

CommonWealth

Resource Management Corporation

July 15, 2011

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 Third Quarter of 2011

Dear Members of the MRC:

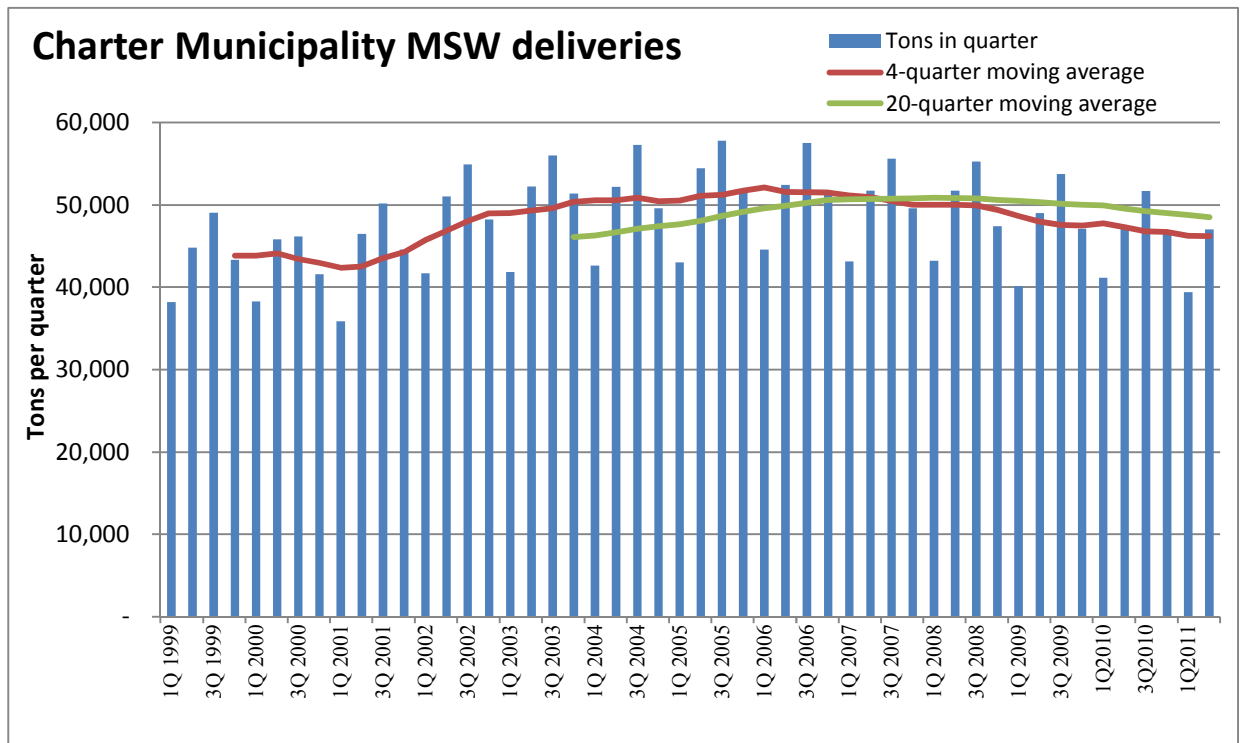
In July 2011, the Municipal Review Committee (the MRC) received from the Penobscot Energy Recovery Company (PERC) a calculation of the tipping fee for the third quarter of 2011 (the Quarterly Adjustment, which is provided as Attachment 1). The Quarterly Adjustment calculates a tipping fee of **\$ 71.00** 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 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 June 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 47,026 tons in the second quarter of 2011 as compared to 47,244 tons in the second quarter of 2011 --- a decrease of 218 tons (-0.5%).
- Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 42,205 tons in the second quarter of 2011 as compared to 42,498 tons in the second quarter of 2010 --- a decrease of 293 tons (-0.7%).
- New Charter Municipalities. The New Charter Municipalities delivered 4,821 tons in the quarter, an increase of 75 tons (+1.6 percent) from the 4,746 tons delivered in the second quarter of 2010.
- Deliveries vs. GAT. The 86,423 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 two quarters of 2011 constitutes 46.5 percent of the annual aggregate Guaranteed Annual Tonnage (GAT) of 185,835 tons per year for 2011.



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%
2Q	42,205	42,498	(293)	-0.7%	4,821	4,746	75	1.6%	47,026	47,244	(218)	-0.5%

- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute declines in tonnage in the second quarter of 2011 compared to the second quarter of 2010: **Brewer, Pleasant River SWD, Fairfield, Vassalboro and Millinocket** (Equity Charters); and **Cherryfield and Tri-County SW** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2011 over the second quarter of 2010 include **Glenburn, Mt. Desert and the Mid-Coast SWD** (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 80 tons in the quarter. The host community of **Orrington** delivered 464 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Monroe, Pittsfield, Prospect and Winterport** delivered 1,721 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** (244 tons in the quarter) and the Towns of **Nobleboro and Jefferson** (966 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 about half of the amount out-of-state spot market waste in the quarter that had been budgeted in the prior quarterly adjustment (1,762 actual tons vs. 3,500 budgeted tons). No wood chips were combusted 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:

