

CommonWealth

Resource Management Corporation

January 13, 2012

The Municipal Review Committee, Inc.
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 2012

Dear Members of the MRC:

In January 2012, 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 2012 (the Quarterly Adjustment, which is provided as Attachment 1). The Quarterly Adjustment calculates a tipping fee of **\$ 76.50** 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.

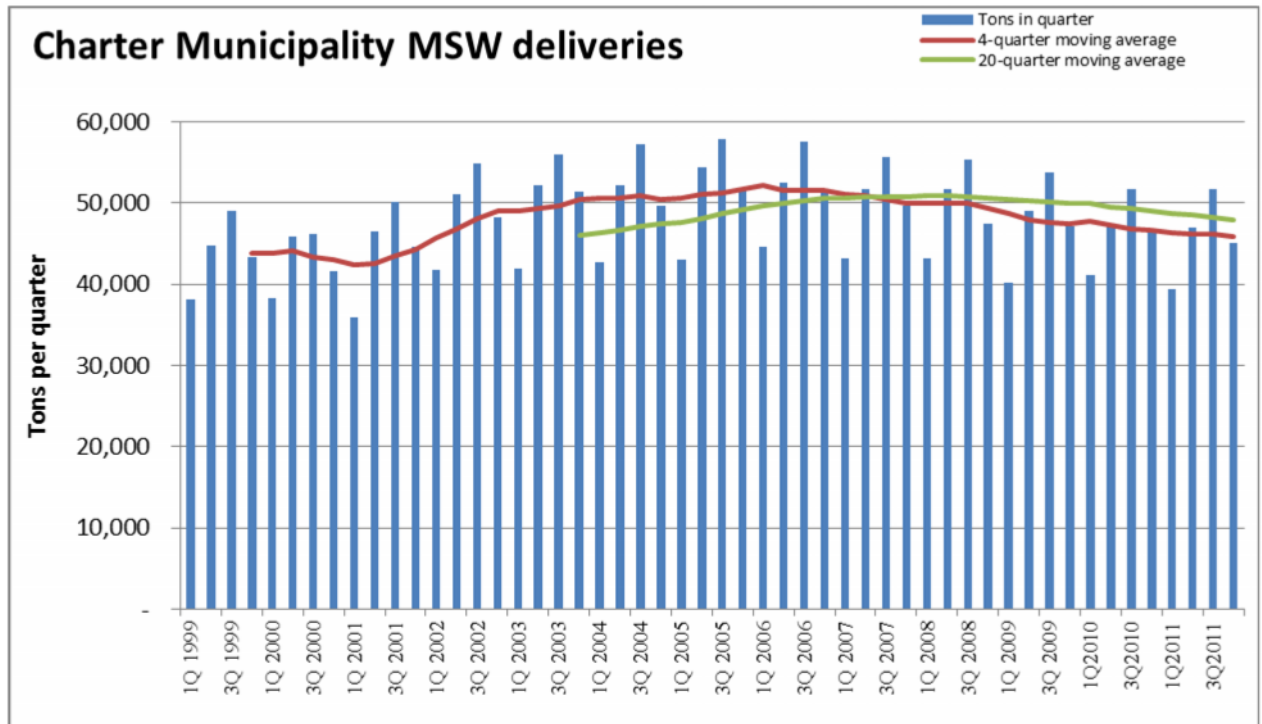
PERC supplied the following materials to document the Quarterly Adjustment: (1) data and information in support of the calculation of bond interest costs applicable to the quarter and projected for the upcoming quarter, provided as Exhibits A-1 through A-6; (2) tons of and disposal costs for ash, glass 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 2011 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 2011.

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 \$60.09 in 2012 from \$57.83 in 2011, an increase of 3.9 percent. This escalation is based on the percentage change to September 2011 from September 2010 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. Note that the value of CPI-U spiked up in September, 2011, then declined in each of October and November, 2011, which caused the escalation rate for the 2012 Base Rate to be somewhat higher than might otherwise have been the case.

2. Charter Municipalities and tonnage data. Regarding the customer and tonnage data and estimates provided by PERC:
 - Actual 2011 deliveries vs. 2010. The Charter Municipalities as a group delivered 45,160 tons in the past quarter as compared to 46,758 tons in the fourth quarter of 2010 --- a decrease of 1,597 tons (-3.4%).
 - Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 40,544 tons in the past quarter as compared to 42,126 tons in the fourth quarter of 2011 --- a decrease of 1,582 tons (-3.8%).
 - New Charter Municipalities. The New Charter Municipalities delivered 4,617 tons in the past quarter, as compared to 4,632 tons delivered in the fourth quarter of 2011 --- a decrease of 15 tons (-0.3 percent).
 - Deliveries vs. GAT. The 183,274 tons reported in Exhibit C-2 as the aggregate amount of Acceptable Waste delivered by the Charter Municipalities as a group in 2011 constitutes a **shortfall of 2,561 tons** (1.4%) of the annual aggregate Guaranteed Annual Tonnage (GAT) of 185,835 tons per year for 2011. The shortfall in GAT for tons reported as delivered in 2011 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 2011, will be addressed at the MRC Board meeting.

