

CommonWealth

Resource Management Corporation

October 12, 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 Fourth Quarter of 2011

Dear Members of the MRC:

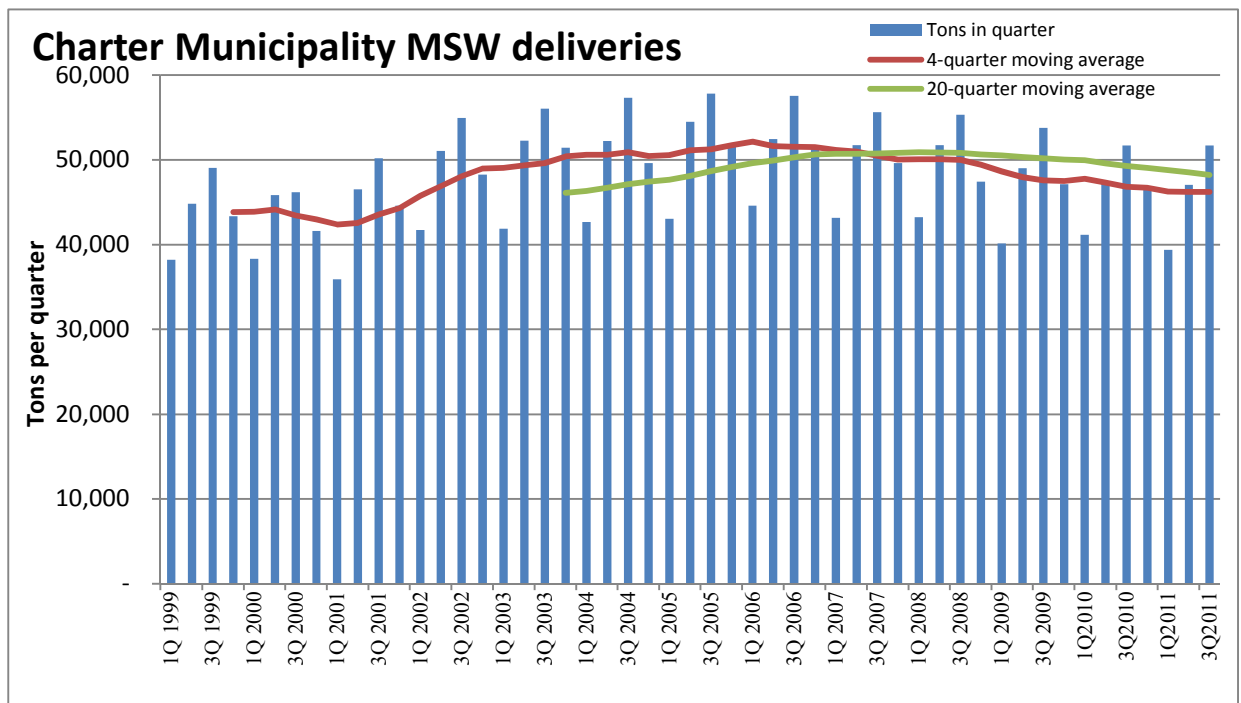
In October 2011, the Municipal Review Committee (the MRC) received from the Penobscot Energy Recovery Company (PERC) a calculation of the tipping fee for the fourth quarter of 2011 (the Quarterly Adjustment, which is provided as Attachment 1). The Quarterly Adjustment calculates a tipping fee of **\$ 73.20** 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 September 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 51,690 tons in the third quarter of 2011 as compared to 51,683 tons in the third quarter of 2011 --- an increase of 7 tons (-0.01%).
- Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 46,553 tons in the third quarter of 2011 as compared to 46,442 tons in the third quarter of 2011 --- an increase of 111 tons (+0.2%).
- New Charter Municipalities. The New Charter Municipalities delivered 5,138 tons in the quarter, a decrease of 104 tons (-2.0 percent) from the 5,242 tons delivered in the second quarter of 2010.
- Deliveries vs. GAT. The 138,114 tons reported in Exhibit C-2 as the aggregate amount of Acceptable Waste delivered by the Charter Municipalities as a group in the first three quarters of 2011 constitutes 74.3 percent of the annual aggregate Guaranteed Annual Tonnage (GAT) of 185,835 tons per year for 2011. If, in the fourth quarter of 2011, the Charter Municipalities deliver the same tonnage as was delivered in the fourth quarter of 2010 (46,758 tons), then the total delivered for 2011 would be 184,872 tons – equivalent to a GAT shortfall of 963 tons.



