


Kaminski Law Office, PLLC
641 East Lake Street
Suite 218
Wayzata, Minnesota 55391

MEMORANDUM

TO: Greg Louder, George Aronson, Sophia Wilson, and Greg Brown
FROM: Stephen Kaminski 
DATE: October 14, 2011
SUBJECT: Response to MRC Proposal

Bob Knudsen and I met with John Noer, Kevin Tritz and Kevin Nordby on October 11, 2011. During this meeting, we discussed, at length, the results of our meeting on October 4, 2011. We also came to an agreement as to our recommendation on what should be done with respect to the Penobscot Energy Recovery Company, Limited Partnership ("PERC") after 2017.

As you know, we are all in agreement that our goal is to find a way to continue PERC's mission which we have succinctly described as follows:

PERC helps manage the municipal solid waste needs of Maine municipalities through an environmentally friendly, jobs creating, taxpaying, and market stabilizing business that provides a public service by generating reliable and cost effective energy that helps reduce our dependence on foreign sources of energy.

Fundamentally, we are in agreement that, if possible, all those involved with PERC need to find a way to continue this legacy well beyond 2017.

Unfortunately, given the current project operating assumptions as they were detailed at the last meeting on October 4, 2011, we have concluded that it will not be economically feasible to continue operating PERC beyond the expiration of the Bangor Hydro Power Purchase Agreement on February 14, 2018. Consequently, based on these operating assumptions, we have recommended to John, Kevin and Kevin that the partners begin the process of planning for the orderly closure and decommissioning of the PERC facility. This conclusion, while difficult, is based upon the following operating assumptions discussed by the "deal team" representatives on October 4, 2011. They are summarized as follows and detailed in the attached memorandum dated September 28, 2011:

1. the municipalities will not commit to delivering a Guaranteed Annual Tonnage (GAT) of more than 125,000 tons of municipal solid waste beginning in 2018; and

Mr. Greg Louder
Mr. George Aronson
Ms. Sophia Wilson
Mr. Greg Brown
October 13, 2011
Page 2 of 3

2. the estimated tipping fee that the municipalities will accept for the stated GAT beyond 2017 will be no more than \$90 per ton; and
3. the municipalities will not accept "two-tier" or "multi-tier" pricing for other sources of waste beyond 2017.

Of course, we give great deference to all of you as to your insights in these matters given your close association with the municipalities and their thinking in these matters. This is especially true considering that the municipalities will still have the issue of disposing of at least 125,000 tons of municipal solid waste after 2017.

Based on these assumptions, and after spending a significant amount of time using the PERC financial model, the only conclusion that can be reached is that PERC will not be an economically viable business beyond 2017. This is true even if USA Energy Group, LLC and PERC Holdings, LLC are not involved with its operations and their respective costs deleted from the model and PERC is operated as a "nonprofit" entity. Of course, after you have had an opportunity to further communicate with the municipalities, as well as prepare your own financial model, you may modify these assumptions. If that occurs, then our conclusion may also change.

In connection with the anticipated closure and decommissioning of PERC, USA Energy Group, LLC and PERC Holdings, LLC will begin the process to undertake the following actions:

1. Will begin to meticulously manage all expense items in the current and future budgets which will include an on-going cost-benefit analysis so as to determine the best way to manage PERC's investment in major maintenance and overhaul items; the purchase of new rolling equipment, personnel decisions; as well as any other decisions that will impact PERC's operations. Of course, we will make these decisions with the knowledge that PERC must maintain the functional integrity of the facility to ensure that all obligations associated with the facility can be met while balancing the cost to retain proper functionality against the time remaining under the current contract to recover these costs.
2. During this process, will operate PERC so as to maximize the financial benefit to all owners until the expiration of the Power Purchase Agreement in 2018.
3. Will develop and implement a plan so as to cause the proper and orderly closure of the PERC facility.

Mr. Greg Louder
Mr. George Aronson
Ms. Sophia Wilson
Mr. Greg Brown
October 13, 2011
Page 3 of 3

4. Will coordinate the decommissioning of the PERC facility, disposing of the asset and remediating the site to the requirements of the state as they may be at that time.

Again, both USA Energy Group, LLC and PERC Holdings, LLC are both strongly inclined and heavily incented to continue PERC's legacy as we have described above and we will continue to seek solutions to resolve the issues that seem to exist in preventing the continuation of PERC. However, considering the underlying assumptions for the operation of the PERC facility listed above (and assuming the underlying assumptions do not change), we do not see that PERC can operate beyond 2017.

Cc: Bob Knudsen
John Noer
Kevin Tritz
Kevin Nordby