

# CommonWealth

Resource Management Corporation

---

April 15, 2016

Municipal Review Committee, Inc.  
c/o Greg Louder, Executive Director  
395 State Street  
Ellsworth, Maine 04605

RE: Review of the Tip Fee for the Second Quarter of 2016

Dear Members of the MRC:

In April 2016, the Municipal Review Committee (the MRC) received from the Penobscot Energy Recovery Company (PERC) a calculation of the tipping fee for the second quarter of 2016 (the Quarterly Adjustment, which is provided as Attachment 1). The Quarterly Adjustment calculates a tipping fee of **\$ 77.00** 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 loan 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 in 2016 to date 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 February 2016.

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, Net Cash Flow and other MRC assets, and on compliance with annual performance standards, are provided in separate letters.

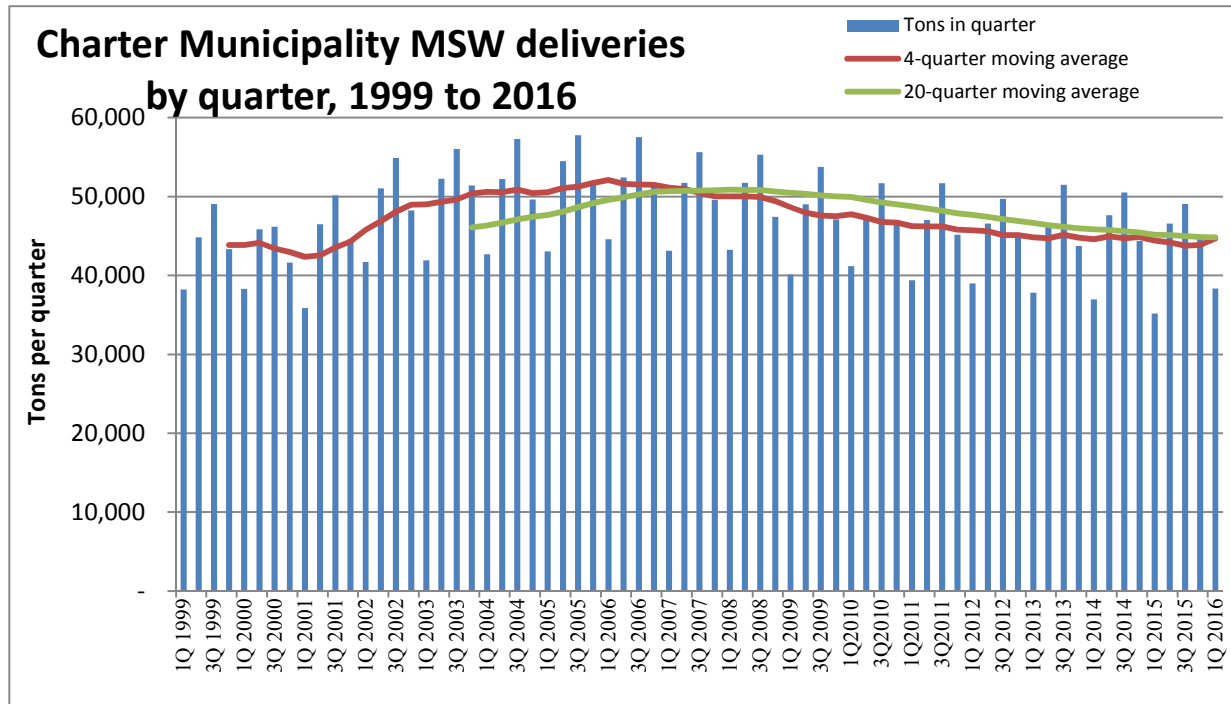
1. Charter Municipalities and tonnage data. Regarding the customer and tonnage data and estimates provided by PERC in Exhibit C:

- Actual 2016 deliveries vs. 2015. The Charter Municipalities as a group are noted in Exhibit C-2 as having delivered 38,328 tons in the past quarter as compared to 35,195 tons in the first quarter of 2015 --- an increase of 3,134 tons (+8.9%). The deliveries reported by PERC in 2016 to date represent 20.8 percent of the GAT for 2016 of 184,252 tons. These deliveries do not include 6,294 tons of in-state MSW delivered to the PERC facility in 2016 under commercial contract accounts (excluding amounts known to originate outside the Charter Municipalities), much of which originated within the boundaries of Charter Municipalities and that should have been counted toward the GAT.
- Equity Charter Municipalities. The Equity Charter Municipalities as a group delivered 34,436 tons in the past quarter as compared to 31,543 tons in the first quarter of 2015 --- an increase of 2,892 tons (+9.2%).
- New Charter Municipalities. The New Charter Municipalities delivered 3,893 tons in the past quarter, as compared to 3,652 tons delivered in the first quarter of 2015 --- an increase of 241 tons (+6.6 percent).