	Equity Charters				New Charters				All Charters			
	2011	2010	Change	%	2011	2010	Change	%	2011	2010	Change	%
1Q	35,352	37,067	(1,715)	-4.6%	4,045	4,104	(59)	-1.4%	39,397	41,172	(1,775)	-4.3%
2Q	42,205	42,498	(293)	-0.7%	4,821	4,746	75	1.6%	47,026	47,244	(218)	-0.5%
3Q	46,553	46,442	111	0.2%	5,138	5,242	(104)	-2.0%	51,691	51,683	7	0.0%
4Q	40,544	42,126	(1,582)	-3.8%	4,617	4,632	(15)	-0.3%	45,160	46,758	(1,597)	-3.4%
Total	164,654	168,134	(3,480)	-2.1%	18,620	18,723	(103)	-0.6%	183,274	186,857	(3,583)	-2.0%



- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute declines in tonnage in the fourth quarter of 2011 compared to the fourth quarter of 2010: **Bangor, Fairfield, Pleasant River SWD, Brewer, Old Town, Clinton, China, Mars Hill, Lincoln, Bucksport and Hampden** (Equity Charters); and **Wiscasset and Stockton Springs** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2011 over the fourth quarter of 2010 include **Waterville, Mid-Coast SWD, Glenburn, Bar Harbor, Searsport and Millinocket** (Equity Charters), and **Oakfield, Sherman and Springfield** (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 62 tons in the quarter. The host community of **Orrington** delivered 466 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Monroe, Pittsfield, Prospect** and **Winterport** delivered 1,627 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Willimantic** (8 tons in the quarter), the Town of **Warren** (234 tons in the quarter) and the Towns of **Nobleboro and Jefferson** (909 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 (1,928 actual tons vs. 3,500 budgeted tons). PERC used 547 tons of wood chips as supplemental fuel 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 2011		2011 year to date	
	Tons	Share of total	Tons	Share of total
Municipal waste				
Charter Municipalities				
Equity	40,543.66	52.3%	164,653.98	52.8%
New	4,616.53	6.0%	18,620.10	6.0%
Total	45,160.19	58.2%	183,274.08	58.7%
LT contracts expired in 2004	61.83	0.1%	280.01	0.1%
Other (OWL and short-term)	2,778.25	3.6%	11,335.32	3.6%
Host community	466.19	0.6%	1,810.18	0.6%
Subtotal	48,466.46	62.5%	196,699.59	63.0%
Commercial waste				
In-state commercial	6,582.85	8.5%	26,113.21	8.4%
Out-of-state	22,492.47	29.0%	89,187.98	28.6%
Subtotal	29,075.32	37.5%	115,301.19	37.0%
Total	77,541.78	100.0%	312,000.78	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 9.2 percent more than PERC had projected, while the quantity of waste received was 3.1 percent less than PERC had projected. Specifically,
 - Actual costs for glass and grit disposal were 11.0 percent above the projections. The glass and grit generation rate was elevated throughout the quarter, reaching over 24 percent of incoming MSW in December. The glass and grit generation rate is not expected to decline until the process lines undergo the annual maintenance on the disk screens scheduled for January and February of 2012.
 - Actual costs for ash disposal were 5.5 percent above the projections, notwithstanding the increase in glass and grit generation rates. Although ash disposal quantities typically decline when glass and grit generation rates increase, the rates of both ash disposal and of glass and grit disposal were both elevated in the fourth quarter of 2011.
 - 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 21.4 percent above the projections. Note that the costs for non-processibles for the fourth quarter included \$16,280 for 370 tons of material that were generated in the third quarter, but had not been included in the tip fee calculation for the fourth quarter. The inclusion of such costs in the current tip fee calculation has the effect of increasing the current tip fee by \$0.41 per ton.
 - PERC continues to have ferrous material removed at no charge, because the value of the material covers 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 \$588,500, equivalent to \$8.78 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 \$750,000, equivalent to \$11.19 per ton of MSW to be received in the quarter. The estimate assumes that the rate of glass and grit generation will stay elevated through the quarter.

PERC projects the cost for disposal of non-processibles for the upcoming quarter to be \$70,000, equivalent to \$1.04 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.

