

CommonWealth

Resource Management Corporation

April 16, 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 Second Quarter of 2012

Dear Members of the MRC:

In April 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 **\$ 73.00** 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 to date in 2012 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 2012.

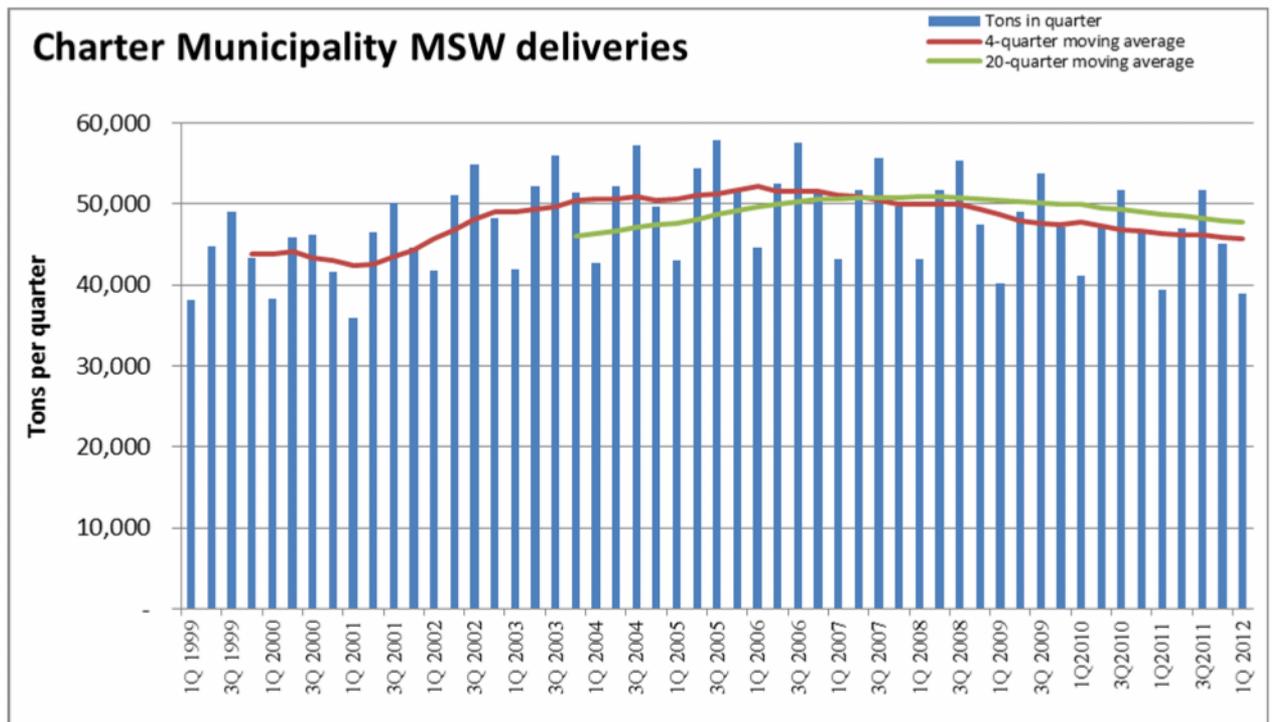
CommonWealth Resource Management Corporation (CommonWealth) has reviewed and duplicated PERC's calculations of the Quarterly Adjustment, and has reviewed various aspects of the performance of the Facility. This letter presents our review of the Quarterly Adjustment. Comments and recommendations on management 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 2012 deliveries vs. 2011. The Charter Municipalities as a group delivered 38,993 tons in the past quarter as compared to 39,397 tons in the first quarter of 2011 --- a decrease of 404 tons (-1.0%).
- Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 35,116 tons in the past quarter as compared to 35,352 tons in the first quarter of 2011 --- a decrease of 236 tons (-0.7%).
- New Charter Municipalities. The New Charter Municipalities delivered 3,877 tons in the past quarter, as compared to 4,045 tons delivered in the first quarter of 2011 --- a decrease of 168 tons (-4.1 percent).
- Deliveries vs. GAT. In the first quarter, the Charter Municipalities delivered 21.1% of the annual aggregate Guaranteed Annual Tonnage (GAT) of 184,252 tons per year for 2012.

