

# CommonWealth

Resource Management Corporation

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October 15, 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 Fourth Quarter of 2012

Dear Members of the MRC:

In October 2012, 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 2012 (the Quarterly Adjustment, which is provided as Attachment 1). The Quarterly Adjustment calculates a tipping fee of **\$ 74.00** 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 August 2012.

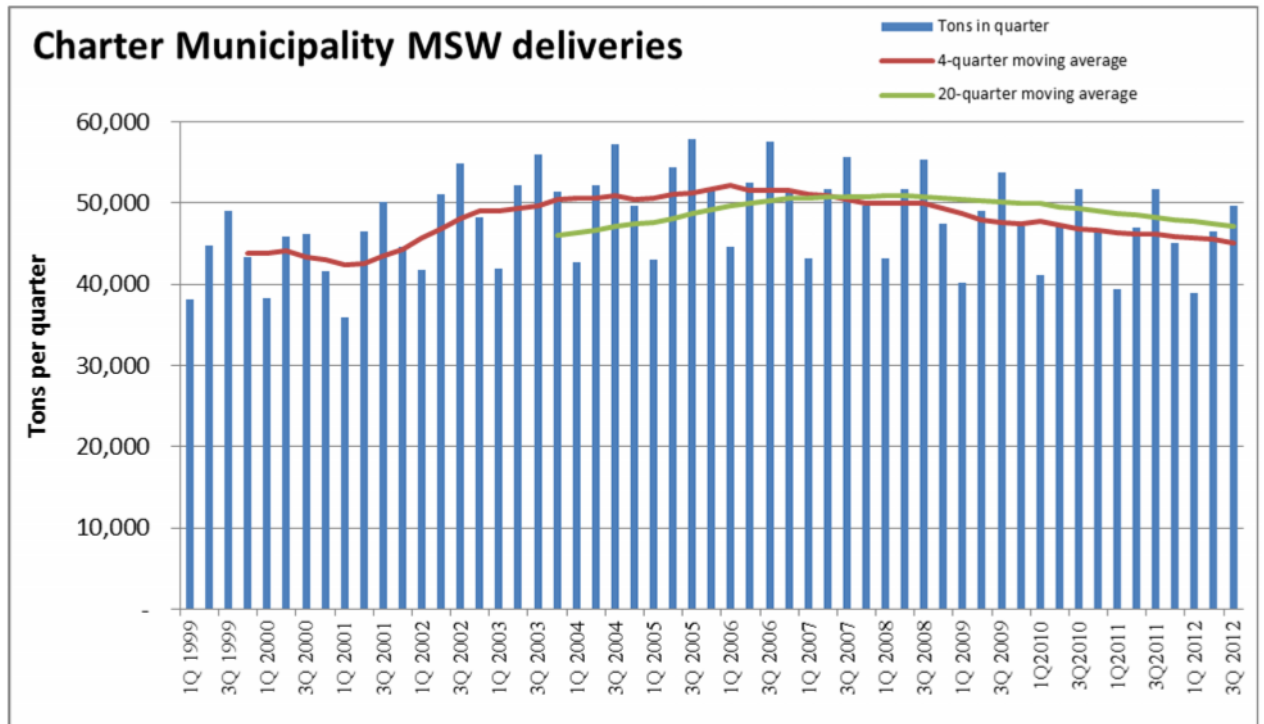
CommonWealth Resource Management Corporation (CommonWealth) has reviewed and duplicated PERC's calculations of the Quarterly Adjustment, and has reviewed various aspects of the performance of the Facility. This letter presents our review of the Quarterly Adjustment. Comments and recommendations on management 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 49,705 tons in the past quarter as compared to 51,691 tons in the third quarter of 2011 --- a decrease of 1,986 tons (-3.8%).
- Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 44,652 tons in the past quarter as compared to 46,553 tons in the third quarter of 2011 --- a decrease of 1,901 tons (-4.1%).
- New Charter Municipalities. The New Charter Municipalities delivered 5,052 tons in the past quarter, as compared to 5,138 tons delivered in the third quarter of 2011 --- a decrease of 85 tons (-1.7 percent).
- Deliveries vs. GAT. In the first three quarters of 2012, the Charter Municipalities delivered directly 135,273 tons, which is 73.4% 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%
3Q	44,652	46,553	(1,901)	-4.1%	5,052	5,138	(85)	-1.7%	49,705	51,691	(1,986)	-3.8%



- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute declines in tonnage in the third quarter of 2012 compared to the third quarter of 2011: **Bangor, Clinton, Brewer, Waterville, Orono, Mars Hill, Rockland, Old Town, Herman and Bucksport** (Equity Charters); and **Belfast, Wiscasset, Sherman, Machias and Stockton Springs** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2012 over the third quarter of 2012 include **Fairfield, 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 83 tons in the quarter. The host community of **Orrington** delivered 451 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Monroe, Pittsfield, Prospect and Winterport** delivered 1,628 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Willimantic** (17 tons in the quarter), the Town of **Warren** (220 tons in the quarter), the Town of **Greenville** (242 tons in the quarter) and the Towns of **Nobleboro and Jefferson** (1,114 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 less out-of-state spot market waste in the quarter than had been budgeted in the prior quarterly adjustment (1,274 actual tons vs. 1,500 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:

	3Q 2012		2012 year to date	
	Tons	Share of total	Tons	Share of total
<b>Municipal waste</b>				
Charter Municipalities				
Equity	44,652.44	55.4%	121,685.12	52.2%
New	5,052.27	6.3%	13,587.45	5.8%
Total	49,704.71	61.6%	135,272.57	58.1%
LT contracts expired in 2004	82.61	0.1%	198.79	0.1%
Other (OWL and short-term)	3,221.79	4.0%	8,843.56	3.8%
Host community	450.65	0.6%	1,320.77	0.6%
Subtotal	53,459.76	66.3%	145,635.69	62.5%
<b>Commercial waste</b>				
In-state commercial	8,957.05	11.1%	23,464.09	10.1%
Out-of-state	18,232.67	22.6%	63,839.07	27.4%
Subtotal	27,189.72	33.7%	87,303.16	37.5%
<b>Total</b>	<b>80,649.48</b>	<b>100.0%</b>	<b>232,938.85</b>	<b>100.0%</b>

2. Actual residuals disposal costs. PERC's actual total residuals disposal costs for the prior quarter included in the tip fee calculation were 0.6 percent less than PERC had projected, while the quantity of waste received was 1.6 percent less than PERC had projected. Specifically,
- Actual costs for glass and grit disposal were 0.5 percent below the projections.
  - Actual costs for ash disposal were 2.1 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 11.0 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.

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 \$678,000, equivalent to \$9.08 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 \$670,000, equivalent to \$8.97 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 \$1.34 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.

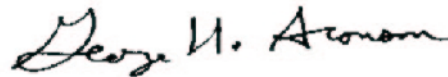
Overall, Commonwealth believes the costs projected by PERC for residuals disposal are reasonably consistent with calculations based on (1) the estimate of tons of waste to be processed in the upcoming quarter; (2) the generation rates of these residual streams in previous quarters; (3) actual unit costs 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 an interest rate equivalent to 3.4 percent in the quarter.

5. Reconciliation from the prior quarter. The Quarterly Adjustment includes a negative reconciliation amount of \$4,512 (about \$0.09 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 \$0.09 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 in the quarter. PERC performed its annual test of stack emissions during the quarter. Preliminary results will be discussed at the Board meeting.
7. CMRA Deposits: On August 17, 2012, PERC made a deposit of \$515,026.52 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 September 2012, which is not available as of this writing, Commonwealth believes that PERC's Quarterly Adjustment for the fourth 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

October 4, 2012

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

**Subject: Fourth Quarter 2012 Tipping Fee Calculation**

Committee Members:

Attached for your review is the fourth quarter 2012 Tipping Fee Calculation along with appropriate back-up information to support a "Charter Municipality" tipping fee rate of \$74.00.

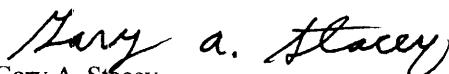
The information in Exhibits A through C, supplied herewith, along with the monthly Plant Performance Reports, should be sufficient to duplicate and verify the tipping fee calculation.

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

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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 September 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: October 4, 2012

A handwritten signature in black ink that reads "Gary A. Stacey".

