

CommonWealth

Resource Management Corporation

July 19, 2017

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

RE: Review of the Tip Fee for the Third Quarter of 2017

Dear Members of the MRC:

In July 2017, the Municipal Review Committee (the MRC) received from the Penobscot Energy Recovery Company (PERC) a calculation of the tipping fee for the third quarter of 2017 (the Quarterly Adjustment, which is provided as Attachment 1). The Quarterly Adjustment calculates a tipping fee of **\$ 78.50** 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) 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 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 June 2017.

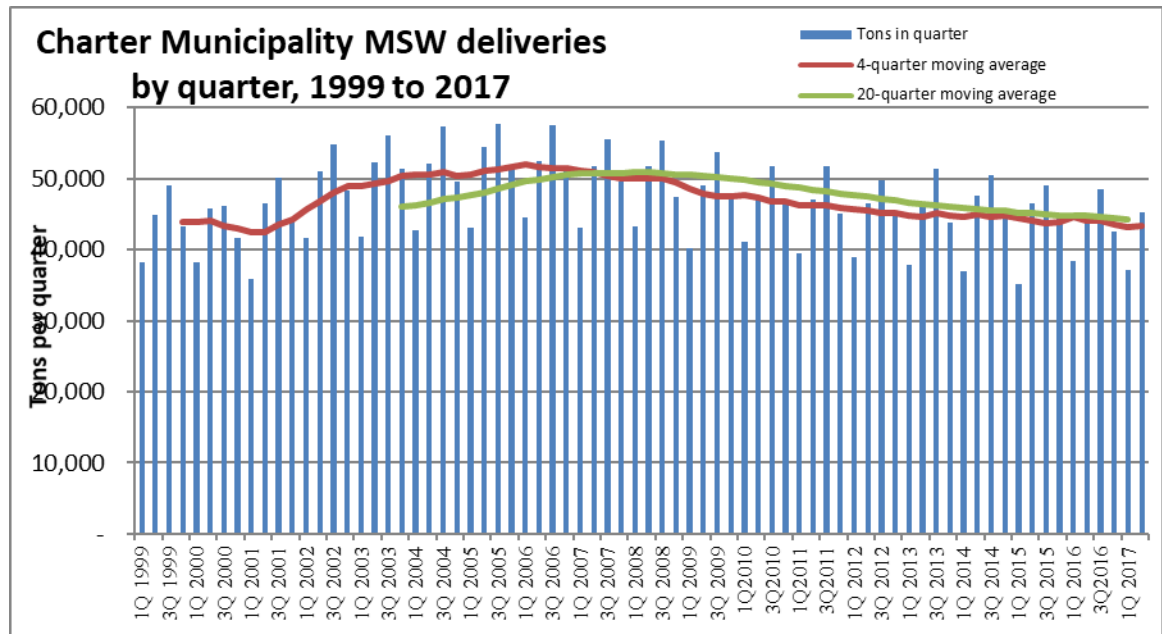
CommonWealth Resource Management Corporation (CommonWealth) has reviewed and duplicated PERC's calculations of the Quarterly Adjustment, and has reviewed various aspects of the performance of the Facility. This letter presents our review of the Quarterly Adjustment. Comments and recommendations on management of Performance Credits, Net Cash Flow and other MRC assets will be provided in a separate letter.

1. 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-2 as having delivered 45,275 tons of MSW in the quarter, including 45,071 tons of direct deliveries and 204 tons that were delivered by Pine Tree Waste as backfill for tons diverted from Charter Municipalities through new single-sort recycling programs. The 45,071 delivered tons represent an increase of 774 tons (+1.7 percent) as compared to 44,297 delivered tons in the second quarter of 2016. The deliveries reported by PERC in 2017 to date represent 44.8 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 40,612 tons in the quarter compared to 39,754 tons in the second quarter of 2017 --- an increase of 858 tons (+2.2%).
 - New Charter Municipalities. The New Charter Municipalities as a group, excluding backfilled tons, directly delivered 4,459 tons in the past quarter, as compared to 4,542 tons delivered in the second quarter of 2016 --- a decrease of 84 tons (-1.8 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%