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%
3Q	46,553	46,442	111	0.2%	5,138	5,242	(104)	-2.0%	51,691	51,683	7	0.0%

- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute declines in tonnage in the third quarter of 2011 compared to the third quarter of 2010: **Pleasant River SWD, Brewer, China, Bar Harbor and Plymouth** (Equity Charters); and **Cherryfield, Wiscasset, Oakfield, Tri-County SW and East Millinocket** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2011 over the third quarter of 2010 include **Mid-Coast SWD, Bangor, Searsport, Glenburn and Orono** (Equity Charters), and **Knox 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 80 tons in the quarter. The host community of **Orrington** delivered 475 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Monroe, Pittsfield, Prospect and Winterport** delivered 1,750 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Willimantic** (18 tons in the quarter), the Town of **Warren** (251 tons in the quarter) and the Towns of **Nobleboro and Jefferson** (1,166 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 slightly less of the amount out-of-state spot market waste in the quarter that had been budgeted in the prior quarterly adjustment (1,896 actual tons vs. 2,000 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:

	3Q 2011		2011 year to date	
	Tons	Share of total	Tons	Share of total
Municipal waste				
Charter Municipalities				
Equity	46,553.18	53.7%	124,110.32	52.5%
New	5,137.56	5.9%	14,003.57	5.9%
Total	51,690.74	59.6%	138,113.89	58.5%
LT contracts expired in 2004	79.87	0.1%	218.18	0.1%
Other (OWL and short-term)	3,185.05	3.7%	8,557.02	3.6%
Host community	474.86	0.5%	1,343.99	0.6%
Subtotal	55,430.52	63.9%	148,233.08	62.7%
Commercial waste				
In-state commercial	7,446.31	8.6%	21,510.63	9.1%
Out-of-state	23,820.83	27.5%	66,502.08	28.1%
Subtotal	31,267.14	36.1%	88,012.71	37.3%
Total	86,697.66	100.0%	236,245.79	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 11.2 percent more 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 54.9 percent above the projections. The glass and grit generation rate spiked up in the quarter to over 20 percent of the incoming waste from 16.5 percent in June. The reasons for the decline in disk screen performance are not fully understood.
- Actual costs for ash disposal were 12.0 percent below the projections. Ash generation rates tend to fall as glass and grit generation rates rise due to decreases in the amount 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 included in the tip fee calculation, accounting for landfill disposal and for the cost of the external grinding operation, were 33.5 percent below the projections. Only 8 tons of non-processibles were removed for landfill disposal in the quarter. Certain costs of processing the non-processibles incurred in the quarter have been accrued for inclusion in the calculation of the tip fee for next quarter.
- 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 \$650,500, equivalent to \$8.13 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 \$800,000, equivalent to \$10.00 per ton of MSW to be received in the quarter. The estimate assumes that the rate of glass and grit generation will stay elevated.

PERC projects the cost for disposal of non-processibles for the upcoming quarter to be \$84,000, equivalent to \$1.05 per ton of MSW to be received, which reflects prior levels of disposal of this material and the accrued costs not included in the tip fee calculation for this quarter..

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 has completed the process of re-financing the outstanding bonds with a bank loan from TDBank. The calculation of the change of rate of interest cost in the quarter accounts for interest on the outstanding bonds through August 1, 2011, when the bonds were retired, as well as interest on the loan after August 1, 2011. The calculation also accounts for the costs of three interest rate swaps purchased by PERC to reduce its exposure to future interest rate increases. Overall, the re-financing had the effect of reducing the tip fee by \$0.26 per ton in the quarter.
5. Reconciliation from the prior quarter. The Quarterly Adjustment includes a positive reconciliation amount of \$42,082 (about \$0.81 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 \$0.81 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.
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 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.

7. CMRA Deposits: On July 14, 2011, PERC made a deposit of \$500,501.16 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 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 160 • 29 Industrial Way
Orrington, Maine 04474
(207) 825 - 4566

ESOCO ORRINGTON, INC.
Plant Operator

October 5, 2011

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

Subject: Fourth Quarter 2011 Tipping Fee Calculation

Committee Members:

Attached for your review is the fourth quarter 2011 Tipping Fee Calculation along with appropriate back-up information to support a "Charter Municipality" tipping fee rate of \$73.20.

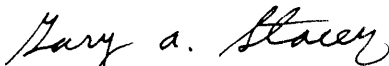
The information in Exhibits A through C, supplied herewith, along with the monthly Plant Performance Reports, should be sufficient to duplicate and verify the tipping fee calculation.