**MSW Deliveries to PERC in 2016 and 2015, tons by calendar quarter**

	Equity Charters				New Charters				All Charters			
	2016	2015	Change	%	2016	2015	Change	%	2016	2015	Change	%
1Q	34,436	31,543	2,892	9.2%	3,893	3,652	241	6.6%	38,328	35,195	3,134	8.9%

- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute or percentage declines in tonnage in the first quarter of 2016 compared to the first quarter of 2015: **Fairfield, Monson and Reed Plantation** (Equity Charters); and **Piscataquis County and Stockton Springs** (New Charters). Charter Municipalities with the largest tonnage increases in 2016 over the first quarter of 2015 include **Bangor, Blue Hill/Surry, Brewer, Hermon, Mid-Coast SWD, Mid-Maine SWD, Mt. Desert and Rockland** (Equity Charters) and **Milbridge, Oakfield, and Wiscasset** (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 45 tons in the quarter. The host community of **Orrington** delivered 361 tons in the quarter. The Towns of **Detroit, Ellsworth, Frankfort, Pittsfield, Prospect** and **Winterport** delivered 1,332 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Greenville** (186 tons in the quarter), the Town of **Willimantic** (9 tons in the quarter), the Town of **Warren** (199 tons in the quarter), the Towns of **Nobleboro and Jefferson** (528 tons in the quarter), the Town of **Eastbrook** (54 tons in the quarter), and **Indian Township** (12 tons in the quarter) are shown on the list of PERC customers on Exhibit C-1, but are not shown on Exhibit C-2.



- Out-of-state spot waste and supplemental fuel. PERC received slightly more out-of-state spot market waste in the quarter than had been budgeted in the prior quarterly adjustment (3,855 actual tons vs. 3,064 budgeted tons). PERC received a total of 15,931 tons of out-of-state MSW and combusted 265 tons of wood chips for use as supplemental fuel in the first two months of the quarter.
- Pine Tree Waste contracts. Pine Tree Waste delivered 14,548 tons in the quarter, of which 10,169 tons were in-state MSW and 4,379 tons were out-of-state MSW.
- Summary of sources of waste. PERC’s sources of waste are summarized below:

	1Q 2016	
	Tons	Share of total
<b>Municipal waste</b>		
Charter Municipalities		
Equity	34,435.64	48.9%
New	3,892.55	5.5%
<b>Total</b>	<b>38,328.19</b>	<b>54.5%</b>
Carryover towns	45.01	0.1%
Other (OWL and short-term)	2,320.68	3.3%
Host community	361.40	0.5%
<b>Subtotal</b>	<b>41,055.28</b>	<b>58.3%</b>
<b>Commercial waste</b>		
In-state commercial	13,387.79	19.0%
Out-of-state	15,931.00	22.6%
<b>Subtotal</b>	<b>29,318.79</b>	<b>41.7%</b>
<b>Total</b>	<b>70,374.07</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 7.8 percent less than PERC had

projected. The quantity of MSW received was 0.7 percent less than PERC had projected, so the actual cost per ton of residuals disposal for the quarter was below the projected cost per ton. In particular,

- Actual costs for glass and grit disposal were 9.6 percent below the projections. The generation rate fell in the quarter after annual maintenance on the disk screens.
- Actual costs for ash disposal were 1.2 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 29.8 percent below the projections. PERC did not send non-processible material to the landfill in the quarter, although it did bypass 339 tons of MSW to the Juniper Ridge Landfill in February 2016.
- PERC continues to have ferrous material removed at no charge, because the value of the material covers the cost of transportation to market.

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 \$750,000, equivalent to \$9.04 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 \$650,000, equivalent to \$7.83 per ton of MSW to be received in the quarter.

PERC projects the cost for disposal of non-processibles for the upcoming quarter to be \$173,500, equivalent to \$2.09 per ton of MSW to be received, which reflects prior levels of cost to process this material.

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.

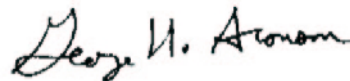
4. Changes in rate of interest cost. Commonwealth has reviewed PERC's calculations of the changes of rate of interest cost for the prior and upcoming quarters and agrees that the calculations are acceptable to the MRC. The calculations reflect the recent re-financing of PERC's outstanding bonds with 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 (one of which expired in July 2014, and one of which expired in July 2015). Overall, PERC paid interest, including the cost of the swaps, at a rate equivalent to **3.10 percent** in the quarter.

5. Reconciliation from the prior quarter. The Quarterly Adjustment includes a negative reconciliation amount of \$62,622 (about \$1.40 per Charter 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 \$1.40 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 has the effect of decreasing the current tip fee more than had been anticipated to compensate for the tip fee in the prior quarter.
6. Environmental Performance. PERC reported no emission exceedances during the first two months of the quarter. The MRC has not yet received the Monthly Performance Report for March 2016, which would contain information on environmental performance in March 2016.
7. CMRA Deposits: On February 2, 2016, PERC made a deposit of \$518,600.27 into the CMRA Fund for the preceding quarter. Such deposit was made as required pursuant to Article VII, Section I, of the Waste Disposal Agreement.
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 to the review of information in the March 2016 Monthly Performance Report not yet received, Commonwealth believes that PERC's Quarterly Adjustment for the second quarter of 2016 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 7, 2016

PERC Municipal Review Committee  
c/o Mr. Greg Louder  
395 State Street  
Ellsworth, Maine 04605

**Subject: Second Quarter 2016 Tipping Fee Calculation**

Committee Members:

Attached for your review is the second quarter 2016 Tipping Fee Calculation along with appropriate back-up information to support a "Charter Municipality" tipping fee rate of \$77.00.


