

CommonWealth

Resource Management Corporation

January 17, 2018

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

RE: Review of the Tip Fee for the First Quarter of 2018

Dear Members of the MRC:

In January 2018, 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 2017 (the Quarterly Adjustment, which is provided as Attachment 1). The Quarterly Adjustment calculates a tipping fee of **\$ 81.50** 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) loan interest paid in 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 2017 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 December 2017.

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 Performance Standards in 2017, will be provided in separate letters.

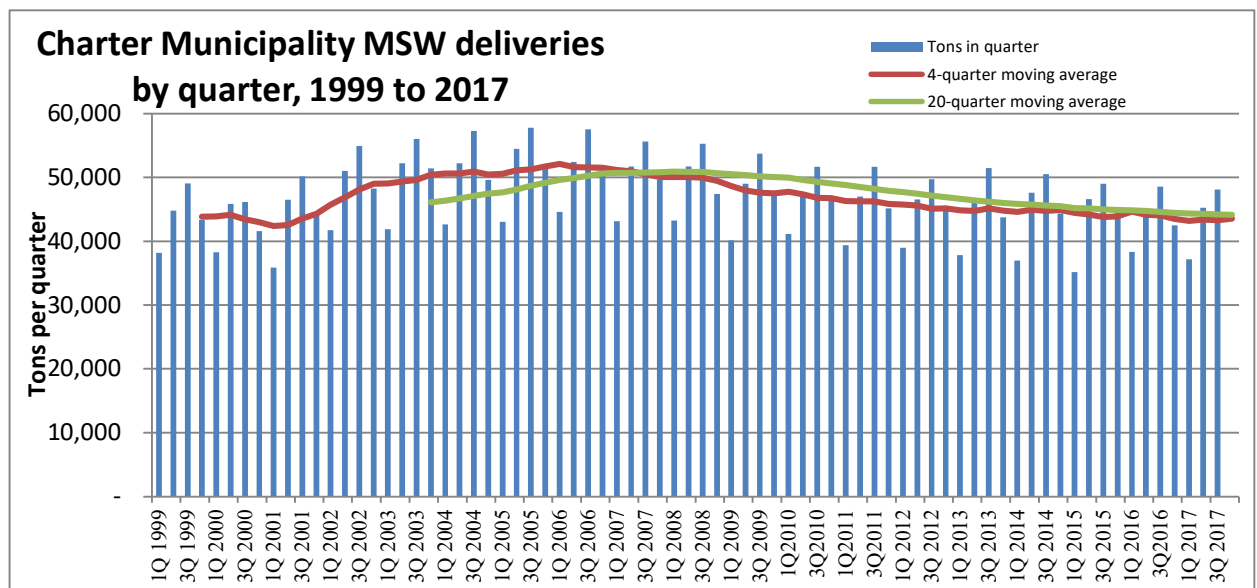
1. Base Fee inflation. PERC adjusted the Base Rate to \$65.43 in 2017 from \$64.02 in 2016, an increase of 2.2 percent. This escalation is based on the percentage change to September 2017 from September 2016 of the Consumer Price Index-All Urban Consumers (CPI-U), U.S. cities average, all items index, as published by the United States Bureau of Labor Statistics. Having reviewed the CPI-U data, Commonwealth concurs that PERC's escalation of the Base Rate complies with the Agreement.
2. Charter Municipalities and tonnage data. Regarding the customer and tonnage data and estimates provided by PERC in Exhibit C:
 - Actual 2017 deliveries vs. 2016. The Charter Municipalities as a group are noted in Exhibit C as having delivered 43,505 tons of MSW in the quarter, including 43,223 tons of direct deliveries and 283 tons that were delivered by Pine Tree Waste as backfill for tons diverted from Charter Municipalities through new single-sort recycling programs. The 43,505 delivered tons represent an increase of 1,020 tons (+2.4 percent) as compared to 42,485 delivered tons in the fourth quarter of 2016. The deliveries reported by PERC in 2017 to date represent 94.5 percent of the GAT for 2017 of 184,252 tons.
 - Equity Charter Municipalities. The Equity Charter Municipalities as a group, excluding backfilled tons, directly delivered 39,118 tons in the quarter compared to 38,023 tons in the fourth quarter of 2017 --- an increase of 1095 tons (+2.9%).
 - New Charter Municipalities. The New Charter Municipalities as a group, excluding backfilled tons, directly delivered 4,105 tons in the past quarter, as compared to 4,163 tons delivered in the fourth quarter of 2016 --- a decrease of 58 tons (-1.4 percent).