- Deliveries of individual Charter Municipalities. The following Charter Municipalities had significant absolute or percentage declines in tonnage in the second quarter of 2017 compared to the second quarter of 2016: **Mid-Maine SWD, Thorndike, Waldoboro Group, Waterville and Winthrop** (Equity Charters); and **Abbot, Etna, Machias, and Stockton Springs** (New Charters). The Charter Municipalities with the most significant increases in tonnage in 2017 over the second quarter of 2016 include **Fairfield, Mt. Desert Area ADD, Orono and Rockland** (Equity Charters), and **Millinocket, N.Katahdin, Tri-County SWMO 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 76 tons in the quarter. The host community of **Orrington** delivered 435 tons in the quarter. The Towns of **Ellsworth, Frankfort, Pittsfield, Prospect and Winterport** delivered 1,554 tons of waste in the quarter under successor arrangements to the OWL agreements. In addition, the Town of **Eastbrook** (69 tons in the quarter), the Town of **Greenville** (212 tons in the quarter), the Towns of **Nobleboro and Jefferson** (517 tons in the quarter), the Town of **Warren** (236 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 (4,763 actual tons vs. 2,903 budgeted tons). PERC received 15,953 tons of out-of-state MSW and combusted a total of 1,132 tons of wood chips for use as supplemental fuel in the quarter.
- Pine Tree Waste contracts. Pine Tree Waste delivered 19,127 tons of MSDW (other than backfill tons) in the quarter, of which 13,298 tons were in-state MSW and 5,829 tons were out-of-state MSW.
- Summary of sources of waste. PERC's sources of waste are summarized below:

	2Q 2017		2017 to date	
	Tons	Share of total	Tons	Share of total
Municipal waste				
Charter Municipalities				
Equity	40,611.88	47.8%	73,988.50	46.5%
Recycling backfilled tons	204.24	0.2%	557.95	
New	<u>4,458.95</u>	<u>5.2%</u>	<u>7,926.33</u>	<u>5.0%</u>
Total	45,275.07	53.3%	82,472.78	51.8%
Carryover towns	76.45	0.1%	135.28	0.1%
Other (OWL and short-term)	2,730.72	3.2%	5,091.59	3.2%
Host community	435.15	0.5%	780.82	0.5%
Subtotal	48,517.39	57.1%	88,480.47	55.6%
Commercial waste				
In-state commercial	20,539.04	24.2%	39,581.65	24.9%
Out-of-state	<u>15,952.63</u>	<u>18.8%</u>	<u>31,171.20</u>	<u>19.6%</u>
Subtotal	36,491.67	42.9%	70,752.85	44.4%
Total	85,009.06	100.0%	159,233.32	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 6.1 percent less than PERC had projected. The quantity of MSW received was 3.8 percent more 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 1.0 percent above the projections.
- Actual costs for ash disposal were 6.3 percent above the projections.
- Actual costs for landfill disposal of non-processibles included in the tip fee calculation were 30.3 percent below the projections. PERC sent all non-processible material to the landfill 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.

Regarding the disposal costs for non-processables, PERC's monthly report for June 2017 indicates that the costs for June included a correction of approximately \$20,000 for an overaccrual for May, which was attributed to the operation of the new grinder being used to process mattresses and other items that would otherwise have been non-processable. The monthly performance report for June shows a correction of negative \$24,830.75 for expenses for disposal of non-processable materials. Exhibit B to the Quarterly Adjustment shows a value of negative \$5,068.35 for expenses for disposal of non-processable materials in June. The discrepancy of \$19,762.40 between the values in the monthly performance report for June and Exhibit B to the Quarterly Adjustment had not been resolved as of the completion of this letter. Further information will be provided at the Board meeting.

Regarding the disposal cost amounts for materials other than non-processables, 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 \$788,169, equivalent to \$9.46 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 \$8.40 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 \$117,000, equivalent to \$1.40 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.

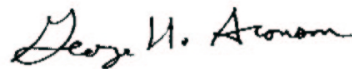
4. Changes in rate of interest cost. Commonwealth has reviewed PERC's calculations of the changes of rate of interest cost for the prior and upcoming quarters and agrees that the calculations are acceptable to the MRC. The calculations reflect the recent re-

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 no longer accounts for costs of three interest rate swaps purchased by PERC to reduce its exposure to future interest rate increases, all of which have now expired. Overall, PERC paid interest, including the cost of the swaps, at a rate equivalent to **3.96 percent** in the quarter.

5. Reconciliation from the prior quarter. The Quarterly Adjustment includes a negative reconciliation amount of \$70,960 (about \$0.85 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 \$0.85 per ton **greater** 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.
6. Environmental Performance. PERC reported no emission exceedances in the monthly performance reports received during the quarter.
7. CMRA Deposits: On May 19, 2017, PERC made a deposit of \$438,295.83 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, including resolution of the discrepancy of \$19,762.40 in the costs for disposal of non-processable materials, Commonwealth believes that PERC's Quarterly Adjustment for the third quarter of 2017 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

July 5, 2017

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

Subject: Third Quarter 2017 Tipping Fee Calculation

Committee Members:

Attached for your review is the third quarter 2017 Tipping Fee Calculation along with appropriate back-up information to support a "Charter Municipality" tipping fee rate of \$78.50.