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 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 3.39 percent in the quarter.
6. Reconciliation from the prior quarter. The Quarterly Adjustment includes a positive reconciliation amount of \$94,306 (about \$2.39 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 \$2.39 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, which is larger than usual, has the effect of increasing the current tip fee more than had been anticipated to compensate for the low tip fee in the prior quarter.
7. Environmental Performance. PERC reported that all emissions were below applicable limits during the quarter. There was one exceedance of the inlet temperature to the A Baghouse, which occurred after failure of an atomizer drive belt. PERC performed its annual stack compliance test in September. Results from the test will be available shortly.

8. CMRA Deposits: On November 10, 2011, PERC made a deposit of \$550,148.21 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.
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 data on compliance with Performance Standards, Commonwealth believes that PERC's Quarterly Adjustment for the fourth 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



Penobscot Energy Recovery Company

P.O. Box 150 • 29 Industrial Way
Orrington, Maine 04474
(207) 825 - 4566

ESOCO ORRINGTON, INC.
Plant Operator

January 4, 2012

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

Subject: First Quarter 2012 Tipping Fee Calculation

Committee Members:

Attached for your review is the first quarter 2012 Tipping Fee Calculation along with appropriate back-up information to support a "Charter Municipality" tipping fee rate of \$76.50.

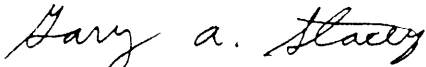
The information in Exhibits A through C, supplied herewith, along with the monthly Plant Performance Reports, should be sufficient to duplicate and verify the tipping fee calculation.

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, 2011.

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, 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 December 31, 2011, 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 4, 2012

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

TIPPING FEE CALCULATION

04-Jan-12

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TIPPING FEE:

BASE RATE COMPONENT	\$57.83	4th QTR '11 ESTIMATE	\$57.83	4th QTR '11 ACTUAL	\$60.09	1st QTR '12 ESTIMATE
CPI-U					3.90%	
VARIABLE RATE COMPONENT	\$15.37		\$15.37		\$16.42	
					=====	
TOTAL TIPPING FEE	\$73.20		\$73.20		\$76.50	

TOTAL MSW DELIVERED (TONS)	80,000	77,542
CHARTER MSW DELIVERED (TONS)	46,000	45,160
CHARTER MSW FACTOR #1	0.5750	0.5824
OUT-OF-STATE SPOT MSW (TONS)	3,502	1,928
CHARTER MSW FACTOR #2	0.6013	0.5973

PASSTHROUGH COSTS:

CHANGE IN DISPOSAL COSTS	\$367,734	\$454,979
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SUPPLEMENTAL FUEL COSTS (RECYCLING)

	\$0	\$0
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RECONCILIATION OF PREVIOUS QTR

	\$42,082	\$42,082
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OPERATING STANDARDS CREDIT

	\$0	\$0
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CHANGE IN RATE OF INTEREST COSTS

	(\$45,499)	(\$45,089)
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AMOUNT OWED TO PERC IN QTR

	\$364,317	\$451,972
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VARIABLE RATE CHANGE (C I L COSTS)

	\$7.92	
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VARIABLE RATE CHANGE (OTHER PASSTHROUGH COSTS)

	\$7.92	
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TOTAL VARIABLE RATE CHANGE \$\$\$/TON

	\$8.97	\$8.97
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AMOUNT ACTUALLY BILLED IN QTR

		\$357,666
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TIPPING FEE CALCULATION

04-Jan-12

TIPPING FEE

	4th QTR '11 ESTIMATE	4th QTR '11 ACTUAL	1st QTR '12 ESTIMATE
CHANGE IN DISPOSAL COSTS			
RESIDUE DISPOSAL COST	\$650,000	\$685,668	\$588,500
G&G DISPOSAL COST	\$800,000	\$888,068	\$750,000
FERROUS DISPOSAL COST	\$0	\$0	\$0
NON-PRO DISPOSAL COST	\$84,000	\$101,942	\$70,000
BYPASS DISPOSAL COST	\$0	\$0	\$0
FEPR DISPOSAL COST	\$884,000	\$990,010	\$820,000
TOTAL DISPOSAL COST	\$1,534,000	\$1,675,678	\$1,408,500
CHANGE IN DISPOSAL COST (COST-BASE)	\$639,538	\$781,216	\$514,038
CHARTER SHARE OF COSTS (FACTOR #1)	\$367,734	\$454,979	\$303,052

CHANGE IN RATE OF INTEREST COSTS

ACTUAL TOTAL INTEREST FOR QTR	\$82,877
INTEREST CALC @ 6.40% BASE RATE	\$152,857
CHANGE IN RATE OF INTEREST COSTS	(\$69,980)
CHARTER SHARE OF COSTS (FACTOR #2)	(\$43,191)