	2Q 2011		2011 year to date	
	Tons	Share of total	Tons	Share of total
Municipal waste				
Charter Municipalities				
Equity	42,204.87	52.1%	77,557.14	51.9%
New	4,821.14	5.9%	8,866.01	5.9%
Total	47,026.01	58.0%	86,423.15	57.8%
LT contracts expired in 2004	80.14	0.1%	138.31	0.1%
Other (OWL and short-term)	2,941.11	3.6%	5,371.97	3.6%
Host community	463.79	0.6%	869.13	0.6%
Subtotal	50,511.05	62.3%	92,802.56	62.1%
Commercial waste				
In-state commercial	6,134.62	7.6%	11,171.07	7.5%
In-state spot	592.56	0.7%	2,893.25	1.9%
Out-of-state commercial	22,246.06	27.4%	39,372.32	26.3%
Out-of-state spot	1,575.32	1.9%	3,308.93	2.2%
Subtotal	30,548.56	37.7%	56,745.57	37.9%
Total	81,059.61	100.0%	149,548.13	100.0%

2. Actual residuals disposal costs. PERC's actual total residuals disposal costs for the prior quarter were 7.2 percent less than PERC had projected, while the quantity of waste received was 1.8 percent greater than PERC had projected. Specifically,
- Actual costs for glass and grit disposal were 22.9 percent below the projections. PERC was successful in sustaining a reduced 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 3.2 percent above the projections. Ash generation rates tend to rise as the glass and grit generation rates decreases due to increases in the amounts of inert materials passing through the boilers. 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 including disposal and the cost of the external grinding operation, were 16.8 percent above the projections. Approximately 136 tons of non-processibles were removed for landfill disposal in the quarter, including 108 tons in the third week of June.
 - 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.

3. Projected residual stream disposal costs. PERC projects the cost for ash disposal for the upcoming quarter to be \$775,000, equivalent to \$9.94 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 \$550,000, equivalent to \$7.06 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 \$138,000, equivalent to \$1.77 per ton of MSW to be received, which reflects prior levels of disposal of this material exclusive of the increased quantity landfilled in the third week of June as referenced previously.

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. Note that PERC is in the process of re-financing the outstanding bonds with a bank loan from TDBank. Changes in the interest rate associated with the new loan will be reflected in the next quarterly tip fee.
5. Reconciliation from the prior quarter. The Quarterly Adjustment includes a negative reconciliation amount of \$59,018 (about \$1.26 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 \$1.26 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.
6. Environmental Performance. PERC reported that all emissions were below applicable limits during the quarter. There was one exceedance of the inlet temperature to the B Baghouse, which occurred after failure of an atomizer drive belt.
7. CMRA Deposits: On July 13, 2011, PERC made a deposit of \$419,306.57 into the CMRA Fund for the preceding quarter. Although such deposit was not made timely pursuant to Article VII, Section I, of the Waste Disposal Agreement, the Charter Municipalities have no basis 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 third 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 160 • 29 Industrial Way
Orrington, Maine 04474
(207) 825 - 4566

ESOCO ORRINGTON, LLC.
Plant Operator

July 7, 2011

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

Subject: Third Quarter 2011 Tipping Fee Calculation

Committee Members:

Attached for your review is the third quarter 2011 Tipping Fee Calculation along with appropriate back-up information to support a "Charter Municipality" tipping fee rate of \$71.00.

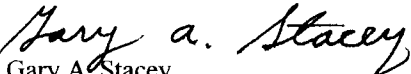
The information in Exhibits A through C, supplied herewith, along with the monthly Plant Performance Reports, should be sufficient to duplicate and verify the tipping fee calculation.

Also enclosed is a certificate, signed by the Plant Controller, certifying the validity of the quarterly pass-through costs for the quarter ending June 30, 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

