

CommonWealth

Resource Management Corporation

April 14, 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 Second Quarter of 2011

Dear Members of the MRC:

In April 2011, 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 2011 (the Quarterly Adjustment, which is provided as Attachment 1). The Quarterly Adjustment calculates a tipping fee of **\$ 71.50** 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 March 2011. These exhibits can be made available for review on request.

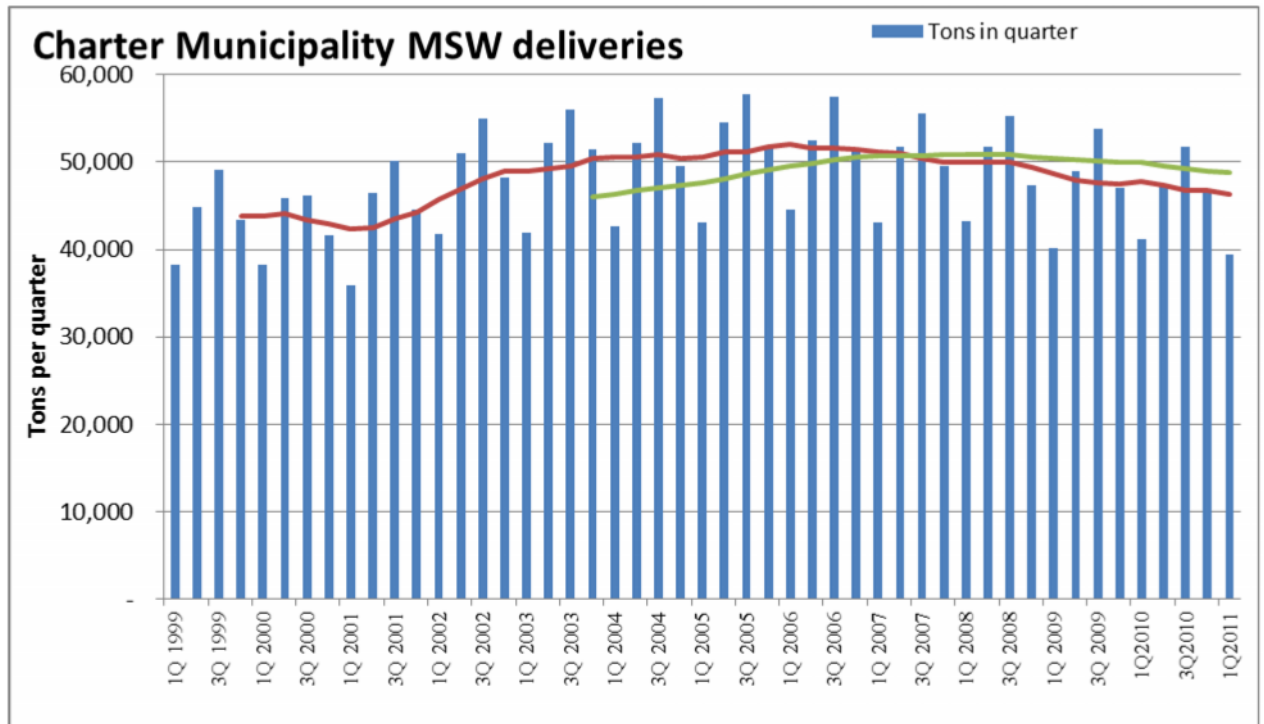
CommonWealth Resource Management Corporation (CommonWealth) has reviewed and duplicated PERC's calculations of the Quarterly Adjustment, and has reviewed various aspects of the performance of the Facility. This letter presents our review of the Quarterly Adjustment. Comments and recommendations on management 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 2011 deliveries vs. 2010. The Charter Municipalities as a group delivered 39,397 tons in the first quarter of 2011 as compared to 41,172 tons in the first quarter of 2011 --- a decrease of 1,775 tons (-4.3%). This was the lowest quarterly total since 2001.
- Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 35,352 tons in the first quarter of 2011 as compared to 37,067 tons in the first quarter of 2010 --- a decrease of 1,715 tons (-4.6%).
- New Charter Municipalities. The New Charter Municipalities delivered 4,045 tons in the quarter, a decrease of 59 tons (-1.5 percent) from the 4,104 tons delivered in the first quarter of 2010.
- Deliveries vs. GAT. The 39,397 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 the first quarter of 2011 constitutes 21.2 percent of the annual aggregate Guaranteed Annual Tonnage (GAT) of 185,835 tons per year for 2011. 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 2011 and 2010, tons by calendar quarter

