibles includes the cost of the external

grinding operation. Approximately 32 tons of non-processibles were removed for landfill disposal in the quarter.

- PERC continues to pay a modest fee for recycling of the recovered ferrous material, because the value of the recovered ferrous material is slightly less than the cost of transportation to market.

PERC did not bypass any waste in the quarter.

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 \$575,010, equivalent to \$8.58 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 \$720,000, equivalent to \$10.75 per ton of MSW to be received in the quarter. The estimate assumes that the rate of glass and grit generation will decline after the disk screens undergo annual maintenance in January and February.

PERC projects the cost for disposal of non-processibles for the upcoming quarter to be \$88,500, equivalent to \$1.32 per ton of MSW to be received, which reflects the performance in the prior quarter.

PERC projects a cost of \$4,500 for disposition of recovered ferrous material, equivalent to \$0.07 per ton of MSW to be received.

Overall, Commonwealth believes that 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.
6. Reconciliation from the prior quarter. The Quarterly Adjustment includes a positive reconciliation amount of \$87,293 (about \$1.87 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 \$1.80 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. The reconciliation is larger than normal in large part due to the elevated rate of glass and grit disposal in the prior quarter, which exceeded PERC's estimates in setting the previous tipping fee.
7. Environmental Performance. PERC reported that all emissions were below applicable limits during the quarter with the exception of one NOx exceedance, which

occurred with only one boiler operating, and one exceedance of the opacity standard during a boiler start-up..

8. CMRA Deposits: PERC made its deposits into the CMRA Fund for the preceding quarter on November 15, 2010, which was before the date on which, pursuant to Article VII, Section I, of the Waste Disposal Agreement, the Charter Municipalities would have had the right to put in escrow the corresponding portion of the cumulative CMRA shortfall from their 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 review of the compliance with Performance Standards, Commonwealth believes that PERC's Quarterly Adjustment for the first quarter of 2011 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