TIPPING FEE CALCULATION
07-Jul-11

	4th QTR '10 ESTIMATE	4th QTR '10 ACTUAL	1st QTR '11 ESTIMATE	1st QTR '11 ACTUAL	2nd QTR '11 ESTIMATE	2nd QTR '11 ACTUAL	3rd QTR '11 ESTIMATE
TIPPING FEE:							
BASE RATE COMPONENT	\$57.20	\$57.20	\$57.83	\$57.83	\$57.83	\$57.83	\$57.83
CPI-U			1.10%				
VARIABLE RATE COMPONENT	\$15.80	\$15.80	\$16.37	\$16.37	\$13.67	\$13.67	\$13.17
TOTAL TIPPING FEE	\$73.00	\$73.00	\$74.20	\$74.20	\$71.50	\$71.50	\$71.00
TOTAL MSW DELIVERED (TONS)	80,000	77,377	67,000	68,489	82,710	81,247	77,957
CHARTER MSW DELIVERED (TONS)	48,000	46,758	40,000	39,397	47,950	47,026	52,000
CHARTER MSW FACTOR #1	0.6000	0.6043	0.5970	0.5752	0.5797	0.5788	0.6670
OUT-OF-STATE SPOT MSW (TONS)	2,500	1,695	3,000	3,520	3,500	1,762	2,000
CHARTER MSW FACTOR #2	0.6194	0.6178	0.6250	0.6064	0.6054	0.5916	0.6846
PASSTHROUGH COSTS:							
CHANGE IN DISPOSAL COSTS	\$394,823	\$471,686	\$294,650	\$232,820	\$378,300	\$312,984	\$379,234
SUPPLEMENTAL FUEL COSTS (RECYCLING)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RECONCILIATION OF PREVIOUS QTR	\$30,557	\$30,557	\$87,293	\$87,293	(\$55,706)	(\$55,706)	(\$59,018)
OPERATING STANDARDS CREDIT	\$0	\$0	\$0	\$0	\$0	\$0	\$0
CHANGE IN RATE OF INTEREST COSTS	(\$24,800)	(\$24,738)	(\$25,025)	(\$24,281)	(\$24,238)	(\$23,689)	(\$22,749)
AMOUNT OWED TO PERC IN QTR	\$400,580	\$477,505	\$356,917	\$295,832	\$298,356	\$233,589	\$297,468
VARIABLE RATE CHANGE (C.I.L. COSTS)	\$8.35		\$8.92		\$6.22		\$5.72
VARIABLE RATE CHANGE (OTHER PASSTHROUGH)	\$8.35		\$8.92		\$6.22		\$5.72
TOTAL VARIABLE RATE CHANGE \$\$\$/TON	\$8.35		\$8.92		\$6.22		\$5.72
AMOUNT ACTUALLY BILLED IN QTR		\$390,212		\$351,538		\$292,607	

TIPPING FEE CALCULATION

07-Jul-11

TIPPING FEE:

	4th QTR '10 ESTIMATE	4th QTR '10 ACTUAL	1st QTR '11 ESTIMATE	1st QTR '11 ACTUAL	2nd QTR '11 ESTIMATE	2nd QTR '11 ACTUAL	3rd QTR '11 ESTIMATE
CHANGE IN DISPOSAL COSTS							
RESIDUE DISPOSAL COST	\$655,000	\$666,501	\$575,000	\$605,917	\$762,000	\$786,220	\$775,000
G&G DISPOSAL COST	\$773,000	\$888,284	\$720,000	\$611,194	\$675,000	\$520,502	\$550,000
FERROUS DISPOSAL COST	\$7,500	\$6,455	\$4,500	\$0	\$0	\$0	\$0
NON-PRO DISPOSAL COST	\$117,000	\$113,798	\$88,500	\$82,089	\$110,000	\$128,481	\$138,000
BYPASS DISPOSAL COST	\$0	\$0	\$0	\$0	\$0	\$0	\$0
FEPR DISPOSAL COST	\$897,500	\$1,008,537	\$813,000	\$693,283	\$785,000	\$648,983	\$688,000
TOTAL DISPOSAL COST	\$1,552,500	\$1,675,038	\$1,388,000	\$1,299,200	\$1,547,000	\$1,435,203	\$1,463,000
CHANGE IN DISPOSAL COST (COST-BASE)	\$658,038	\$780,576	\$493,538	\$404,738	\$652,538	\$540,741	\$568,538
CHARTER SHARE OF COSTS (FACTOR #1)	\$394,823	\$471,686	\$294,650	\$232,820	\$378,300	\$312,984	\$379,234

CHANGE IN RATE OF INTEREST COSTS

INTEREST PAID -Original Debt Schedule	\$296,155	\$296,155	\$296,155	\$296,155	\$296,155	\$296,155	\$265,258
Plus: (OID) Original Issue Discount	\$2,168	\$2,168	\$2,169	\$2,169	\$2,170	\$2,170	\$1,928
Less: Interest due to pre-payments	(\$143,725)	(\$143,725)	(\$143,725)	(\$143,725)	(\$143,725)	(\$143,725)	(\$139,695)
TOTAL INTEREST FOR QTR.	\$154,598	\$154,598	\$154,599	\$154,599	\$154,600	\$154,600	\$127,490
INTEREST CALC. @ 6.40% BASE RATE	\$194,640	\$194,640	\$194,640	\$194,640	\$194,640	\$194,640	\$160,720
CHANGE IN RATE OF INTEREST COSTS	(\$40,042)	(\$40,042)	(\$40,041)	(\$40,041)	(\$40,040)	(\$40,040)	(\$33,230)
CHARTER SHARE OF COSTS (FACTOR #2)	(\$24,800)	(\$24,738)	(\$25,025)	(\$24,281)	(\$24,238)	(\$23,689)	(\$22,749)



Penobscot Energy Recovery Company

P.O. Box 160 • 29 Industrial Way
Orrington, Maine 04474
(207) 825 - 4566

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 June 30, 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: July 7, 2011

A handwritten signature in black ink that reads "Gary A. Stacey". The signature is written in a cursive, flowing style.

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