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



Penobscot Energy Recovery Company

P.O. Box 160 • 29 Industrial Way
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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 September 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: October 5, 2011

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

TIPPING FEE CALCULATION 04-Oct-11	1st QTR '11 ESTIMATE	1st QTR '11 ACTUAL	2nd QTR '11 ESTIMATE	2nd QTR '11 ACTUAL	3rd QTR '11 ESTIMATE	3rd QTR '11 ACTUAL	4th QTR '11 ESTIMATE
TIPPING FEE:	\$57.83	\$57.83	\$57.83	\$57.83	\$57.83	\$57.83	\$57.83
BASE RATE COMPONENT	1.10%						
CPI-U	\$16.37	\$16.37	\$13.67	\$13.67	\$13.17	\$13.17	\$15.37
VARIABLE RATE COMPONENT	\$74.20	\$74.20	\$71.50	\$71.50	\$71.00	\$71.00	\$73.20
TOTAL TIPPING FEE							
TOTAL MSW DELIVERED (TONS)	67,000	68,489	82,710	81,247	77,957	86,698	80,000
CHARTER MSW DELIVERED (TONS)	40,000	39,397	47,950	47,026	52,000	51,691	46,000
CHARTER MSW FACTOR #1	0.5970	0.5752	0.5797	0.5788	0.6670	0.5962	0.5750
OUT-OF-STATE SPOT MSW (TONS)	3,000	3,520	3,500	1,762	2,000	1,896	3,502
CHARTER MSW FACTOR #2	0.6250	0.6064	0.6054	0.5916	0.6846	0.6095	0.6013
PASSTHROUGH COSTS:							
CHANGE IN DISPOSAL COSTS	\$294,650	\$232,820	\$378,300	\$312,984	\$379,234	\$435,895	\$367,734
SUPPLEMENTAL FUEL COSTS (RECYCLING)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RECONCILIATION OF PREVIOUS QTR	\$87,293	\$87,293	(\$55,706)	(\$55,706)	(\$59,018)	(\$59,018)	\$42,082
OPERATING STANDARDS CREDIT	\$0	\$0	\$0	\$0	\$0	\$0	\$0
CHANGE IN RATE OF INTEREST COSTS	(\$25,025)	(\$24,281)	(\$24,238)	(\$23,689)	(\$22,749)	(\$39,097)	(\$45,499)
AMOUNT OWED TO PERC IN QTR	\$356,917	\$295,832	\$298,356	\$233,589	\$297,468	\$337,780	\$364,317
VARIABLE RATE CHANGE (C.I.L. COSTS)			\$6.22		\$5.72		\$7.92
VARIABLE RATE CHANGE (OTHER PASSTHROUGH)	\$8.92		\$6.22		\$5.72		\$7.92
TOTAL VARIABLE RATE CHANGE \$\$\$/TON	\$8.92		\$6.22		\$5.72		\$7.92
AMOUNT ACTUALLY BILLED IN QTR		\$351,538		\$292,607		\$295,699	

TIPPING FEE CALCULATION
04-Oct-11

TIPPING FEE:

	1st QTR '11 ESTIMATE	1st QTR '11 ACTUAL	2nd QTR '11 ESTIMATE	2nd QTR '11 ACTUAL	3rd QTR '11 ESTIMATE	3rd QTR '11 ACTUAL	4th QTR '11 ESTIMATE
CHANGE IN DISPOSAL COSTS							
RESIDUE DISPOSAL COST	\$575,000	\$605,917	\$762,000	\$786,220	\$775,000	\$682,096	\$650,000
G&G DISPOSAL COST	\$382,746	\$611,194	\$675,000	\$520,502	\$550,000	\$851,696	\$800,000
FEROUS DISPOSAL COST	\$4,500	\$0	\$0	\$0	\$0	\$0	\$0
NON-PRO DISPOSAL COST	\$88,500	\$82,089	\$110,000	\$128,481	\$138,000	\$91,769	\$84,000
BYPASS DISPOSAL COST	\$0	\$0	\$0	\$0	\$0	\$0	\$0
FEPR DISPOSAL COST	\$813,000	\$693,283	\$785,000	\$648,983	\$688,000	\$943,465	\$884,000
TOTAL DISPOSAL COST	\$1,388,000	\$1,299,200	\$1,547,000	\$1,435,203	\$1,463,000	\$1,625,561	\$1,534,000
CHANGE IN DISPOSAL COST (COST-BASE)	\$493,538	\$404,738	\$652,538	\$540,741	\$568,538	\$731,099	\$639,538
CHARTER SHARE OF COSTS (FACTOR #1)	\$294,650	\$232,820	\$378,300	\$312,984	\$379,234	\$435,895	\$367,734

CHANGE IN RATE OF INTEREST COSTS

ACTUAL TOTAL INTEREST FOR QTR	\$154,599	\$154,599	\$154,600	\$154,600	\$127,491	\$93,584	\$82,965
INTEREST CALC. @ 6.40% BASE RATE	\$194,640	\$194,640	\$194,640	\$194,640	\$160,720	\$157,725	\$158,631
CHANGE IN RATE OF INTEREST COSTS	(\$40,041)	(\$40,041)	(\$40,040)	(\$40,040)	(\$33,230)	(\$64,141)	(\$75,665)
CHARTER SHARE OF COSTS (FACTOR #2)	(\$25,025)	(\$24,281)	(\$24,238)	(\$23,689)	(\$22,749)	(\$39,097)	(\$45,499)