

CommonWealth

Resource Management Corporation

July 17, 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 Third Quarter of 2012

Dear Members of the MRC:

In July 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 Exhibit A; (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 May 2012.

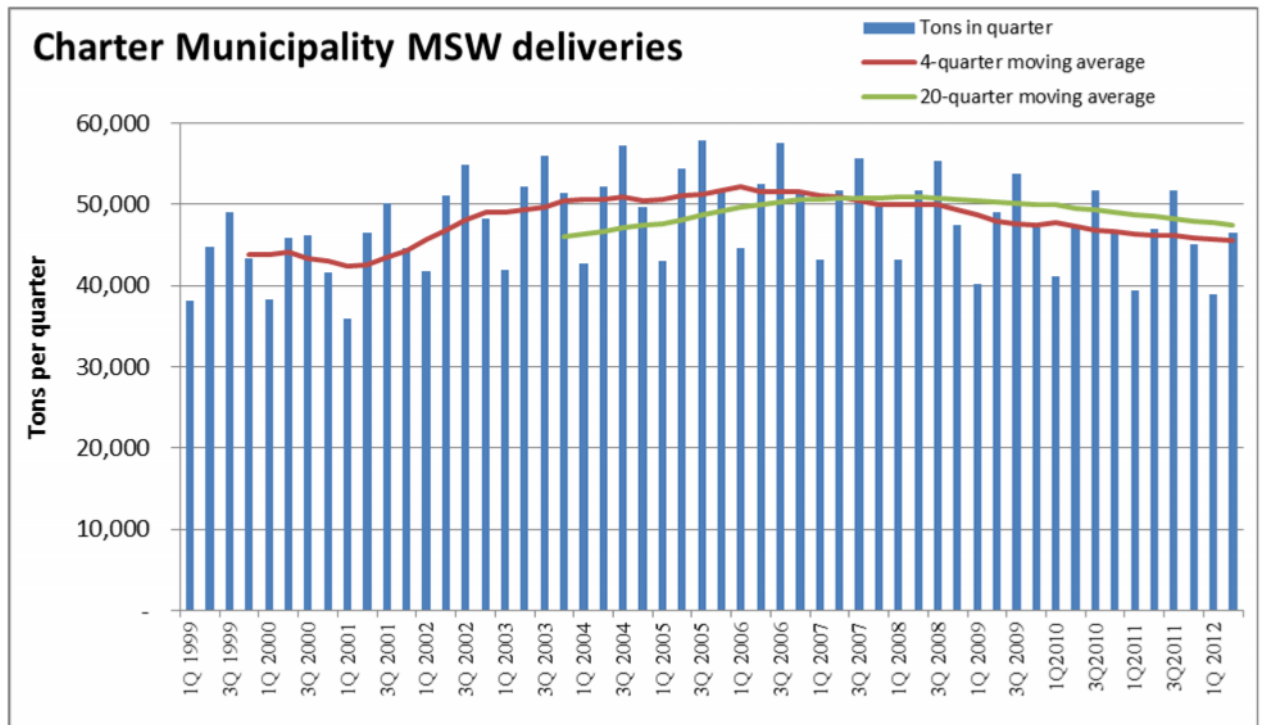
CommonWealth Resource Management Corporation (CommonWealth) has reviewed and duplicated PERC's calculations of the Quarterly Adjustment, and has reviewed various aspects of the performance of the Facility. This letter presents our review of the Quarterly Adjustment. Comments and recommendations on management 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 46,574 tons in the past quarter as compared to 47,026 tons in the second quarter of 2011 --- a decrease of 452 tons (-1.0%).
- Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 41,917 tons in the past quarter as compared to 42,205 tons in the second quarter of 2011 --- a decrease of 288 tons (-0.7%).
- New Charter Municipalities. The New Charter Municipalities delivered 4,658 tons in the past quarter, as compared to 4,821 tons delivered in the second quarter of 2011 --- a decrease of 163 tons (-3.4 percent).
- Deliveries vs. GAT. In the first two quarters of 2012, the Charter Municipalities delivered 46.5% of the annual aggregate Guaranteed Annual Tonnage (GAT) of 184,252 tons per year.