MSW Deliveries to PERC in 2017 and 2016, tons by calendar quarter (excludes make-up tons)

	Equity Charters				New Charters				All Charters			
	2017	2016	Change	%	2017	2016	Change	%	2017	2016	Change	%
1Q	33,377	34,436	(1,059)	-3.1%	3,467	3,893	(425)	-10.9%	36,844	38,328	(1,484)	-3.9%
2Q	40,612	39,754	858	2.2%	4,459	4,542	(84)	-1.8%	45,071	44,297	774	1.7%
3Q	43,324	43,657	(332)	-0.8%	4,495	4,598	(103)	-2.2%	47,819	48,255	(436)	-0.9%
4Q	39,118	38,023	1,095	2.9%	4,105	4,163	(58)	-1.4%	43,223	42,186	1,037	2.5%
Total	156,430	155,869	561	0.4%	16,526	17,197	(670)	-4.1%	172,957	173,066	(109)	-0.1%

- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute or percentage declines in tonnage in the fourth quarter of 2017 compared to the fourth quarter of 2016: **Baileyville, Mariaville, Thomaston Group, Waterville and Winthrop** (Equity Charters); and **Castine, Oakfield, Sullivan, Swans Island and Tri-County SWO** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2017 over the fourth quarter of 2016 include **Fairfield, Millinocket and Orono** (Equity Charters), and **N. Katahdin, Sherman 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 74 tons in the quarter. The host community of **Orrington** delivered 458 tons in the quarter. The Towns of **Ellsworth, Frankfort, Pittsfield, Prospect** and **Winterport** delivered 1,398 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Eastbrook** (68 tons in the quarter), the Town of **Greenville** (227 tons in the quarter), the Towns of **Nobleboro and Jefferson** (637 tons in the quarter), the Town of **Warren** (234 tons in the quarter) and the Town of **Willimantic** (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 more out-of-state spot market waste in the quarter than had been budgeted in the prior quarterly adjustment (5,529 actual tons vs. 5,000 budgeted tons). PERC received 13,976 tons of out-of-state MSW and combusted a total of 94 tons of wood chips for use as supplemental fuel in the quarter.
- Pine Tree Waste contracts. Pine Tree Waste delivered 16,348 tons of MSDW (other than backfill tons) in the quarter, of which 11,585 tons were in-state MSW and 4,763 tons were out-of-state MSW.
- Summary of sources of waste. PERC's sources of waste are summarized below:

	4Q 2017		2017 to date	
	Tons	Share of total	Tons	Share of total
Municipal waste				
Charter Municipalities				
Equity	39,117.70	50.8%	156,433.35	49.4%
Recycling backfilled tons	282.65	0.4%	1,139.90	
New	<u>4,105.12</u>	<u>5.3%</u>	<u>16,523.52</u>	<u>5.2%</u>
Total	43,505.47	56.5%	174,096.77	55.0%
Carryover towns	74.27	0.1%	297.02	0.1%
Other (OWL and short-term)	2,575.41	3.3%	10,664.08	3.4%
Host community	<u>457.76</u>	<u>0.6%</u>	<u>1,697.48</u>	<u>0.5%</u>
Subtotal	46,612.91	60.5%	186,755.35	59.0%
Commercial waste				
In-state commercial	16,458.49	21.4%	73,746.73	23.3%
Out-of-state	<u>13,976.19</u>	<u>18.1%</u>	<u>56,098.95</u>	<u>17.7%</u>
Subtotal	30,434.68	39.5%	129,845.68	41.0%
Total	77,047.59	100.0%	316,601.03	100.0%

3. Actual residuals disposal costs. PERC's actual total residuals disposal costs for the prior quarter included in the tip fee calculation were 1.1 percent less than PERC had projected. The quantity of MSW received was 4.4 percent less than PERC had projected, so the actual cost per ton of residuals disposal for the quarter was above the projected cost per ton. In particular,

- Actual costs for glass and grit disposal were 3.7 percent above the projections.
- Actual costs for ash disposal were 9.4 percent below the projections.
- Actual costs for disposal of non-processibles included in the tip fee calculation were 23.0 percent above the projections, reflecting the need to landfill 54 tons of non-processible materials in the quarter..
- PERC continues to have ferrous material removed at no charge, because the value of the material covers the cost of transportation to market.

CommonWealth agrees that PERC's calculations of actual passed-through disposal costs are reasonable.

4. Projected residual stream disposal costs. PERC projects the cost for ash disposal for the upcoming quarter to be \$648,500, equivalent to \$10.06 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 \$775,000, equivalent to \$8.42 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 \$120,000, equivalent to \$1.56 per ton of MSW to be received. PERC projects no cost for disposition of recovered ferrous material.