MSW Deliveries to PERC in 2012 and 2011, tons by calendar quarter

	Equity Charters				New Charters				All Charters			
	2012	2011	Change	%	2012	2011	Change	%	2012	2011	Change	%
1Q	35,116	35,352	(236)	-0.7%	3,877	4,045	(168)	-4.1%	38,993	39,397	(404)	-1.0%



- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute declines in tonnage in the first quarter of 2012 compared to the first quarter of 2011: **Waterville, China, Bangor, Mt. Desert ADD, Old Town, Winslow, Rockland, Pleasant River SWD and Lincoln** (Equity Charters); and **Wiscasset, Machias and Cherryfield** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2012 over the first quarter of 2011 include **Mid-Coast SWD, Fairfield, Brewer, Searsport, Winthrop and Holden** (Equity Charters), and **Oakfield, Medway, Tri-County SWMO and Piscataquis County** (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 52 tons in the quarter. The host community of **Orrington** delivered 401 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Monroe, Pittsfield, Prospect and Winterport** delivered 1,430 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Willimantic** (9 tons in the quarter), the Town of **Warren** (198 tons in the quarter), the Town of **Greenville** (144 tons in the quarter) and the Towns of **Nobleboro and Jefferson** (794 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 more out-of-state spot market waste in the quarter than had been budgeted in the prior quarterly adjustment (7,728 actual tons vs. 3,000 budgeted tons). PERC used 288 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:

	1Q 2012	
	Tons	Share of total
Municipal waste		
Charter Municipalities		
Equity	35,116.18	51.3%
New	3,877.29	5.7%
Total	38,993.47	56.9%
LT contracts expired in 2004	52.41	0.1%
Other (OWL and short-term)	2,577.67	3.8%
Host community	401.21	0.6%
Subtotal	42,024.76	61.4%
Commercial waste		
In-state commercial	6,692.52	9.8%
Out-of-state	19,770.98	28.9%
Subtotal	26,463.50	38.6%
Total	68,488.26	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 12.6 percent less than PERC had projected, while the quantity of waste received was 2.2 percent more than PERC had projected. Specifically,

- Actual costs for glass and grit disposal were 34.6 percent below the projections, reflecting the dramatic decrease in the glass and grit generation rate (11.5 percent in March) achieved after completion of the annual maintenance on the disk screens. Note that the tip fee for glass and grid disposal was not escalated in 2012.
- Actual costs for ash disposal were 12.5 percent above the projections. Ash disposal quantities typically increase when glass and grit generation rates decrease. Note that the tip fee for ash disposal was not escalated in 2012.
- 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 14.6 percent above the projections.
- PERC continues to have ferrous material removed at no charge, because the value of the material covers the cost of transportation to market. The tip fee calculation incorrectly included a cost of \$986 for disposal of ferrous materials, which will be corrected in the next quarter through the reconciliation process.

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 \$800,000, equivalent to \$9.82 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 \$700,000, equivalent to \$8.59 per ton of MSW to be received in the quarter. The estimate assumes that the rate of glass and grit generation will increase slightly through the quarter.

PERC projects the cost for disposal of non-processibles for the upcoming quarter to be \$10,000, equivalent to \$1.23 per ton of MSW to be received, which reflects prior levels of disposal of this material.

PERC projects a nominal 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 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 3.40 percent in the quarter.
5. Reconciliation from the prior quarter. The Quarterly Adjustment includes a negative reconciliation amount of \$110,232 (about \$2.83 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 \$2.83 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 higher tip fee in the prior quarter.
6. Environmental Performance. PERC reported that all emissions were below applicable limits during the quarter with the exception of two exceedances of the CO 200-ppm standard, and one exceedance of the inlet temperature to each baghouse. All exceedances occurred during start-up of either A Boiler or B Boiler after an outage.
7. CMRA Deposits: On February 8, 2012, PERC made a deposit of \$480,641.08 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.

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 first quarter of 2012 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 160 • 29 Industrial Way
Orrington, Maine 04474
(207) 825 - 4566

ESOCO ORRINGTON, LLC.
Plant Operator

April 4, 2012

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

Subject: Second Quarter 2012 Tipping Fee Calculation

Committee Members:

Attached for your review is the second quarter 2012 Tipping Fee Calculation along with appropriate back-up information to support a "Charter Municipality" tipping fee rate of \$73.00.

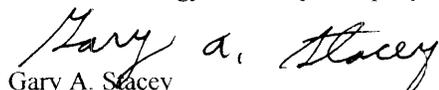
The information in Exhibits A through C, supplied herewith, along with the monthly Plant Performance Reports, should be sufficient to duplicate and verify the tipping fee calculation.

Also enclosed is a certificate, signed by the Plant Controller, certifying the validity of the quarterly pass-through costs for the quarter ending March 31, 2012.