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%
2Q	41,917	42,205	(288)	-0.7%	4,658	4,821	(163)	-3.4%	46,574	47,026	(452)	-1.0%



- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute declines in tonnage in the second quarter of 2012 compared to the second quarter of 2011: **Bangor, Mt. Desert, China, Lincoln, Clinton, Rockland and Mid-Maine SWD** (Equity Charters); and **Wiscasset, Belfast, Springfield, N. Katahdin, Oakfield and Passadumkeag** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2012 over the second quarter of 2012 include **Fairfield, Mid-Coast SWD, Winthrop and Bar Harbor** (Equity Charters), and **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 64 tons in the quarter. The host community of **Orrington** delivered 469 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Monroe, Pittsfield, Prospect** and **Winterport** delivered 1,651 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** (230 tons in the quarter), the Town of **Greenville** (196 tons in the quarter) and the Towns of **Nobleboro and Jefferson** (960 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 (4,796 actual tons vs. 3,000 budgeted tons). PERC did not use 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:

	2Q 2012		2012 year to date	
	Tons	Share of total	Tons	Share of total
Municipal waste				
Charter Municipalities				
Equity	41,753.25	49.8%	76,869.43	50.5%
New	4,821.14	5.8%	8,698.43	5.7%
Total	46,574.39	55.6%	85,567.86	56.2%
LT contracts expired in 2004	63.77	0.1%	116.18	0.1%
Other (OWL and short-term)	3,044.10	3.6%	5,621.77	3.7%
Host community	468.91	0.6%	870.12	0.6%
Subtotal	50,151.17	59.8%	92,175.93	60.5%
Commercial waste				
In-state commercial	7,814.52	9.3%	14,507.04	9.5%
Out-of-state	25,835.42	30.8%	45,606.40	29.9%
Subtotal	33,649.94	40.2%	60,113.44	39.5%
Total	83,801.11	100.0%	152,289.37	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 6.2 percent less than PERC had projected, while the quantity of waste received was 2.8 percent more than PERC had projected. Specifically,
- Actual costs for glass and grit disposal were 0.3 percent below the projections. The glass and grit generation rate varied between 17.0 percent and 18.0 percent in the quarter.
 - Actual costs for ash disposal were 11.6 percent below the projections.
 - 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 6.2 percent below 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 included a credit of \$986 for disposal of ferrous materials, which corrected a calculation error from the previous quarter.

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 \$716,000, equivalent to \$8.73 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 \$8.54 per ton of MSW to be received in the quarter. The estimate assumes that the rate of glass and grit generation will increase slightly in the quarter.

PERC projects the cost for disposal of non-processibles for the upcoming quarter to be \$100,000, equivalent to \$1.22 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.

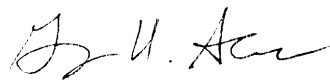
4. Changes in rate of interest cost. Commonwealth has reviewed PERC's calculations of the changes of rate of interest cost for the prior and upcoming quarters and agrees that the calculations are acceptable to the MRC. The calculations reflect the re-

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 3.43 percent in the quarter.

5. Reconciliation from the prior quarter. The Quarterly Adjustment includes a negative reconciliation amount of \$68,250 (about \$1.47 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 \$1.47 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 April and May in the quarter.
7. CMRA Deposits: On May 4, 2012, PERC made a deposit of \$431,195.58 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, and subject to review of the monthly performance report for June 2012, which is not available as of this writing, Commonwealth believes that PERC's Quarterly Adjustment for the third 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

July 5, 2012

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

Subject: Third Quarter 2012 Tipping Fee Calculation

Committee Members:

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

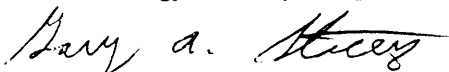
The information in Exhibits A through C, supplied herewith, along with the monthly Plant Performance Reports, should be sufficient to duplicate and verify the tipping fee calculation.

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

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, 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: July 5, 2012