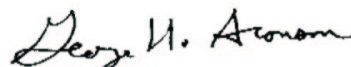
Overall, CommonWealth believes the costs projected by PERC for residuals disposal are reasonably consistent with calculations based on (1) the estimate of tons of waste to be processed in the upcoming quarter; (2) the generation rates of these residual streams in previous quarters; (3) actual unit costs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

5. Changes in rate of interest cost. Commonwealth has reviewed PERC's calculations of the changes of rate of interest cost for the prior quarter and agrees that the calculations are acceptable to the MRC. The calculations reflect the interest on PERC's outstanding bank loan from TDBank, which are now retired in full. Overall, PERC paid interest at a rate equivalent to **3.48 percent** in the quarter.
6. Reconciliation from the prior quarter. The Quarterly Adjustment includes a positive reconciliation amount of \$7,062 (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 **lower** 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 to compensate for the tip fee in the prior quarter.
7. Environmental Performance. PERC reported no exceedances for emissions of carbon monoxide (CO) in the monthly performance reports received during the quarter.
8. CMRA Deposits: On November 22, 2017, PERC made a deposit of \$566,974.33 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. OPEN
9. 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 review of the status of compliance with Performance Standards, Commonwealth believes that PERC's Quarterly Adjustment for the first quarter of 2018 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

29 Industrial Way
Orrington, Maine 04474
(207) 825-4566

ESOCO ORRINGTON, LLC
Plant Operator

January 4, 2018

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

Subject: First Quarter 2018 Tipping Fee Calculation

Committee Members:

Attached for your review is the first quarter 2018 Tipping Fee Calculation along with appropriate back-up information to support a "Charter Municipality" tipping fee rate of \$81.50.


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 December 31, 2017.

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
H. Lang, PERC
J. Noer, SET
K. Nordby, PERC Holdings



Penobscot Energy Recovery Company

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 December 31, 2017, 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: January 4, 2018

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

TIPPING FEE CALCULATION

04-Jan-18

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TIPPING FEE:

=====

BASE RATE COMPONENT

CPI-U

VARIABLE RATE COMPONENT

TOTAL TIPPING FEE

TOTAL MSW DELIVERED (TONS)
 CHARTER MSW DELIVERED (TONS)
 CHARTER MSW FACTOR #1
 OUT-OF-STATE SPOT MSW (TONS)
 CHARTER MSW FACTOR #2

PASSTHROUGH COSTS:

CHANGE IN DISPOSAL COSTS

SUPPLEMENTAL FUEL COSTS (RECYCLING)

RECONCILIATION OF PREVIOUS QTR

OPERATING STANDARDS CREDIT

CHANGE IN RATE OF INTEREST COSTS

AMOUNT OWED TO PERC IN QTR

VARIABLE RATE CHANGE (C.I.L. COSTS)

VARIABLE RATE CHANGE (OTHER PASSTH)

TOTAL VARIABLE RATE CHANGE \$\$\$/TON

AMOUNT ACTUALLY BILLED IN QTR

	4th QTR '17 ESTIMATE	4th QTR '17 ACTUAL	1st QTR '18 ESTIMATE
	\$64.02	\$64.02	\$65.43
	\$15.48	\$15.48	2.20%
	\$79.50	\$79.50	\$16.07
			=====
			\$81.50
			=====
	80.625	77,048	77,000
	42,500	43,505	37,200
	0.5271	0.5647	0.4831
	5,000	5,529	10,000
	0.5620	0.6083	0.5552
			=====
	\$351,880	\$366,932	\$313,561
	\$0	\$0	\$0
	(\$9,239)	(\$9,239)	\$7,062
	\$0	\$0	\$0
	(\$1,413)	(\$1,330)	\$0
	\$341,229	\$356,363	=====
			\$320,623
	\$8.03		=====
	\$8.03		\$8.62
			=====
		\$349,301	\$8.62

TIPPING FEE CALCULATION

04-Jan-18

TIPPING FEE:

	4th QTR '17 ESTIMATE	4th QTR '17 ACTUAL	1st QTR '18 ESTIMATE
CHANGE IN DISPOSAL COSTS			
RESIDUE DISPOSAL COST	\$720,000	\$652,233	\$648,500
G&G DISPOSAL COST			
FERROUS DISPOSAL COST	\$745,000	\$772,742	\$775,000
NON-PRO DISPOSAL COST	\$0	\$0	\$0
BYPASS DISPOSAL COST	\$0	\$0	\$0
FEPR DISPOSAL COST	\$842,000	\$892,061	\$895,000
TOTAL DISPOSAL COST	\$1,562,000	\$1,544,294	\$1,543,500
CHANGE IN DISPOSAL COST (COST-BASE)	\$667,538	\$649,832	\$649,038
CHARTER SHARE OF COSTS (FACTOR #1)	\$351,880	\$366,932	\$313,561
CHANGE IN RATE OF INTEREST COSTS			
ACTUAL TOTAL INTEREST FOR QTR.	\$2,219	\$2,547	\$0
INTEREST CALC. @ 6.40% BASE RATE	\$4,734	\$4,734	\$0
CHANGE IN RATE OF INTEREST COSTS	(\$2,515)	(\$2,187)	\$0
CHARTER SHARE OF COSTS (FACTOR #2)	(\$1,413)	(\$1,330)	\$0