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

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ESOCO ORRINGTON, LLC.
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 March 31, 2012, 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: April 4, 2012

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

TIPPING FEE CALCULATION					
04-Apr-12					
	4th QTR '11 ESTIMATE	4th QTR '11 ACTUAL	1st QTR '12 ESTIMATE	1st QTR '12 ACTUAL	2nd QTR '12 ESTIMATE
TIPPING FEE:					
BASE RATE COMPONENT	\$57.83	\$57.83	\$60.09	\$60.09	\$60.09
CPI-U			3.90%		
VARIABLE RATE COMPONENT	\$15.37	\$15.37	\$16.42	\$16.42	\$12.91
TOTAL TIPPING FEE	\$73.20	\$73.20	\$76.50	\$76.50	\$73.00
TOTAL MSW DELIVERED (TONS)	80,000	77,542	67,000	68,488	81,500
CHARTER MSW DELIVERED (TONS)	46,000	45,160	39,500	38,993	47,000
CHARTER MSW FACTOR #1	0.5750	0.5824	0.5896	0.5693	0.5767
OUT-OF-STATE SPOT MSW (TONS)	3,502	1,928	3,000	7,722	3,000
CHARTER MSW FACTOR #2	0.6013	0.5973	0.6172	0.6417	0.5987
PASSTHROUGH COSTS:					
CHANGE IN DISPOSAL COSTS	\$367,734	\$454,979	\$303,052	\$191,648	\$407,570
SUPPLEMENTAL FUEL COSTS (RECYCLING)	\$0	\$0	\$0	\$0	\$0
RECONCILIATION OF PREVIOUS QTR	\$42,082	\$42,082	\$94,306	\$94,306	(\$110,232)
OPERATING STANDARDS CREDIT	\$0	\$0	\$0	\$0	\$0
CHANGE IN RATE OF INTEREST COSTS	(\$45,499)	(\$45,089)	(\$43,191)	(\$46,560)	(\$40,735)
AMOUNT OWED TO PERC IN QTR	\$364,317	\$451,972	\$354,168	\$239,394	\$256,603
VARIABLE RATE CHANGE (C.I.L. COSTS)					
VARIABLE RATE CHANGE (OTHER PASSTHROUGH)	\$7.92		\$8.97		\$5.46
TOTAL VARIABLE RATE CHANGE \$\$\$/TON	\$7.92		\$8.97		\$5.46
AMOUNT ACTUALLY BILLED IN QTR		\$357,666		\$349,626	

TIPPING FEE CALCULATION						
04-Apr-12						
	4th QTR '11 ESTIMATE	4th QTR '11 ACTUAL	1st QTR '12 ESTIMATE	1st QTR '12 ACTUAL	2nd QTR '12 ESTIMATE	
TIPPING FEE:						
CHANGE IN DISPOSAL COSTS						
RESIDUE DISPOSAL COST	\$368,188	\$685,668	\$588,500	\$659,179	\$800,000	
G&G DISPOSAL COST	\$382,746	\$888,068	\$750,000	\$490,683	\$700,000	
FERROUS DISPOSAL COST	\$63,791	\$0	\$0	\$976	\$1,205	
NON-PRO DISPOSAL COST	\$79,737	\$101,942	\$70,000	\$80,236	\$100,000	
BYPASS DISPOSAL COST	\$0	\$0	\$0	\$0	\$0	
FEPR DISPOSAL COST	\$526,274	\$990,010	\$820,000	\$571,895	\$801,205	
TOTAL DISPOSAL COST	\$894,462	\$1,675,678	\$1,408,500	\$1,231,074	\$1,601,205	
CHANGE IN DISPOSAL COST (COST-BASE)	\$639,538	\$781,216	\$514,038	\$336,612	\$706,743	
CHARTER SHARE OF COSTS (FACTOR #1)	\$367,734	\$454,979	\$303,052	\$191,648	\$407,570	
CHANGE IN RATE OF INTEREST COSTS						
ACTUAL TOTAL INTEREST FOR QTR	\$82,965	\$83,137	\$82,877	\$80,298	\$80,577	
INTEREST CALC. @ 6.40% BASE RATE	\$158,631	\$158,631	\$152,857	\$152,857	\$148,613	
CHANGE IN RATE OF INTEREST COSTS	(\$75,665)	(\$75,494)	(\$69,980)	(\$72,558)	(\$68,036)	
CHARTER SHARE OF COSTS (FACTOR #2)	(\$45,499)	(\$45,089)	(\$43,191)	(\$46,560)	(\$40,735)	