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, 2016.

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 March 31, 2016, 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 7, 2016

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

TIPPING FEE CALCULATION

07-Apr-16

	4th QTR '15 ESTIMATE	4th QTR '15 ACTUAL	1st QTR '16 ESTIMATE	1st QTR '16 ACTUAL	2nd QTR '16 ESTIMATE
TIPPING FEE:					
BASE RATE COMPONENT	\$63.08	\$63.08	\$63.08	\$63.08	\$63.08
CPI-U			0.00%		
VARIABLE RATE COMPONENT	\$13.72	\$13.72	\$13.42	\$13.42	\$13.92
TOTAL TIPPING FEE	\$76.80	\$76.80	\$76.50	\$76.50	\$77.00
TOTAL MSW DELIVERED (TONS)					
CHARTER MSW DELIVERED (TONS)	80,000	77,976	69,851	70,374	83,000
CHARTER MSW FACTOR #1	45,000	44,673	38,000	38,328	44,750
OUT-OF-STATE SPOT MSW (TONS)	0.5625	0.5729	0.5440	0.5446	0.5392
CHARTER MSW FACTOR #2	1,500	2,622	3,064	3,855	2,722
	0.5732	0.5928	0.5690	0.5762	0.5574
PASSTHROUGH COSTS:					
CHANGE IN DISPOSAL COSTS	\$405,584	\$348,158	\$299,983	\$239,229	\$366,108
SUPPLEMENTAL FUEL COSTS (RECYCLING)	\$0	\$0	\$0	\$0	\$0
RECONCILIATION OF PREVIOUS QTR	(\$105,751)	(\$105,751)	(\$56,958)	(\$56,958)	(\$62,622)
OPERATING STANDARDS CREDIT	\$0	\$0	\$0	\$0	\$0
CHANGE IN RATE OF INTEREST COSTS	(\$17,518)	(\$19,100)	(\$16,015)	(\$15,922)	(\$13,844)
AMOUNT OWED TO PERC IN QTR	\$282,316	\$223,307	\$227,010	\$166,348	\$289,641
VARIABLE RATE CHANGE (C.I.L. COSTS)					
VARIABLE RATE CHANGE (OTHER PASSTHI	\$6.27		\$5.97		\$6.47
TOTAL VARIABLE RATE CHANGE \$\$\$/TON	\$6.27		\$5.97		\$6.47
AMOUNT ACTUALLY BILLED IN QTR		\$280,265		\$228,971	



TIPPING FEE CALCULATION

07-Apr-16

TIPPING FEE:

	4th QTR '15 ESTIMATE	4th QTR '15 ACTUAL	1st QTR '16 ESTIMATE	1st QTR '16 ACTUAL	2nd QTR '16 ESTIMATE
CHANGE IN DISPOSAL COSTS					
RESIDUE DISPOSAL COST	\$705,000	\$654,658	\$661,845	\$654,216	\$750,000
G&G DISPOSAL COST	\$382,746	\$717,548	\$637,541	\$576,623	\$650,000
FERROUS DISPOSAL COST	\$63,791	\$0	\$0	\$0	\$0
NON-PRO DISPOSAL COST	\$79,737	\$129,955	\$146,500	\$102,868	\$173,500
BYPASS DISPOSAL COST	\$0	\$0	\$0	\$0	\$0
FEPR DISPOSAL COST	\$526,274	\$847,502	\$784,041	\$679,491	\$823,500
TOTAL DISPOSAL COST	\$894,462	\$1,502,160	\$1,445,886	\$1,333,708	\$1,573,500
CHANGE IN DISPOSAL COST (COST-BASE)	\$721,038	\$607,698	\$551,424	\$439,246	\$679,038
CHARTER SHARE OF COSTS (FACTOR #1)	\$405,584	\$348,158	\$299,983	\$239,229	\$366,108
CHANGE IN RATE OF INTEREST COSTS					
ACTUAL TOTAL INTEREST FOR QTR.	\$29,052	\$27,393	\$24,823	\$25,337	\$21,904
INTEREST CALC. @ 6.40% BASE RATE	\$59,610	\$59,610	\$52,970	\$52,970	\$46,740
CHANGE IN RATE OF INTEREST COSTS	(\$30,558)	(\$32,217)	(\$28,147)	(\$27,633)	(\$24,836)
CHARTER SHARE OF COSTS (FACTOR #2)	(\$17,518)	(\$19,100)	(\$16,015)	(\$15,922)	(\$13,844)