	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%



- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute declines in tonnage in the first quarter of 2011 compared to the first quarter of 2010: **Brewer (new pay-as-you-throw program), Pleasant River SWD (lost towns), Fairfield, Bangor, Hampden, Old Town, Mid-coast SWD and Gouldsboro** (Equity Charters); and **Oakfield, Northern Katahdin SWD, Medway, and Penobscot Town** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2011 over the first quarter of 2010 include **Waterville, Clinton, Lamoine, Mt. Desert and the Waldoboro Group** (Equity Charters), and **Wiscasset and Knox** (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 58 tons in the quarter. The host community of **Orrington** delivered 405 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Monroe, Pittsfield, Prospect and Winterport** delivered 1,415 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Willimantic** (10 tons in the quarter), the Town of **Warren** (217 tons in the quarter) and the Towns of **Nobleboro and Jefferson** (788 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 almost exactly the amount out-of-state spot market waste in the quarter that had been budgeted in the

prior quarterly adjustment (3,520 actual tons vs. 3,500 tons budgeted). PERC combusted approximately 2,058 tons of wood chips 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:

	1Q 2011		Total 2010	
	Tons	Share of total	Tons	Share of total
Municipal waste				
Charter Municipalities				
Equity	35,352.27	51.6%	168,133.79	53.9%
New	4,044.87	5.9%	18,723.07	6.0%
Total	39,397.14	57.5%	186,856.86	59.9%
LT contracts expired in 2004	58.17	0.1%	269.91	0.1%
Other (OWL and short-term)	2,430.86	3.5%	11,519.16	3.7%
Host community	405.34	0.6%	1,845.36	0.6%
Subtotal	42,291.51	61.7%	200,491.29	64.3%
Commercial waste				
In-state commercial	5,036.45	7.4%	22,100.12	7.1%
In-state spot	2,300.69	3.4%	1,873.75	0.6%
Out-of-state commercial	17,126.26	25.0%	77,672.33	24.9%
Out-of-state spot	1,733.61	2.5%	9,558.04	3.1%
Subtotal	26,197.01	38.3%	111,204.24	35.7%
Total	68,488.52	100.0%	311,695.53	100.0%

2. Actual residuals disposal costs. PERC's actual total residuals disposal costs for the prior quarter were 6.4 percent less than PERC had projected, while the quantity of waste received was 2.2 percent greater than PERC had projected. Specifically,

- Actual costs for glass and grit disposal were 15.1 percent below the projections. PERC was successful in reducing the glass and grit generation rate through changes implemented in February during the annual maintenance of the disk screens and other process line equipment.
- Actual costs for ash disposal were 5.4 percent above the projections. Ash generation rates tend to increase due to increases in the amounts of inert materials passing through the boilers as the glass and grit generation rates decreases. 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 7.2 percent below the projections. Note that the disposal cost for non-processibles includes the cost of the external grinding operation. Approximately 20 tons of non-processibles were removed for landfill disposal in the quarter.
- PERC discontinued payments for recycling of the recovered ferrous material, because the value of the recovered ferrous material began to cover 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.

3. Projected residual stream disposal costs. PERC projects the cost for ash disposal for the upcoming quarter to be \$762,010, equivalent to \$9.21 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 \$675,000, equivalent to \$8.16 per ton of MSW to be received in the quarter. The estimate assumes that the rate of glass and grit generation will stay low

PERC projects the cost for disposal of non-processibles for the upcoming quarter to be \$110,000, equivalent to \$1.33 per ton of MSW to be received, which reflects the performance in the prior quarter.

PERC projects no cost for disposition of recovered ferrous material.

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.

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.
5. Reconciliation from the prior quarter. The Quarterly Adjustment includes a negative reconciliation amount of \$55,706 (about \$1.41 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 \$1.41 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. The reconciliation is larger than normal in large part due to the decreased rate of glass and grit disposal in the prior quarter, which was notably below PERC's estimates in setting the previous tipping fee.
6. Environmental Performance. PERC reported that all emissions were below applicable limits during the quarter with the exception of one CO exceedance, which occurred with only one boiler operating during start-up after completion of scheduled maintenance.
7. CMRA Deposits: PERC made its deposits into the CMRA Fund for the preceding quarter on February 14, 2011, 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.

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 and review of the compliance with Performance Standards, Commonwealth believes that PERC's Quarterly Adjustment for the second 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