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

TIPPING FEE CALCULATION

	1st QTR '12 ESTIMATE	1st QTR '12 ACTUAL	2nd QTR '12 ESTIMATE	2nd QTR '12 ACTUAL	3rd QTR '12 ESTIMATE	3rd QTR '12 ACTUAL	4th QTR '12 ESTIMATE
TIPPING FEE:							
BASE RATE COMPONENT	\$60.09	\$60.09	\$60.09	\$60.09	\$60.09	\$60.09	\$60.09
CPI-U	3.90%						
VARIABLE RATE COMPONENT	\$16.42	\$16.42	\$12.91	\$12.91	\$12.92	\$12.92	\$13.91
TOTAL TIPPING FEE	\$76.50	\$76.50	\$73.00	\$73.00	\$73.00	\$73.00	\$74.00
TOTAL MSW DELIVERED (TONS)	67,000	68,488	81,500	83,801	82,000	80,649	74,661
CHARTER MSW DELIVERED (TONS)	39,500	38,993	47,000	46,574	52,000	49,705	46,500
CHARTER MSW FACTOR #1	0.5896	0.5693	0.5767	0.5558	0.6341	0.6163	0.6228
OUT-OF-STATE SPOT MSW (TONS)	3,000	7,722	3,000	4,796	1,500	1,274	3,502
CHARTER MSW FACTOR #2	0.6172	0.6417	0.5987	0.5895	0.6460	0.6262	0.6535
PASSTHROUGH COSTS:							
CHANGE IN DISPOSAL COSTS	\$303,052	\$191,648	\$407,570	\$337,693	\$394,908	\$378,184	\$345,449
SUPPLEMENTAL FUEL COSTS (RECYCLING)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RECONCILIATION OF PREVIOUS QTR	\$94,306	\$94,306	(\$110,232)	(\$110,232)	(\$68,520)	(\$68,520)	(\$4,512)
OPERATING STANDARDS CREDIT	\$0	\$0	\$0	\$0	\$0	\$0	\$0
CHANGE IN RATE OF INTEREST COSTS	(\$43,191)	(\$46,560)	(\$40,735)	(\$41,701)	(\$42,196)	(\$42,529)	(\$40,434)
AMOUNT OWED TO PERC IN QTR	\$354,168	\$239,394	\$256,603	\$185,759	\$284,192	\$267,135	\$300,503
VARIABLE RATE CHANGE (C.I.L. COSTS)							
VARIABLE RATE CHANGE (OTHER PASSTHROUGH)	\$8.97		\$5.46		\$5.47		\$6.46
TOTAL VARIABLE RATE CHANGE \$\$\$/TON	\$8.97		\$5.46		\$5.47		\$6.46
AMOUNT ACTUALLY BILLED IN QTR		\$349,626		\$254,279		\$271,648	



TIPPING FEE CALCULATION  
04-Oct-12

	1st QTR '12 ESTIMATE	1st QTR '12 ACTUAL	2nd QTR '12 ESTIMATE	2nd QTR '12 ACTUAL	3rd QTR '12 ESTIMATE	3rd QTR '12 ACTUAL	4th QTR '12 ESTIMATE
TIPPING FEE:							
CHANGE IN DISPOSAL COSTS							
BASE COST							
RESIDUE DISPOSAL COST	\$588,500	\$659,179	\$800,000	\$707,311	\$716,000	\$700,812	\$678,000
G&G DISPOSAL COST	\$750,000	\$490,683	\$700,000	\$701,959	\$700,000	\$696,277	\$670,000
FERROUS DISPOSAL COST	\$0	\$976	\$1,205	(\$976)	\$1,201	\$0	\$1,120
NON-PRO DISPOSAL COST	\$70,000	\$80,236	\$100,000	\$93,777	\$100,000	\$111,004	\$100,000
BYPASS DISPOSAL COST	\$0	\$0	\$0	\$0	\$0	\$0	\$0
FEPR DISPOSAL COST	\$820,000	\$571,895	\$801,205	\$794,760	\$801,201	\$807,282	\$771,120
TOTAL DISPOSAL COST	\$1,408,500	\$1,231,074	\$1,601,205	\$1,502,071	\$1,517,201	\$1,508,093	\$1,449,120
CHANGE IN DISPOSAL COST (COST-BASE)	\$514,038	\$336,612	\$706,743	\$607,609	\$622,739	\$613,631	\$554,658
CHARTER SHARE OF COSTS (FACTOR #1)	\$303,052	\$191,648	\$407,570	\$337,693	\$394,908	\$378,184	\$345,449
CHANGE IN RATE OF INTEREST COSTS							
ACTUAL TOTAL INTEREST FOR QTR.	\$82,877	\$80,298	\$80,577	\$77,875	\$77,365	\$74,771	\$73,281
INTEREST CALC. @ 6.40% BASE RATE	\$152,657	\$152,657	\$148,613	\$148,613	\$142,688	\$142,688	\$135,158
CHANGE IN RATE OF INTEREST COSTS	(\$69,980)	(\$72,558)	(\$68,036)	(\$70,739)	(\$65,323)	(\$67,917)	(\$61,877)
CHARTER SHARE OF COSTS (FACTOR #2)	(\$43,191)	(\$46,560)	(\$40,735)	(\$41,701)	(\$42,196)	(\$42,529)	(\$40,434)