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

TIPPING FEE CALCULATION

05-Jul-12

	4th QTR '11 ESTIMATE	4th QTR '11 ACTUAL	1st QTR '12 ESTIMATE	1st QTR '12 ACTUAL	2nd QTR '12 ESTIMATE	2nd QTR '12 ACTUAL	3rd QTR '12 ESTIMATE
TIPPING FEE:							
BASE RATE COMPONENT	\$57.83	\$57.83	\$60.09	\$60.09	\$60.09	\$60.09	\$60.09
CPI-U			3.90%				
VARIABLE RATE COMPONENT	\$15.37	\$15.37	\$16.42	\$16.42	\$12.91	\$12.91	\$12.92
TOTAL TIPPING FEE	\$73.20	\$73.20	\$76.50	\$76.50	\$73.00	\$73.00	\$73.00
TOTAL MSW DELIVERED (TONS)	80,000	77,542	67,000	68,488	81,500	83,801	82,000
CHARTER MSW DELIVERED (TONS)	46,000	45,160	39,500	38,993	47,000	46,574	52,000
CHARTER MSW FACTOR #1	0.5750	0.5824	0.5896	0.5693	0.5767	0.5568	0.6341
OUT-OF-STATE SPOT MSW (TONS)	3,502	1,928	3,000	7,722	3,000	4,796	1,500
CHARTER MSW FACTOR #2	0.6013	0.5973	0.6172	0.6417	0.5987	0.5895	0.6460
PASSTHROUGH COSTS:							
CHANGE IN DISPOSAL COSTS	\$367,734	\$454,979	\$303,052	\$191,648	\$407,570	\$337,693	\$394,908
SUPPLEMENTAL FUEL COSTS (RECYCLING)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RECONCILIATION OF PREVIOUS QTR	\$42,082	\$42,082	\$94,306	\$94,306	(\$110,232)	(\$110,232)	(\$68,520)
OPERATING STANDARDS CREDIT	\$0	\$0	\$0	\$0	\$0	\$0	\$0
CHANGE IN RATE OF INTEREST COSTS	(\$45,499)	(\$45,089)	(\$43,191)	(\$46,560)	(\$40,735)	(\$41,701)	(\$42,196)
AMOUNT OWED TO PERC IN QTR	\$364,317	\$451,972	\$354,168	\$239,394	\$256,603	\$185,759	\$284,192
VARIABLE RATE CHANGE (C.I.L. COSTS)	\$7.92		\$8.97		\$5.46		\$5.47
VARIABLE RATE CHANGE (OTHER PASSTHROUGH COSTS)	\$7.92		\$8.97		\$5.46		\$5.47
TOTAL VARIABLE RATE CHANGE \$\$\$/TON	\$7.92		\$8.97		\$5.46		\$5.47
AMOUNT ACTUALLY BILLED IN QTR		\$357,666		\$349,626		\$254,279	

TIPPING FEE CALCULATION							
05-Jul-12							
=====							
TIPPING FEE:							
	4th QTR '11 ESTIMATE	4th QTR '11 ACTUAL	1st QTR '12 ESTIMATE	1st QTR '12 ACTUAL	2nd QTR '12 ESTIMATE	2nd QTR '12 ACTUAL	3rd QTR '12 ESTIMATE
CHANGE IN DISPOSAL COSTS							
=====							
RESIDUE DISPOSAL COST	\$650,000	\$685,668	\$588,500	\$659,179	\$800,000	\$707,311	\$716,000
=====							
G&G DISPOSAL COST	\$800,000	\$888,068	\$750,000	\$490,683	\$700,000	\$701,959	\$700,000
FERROUS DISPOSAL COST	\$0	\$0	\$0	\$976	\$1,205	(\$976)	\$1,201
NON-PRO DISPOSAL COST	\$84,000	\$101,942	\$70,000	\$80,236	\$100,000	\$93,777	\$100,000
BYPASS DISPOSAL COST	\$0	\$0	\$0	\$0	\$0	\$0	\$0
=====							
FEPR DISPOSAL COST	\$884,000	\$990,010	\$820,000	\$571,895	\$801,205	\$794,760	\$801,201
=====							
TOTAL DISPOSAL COST	\$1,534,000	\$1,675,678	\$1,408,500	\$1,231,074	\$1,601,205	\$1,502,071	\$1,517,201
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CHANGE IN DISPOSAL COST (COST-BASE)	\$639,538	\$781,216	\$514,038	\$336,612	\$706,743	\$607,609	\$622,739
=====							
CHARTER SHARE OF COSTS (FACTOR #1)	\$367,734	\$454,979	\$303,052	\$191,648	\$407,570	\$337,693	\$394,908
=====							
CHANGE IN RATE OF INTEREST COSTS							
=====							
ACTUAL TOTAL INTEREST FOR QTR.	\$82,965	\$83,137	\$82,877	\$80,298	\$80,577	\$77,875	\$77,365
INTEREST CALC. @ 6.40% BASE RATE	\$158,631	\$158,631	\$152,857	\$152,857	\$148,613	\$148,613	\$142,688
=====							
CHANGE IN RATE OF INTEREST COSTS	(\$75,665)	(\$75,494)	(\$69,980)	(\$72,558)	(\$68,036)	(\$70,739)	(\$65,323)
=====							
CHARTER SHARE OF COSTS (FACTOR #2)	(\$45,499)	(\$45,089)	(\$43,191)	(\$46,560)	(\$40,735)	(\$41,701)	(\$42,196)
=====							