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 June 30, 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

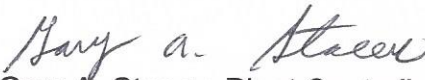
29 Industrial Way
Orrington, Maine 04474
(207) 825-4566

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 June 30, 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: July 5, 2017


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

TIPPING FEE CALCULATION

05-Jul-17

TIPPING FEE:

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BASE RATE COMPONENT

CPI-U

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 PASSTHROUGH)

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

AMOUNT ACTUALLY BILLED IN QTR

	1st QTR '17 ESTIMATE	1st QTR '17 ACTUAL	2nd QTR '17 ESTIMATE	2nd QTR '17 ACTUAL	3rd QTR '17 ESTIMATE
BASE RATE COMPONENT	\$64.02	\$64.02	\$64.02	\$64.02	\$64.02
CPI-U	1.50%	\$15.18	\$17.18	\$17.18	\$14.48
TOTAL TIPPING FEE	\$79.20	\$79.20	\$81.20	\$81.20	\$78.50
TOTAL MSW DELIVERED (TONS)	69,000	74,224	81,914	85,009	83,353
CHARTER MSW DELIVERED (TONS)	36,000	37,198	43,500	45,275	50,000
CHARTER MSW FACTOR #1	0.5507	0.5012	0.5310	0.5326	0.5999
OUT-OF-STATE SPOT MSW (TONS)	3,856	6,688	2,903	4,763	2,024
CHARTER MSW FACTOR #2	0.5833	0.5508	0.5506	0.5642	0.6148
CHANGE IN DISPOSAL COSTS	\$296,035	\$297,202	\$421,139	\$367,097	\$426,324
SUPPLEMENTAL FUEL COSTS (RECYCLING)	\$0	\$0	\$0	\$0	\$0
RECONCILIATION OF PREVIOUS QTR	\$5,435	\$5,435	\$7,552	\$7,552	(\$70,960)
OPERATING STANDARDS CREDIT	\$0	\$0	\$0	\$0	\$0
CHANGE IN RATE OF INTEREST COSTS	(\$7,897)	(\$7,710)	(\$5,548)	(\$5,199)	(\$3,893)
AMOUNT OWED TO PERC IN QTR	\$293,574	\$294,927	\$423,143	\$369,450	\$351,471
VARIABLE RATE CHANGE (C.I.L. COSTS)	\$7.73		\$9.73		\$7.03
VARIABLE RATE CHANGE (OTHER PASSTHROUGH)	\$7.73		\$9.73		\$7.03
TOTAL VARIABLE RATE CHANGE \$\$\$/TON					
AMOUNT ACTUALLY BILLED IN QTR		\$287,376		\$440,409	

05-Jul-17

TIPPING FEE:

05-JUL-17		1st QTR '17	1st QTR '17	2nd QTR '17	2nd QTR '17	3rd QTR '17
=====		ESTIMATE	ACTUAL	ESTIMATE	ACTUAL	ESTIMATE
TIPPING FEE:						
=====						
CHANGE IN DISPOSAL COSTS	BASE COST					
=====	=====					
RESIDUE DISPOSAL COST	\$368,188	\$647,000	\$709,911	\$776,500	\$727,621	\$788,169
G&G DISPOSAL COST	\$382,746	\$620,000	\$581,918	\$707,000	\$713,898	\$700,000
FERRULUS DISPOSAL COST	\$83,791	\$0	\$0	\$0	\$0	\$0
NON-PRO DISPOSAL COST	\$79,737	\$165,000	\$195,671	\$204,000	\$142,210	\$117,000
BYPASS DISPOSAL COST	\$0	\$0	\$0	\$0	\$0	\$0
=====	=====					
FERR DISPOSAL COST	\$526,274	\$785,000	\$777,586	\$911,000	\$856,108	\$817,000
TOTAL DISPOSAL COST	\$894,462	\$1,432,000	\$1,487,499	\$1,687,500	\$1,583,728	\$1,605,169
=====	=====					
CHANGE IN DISPOSAL COST (COST-BASE)		\$537,538	\$593,037	\$793,038	\$689,266	\$710,707
CHARTER SHARE OF COSTS (FACTOR #1)		\$296,035	\$297,202	\$421,139	\$367,097	\$426,324
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CHANGE IN RATE OF INTEREST COSTS						
=====	=====					
ACTUAL TOTAL INTEREST FOR QTR.		\$11,945	\$11,484	\$8,891	\$9,753	\$5,587
INTEREST CALC. @ 6.40% BASE RATE		\$25,482	\$25,482	\$18,968	\$18,968	\$11,919
=====	=====					
CHANGE IN RATE OF INTEREST COSTS		(\$13,537)	(\$13,998)	(\$10,077)	(\$9,215)	(\$6,332)
CHARTER SHARE OF COSTS (FACTOR #2)		(\$7,897)	(\$7,710)	(\$5,546)	(\$5,199)	(\$3,893)