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December 5, 2006

VIA HAND DELIVERY

Sarah Kyle, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

Re: Joint Petition of Kingsport Power Company d/b/a
AEP Appalachian Power and Weyerhaeuser Company
For Approval of a Special Contract
Docket No. 06-00301

Dear Chairman Kyle:

As promised in my letter dated December 1, 2006, enclosed you will find the original of the contract that was filed with the Joint Petition in Docket No. 06-00301. As previously indicated, a copy was filed in order to expedite review while waiting for the original to be delivered.

Please contact me and/or William Bovender, Attorney for Kingsport Power Company, if you have any questions or need any additional information.

Sincerely,



D. Billye Sanders
Attorney for Weyerhaeuser Company

cc: William C. Bovender, Esq.
James R. Bacha, Esq.
Bob Kenney

TR.A. DOCKET ROOM
DEC 5 PM 3:51
T. SANDERS



**APPALACHIAN
POWER***

A unit of American Electric Power

Appalachian Power

P O Box 2021
Roanoke, VA 24022-2121
AEP.com

October 5, 2006

Mr. Bob Kenney
Region Energy Manager
Weyerhaeuser Company
P. O. Box 1391
New Bern, NC 28563

RE: Letter Agreement to Establish the Effective Date of the New Electric Service Contract

Dear Bob:

Kingsport Power Company, d/b/a AEP Appalachian Power (Company), currently provides electric service to Weyerhaeuser Company (Customer)¹, at its Kingsport, Tennessee, paper mill ("Mill"), under the terms of an electric service agreement dated August 14, 1998, which was extended by a Second Letter Agreement entered into by the Parties on August 9, 2006 (the "Existing Agreement"). The purpose of the Second Letter Agreement was to give the Company and Customer additional time to reach agreement on a new contract for electric service, including associated addenda, and to obtain any necessary regulatory approvals. Among other things, the Existing Agreement provides that Customer will use its new 50 MW turbine ("New Turbine") to serve Customer's load at the Mill. As extended by the Second Letter Agreement, the Existing Agreement terminates on December 31, 2006;

provided, however, if the Company and Customer execute a new contract for electric service that, by its terms becomes effective on a date earlier than December 31, 2006, then the existing Agreement shall terminate as of the date the new contract becomes effective.

The Parties have negotiated a new electric service contract ("New Contract") to replace the Existing Agreement. An unexecuted copy of that New Contract, which consists of a two (2) page base contract, a six (6) page Supplement, and a three (3) page Addendum, is attached hereto. The New Contract was negotiated, in part, to provide a contractual basis for Customer 1) to sell the output of the New Turbine to PJM Interconnection, LLC ("PJM") or into the wholesale market, and 2) to

¹ Company and Customer are sometimes herein referred to individually as a "Party" or collectively as the "Parties."

purchase the Mill's full electric requirements from the Company. The New Contract provides that, subject to the Tennessee Regulatory Authority's ("TRA") final written order approving the New Contract without change or condition, the Effective Date of the New Contract will be the first day of the first billing month following the oral approval of the New Contract by the TRA ("TRA Approval").

During the negotiations of the New Contract, the Parties assumed that two (2) prerequisites, which the Parties recognized were necessary to permit Customer to begin selling the output of the New Turbine, would be satisfied prior to the conclusion of negotiations on, and the TRA's Approval of, the New Contract. As of the date of this Letter Agreement, however, those two (2) prerequisites have not yet been satisfied. First, PJM has not yet authorized Customer to sell the output of the New Turbine to PJM or into the wholesale market. This authorization requires the completion of the Company's necessary interconnection studies and the execution of an Interim Interconnection Service Agreement, which will provide temporary interconnection rights, and ultimately a final Interconnection Service Agreement, between the Parties and PJM. Second, the necessary metering and related equipment, the cost of which is the Customer's sole responsibility, has not yet been installed at the Mill. Given these circumstances, it is possible, depending upon how long the TRA takes to act on the Parties yet-to-be-filed request for approval of the New Agreement, that the Effective Date of the New Contract may occur, by its terms, prior to the date that Customer is actually in a position to begin selling the output of the New Turbine to PJM or into the wholesale market.

Consequently, the Company and Customer agree as follows:

1. If 1) PJM has authorized customer to sell the output of the New Turbine to PJM or into the wholesale market, and 2) the necessary metering has been installed at the Mill, prior to TRA Approval of the New Contract, then the Effective Date of the New Contract shall be the first day of the first full billing month after TRA Approval.
2. If, as of the first day of the first full billing month following TRA Approval of the New Contract, 1) PJM has not yet authorized Customer to sell the output of the New Turbine to PJM or into the wholesale market, and/or 2) the necessary metering has not yet been installed at the Mill, then the Effective Date of the New Contract shall be the first day of the first full billing month after both prerequisites shall have been satisfied. Customer shall notify Company, in writing, once the two (2) prerequisites have been met.
3. If Customer has not notified Company that the two (2) prerequisites have been met by December 15, 2006, then the Parties agree to extend the Existing Agreement for a reasonable time, by means of a Third Letter Agreement, to provide an opportunity for the two (2) prerequisites to be met and the New Contract to become effective per numbered paragraph 2,

Mr. Bob Kenney
Page 3 of 3
October 5, 2006

above. In no event, however, shall the Effective Date of the New Contract extend beyond June 1, 2007, without the express written agreement of the Parties.

4. This Letter Agreement shall be filed with the TRA as part of the Special Contract between Company and Customer.

If you are in agreement with the above terms, please have the appropriate Weyerhaeuser Company representative sign three (3) copies of this Letter Agreement and return two (2) original copies to my attention. One original copy will be for Kingsport Power Company's files and the other will be filed with the TRA.

Sincerely,



David M. Nance
Customer Services Manager

ACCEPTED:

WEYERHAEUSER COMPANY

By: 

Title: Chairman, President and CEO

Date: 11/30/06

CONTRACT

This Contract, entered into this 1st day of December 2006, by and between Kingsport Power Company, d/b/a AEP Appalachian Power, hereafter called the Company, and Weyerhaeuser Company, 33663 Weyerhaeuser Way S., Federal Way, WA, 98003, or its heirs, successors or assigns, hereafter called the Customer. Company and Customer are sometimes referred to individually as the Party or collectively as the Parties.

Witnesseth:

For and in consideration of the mutual covenants and agreements hereinafter contained, the Parties hereto agree with each other as follows:

The Company agrees to furnish to the Customer, during the term of this Contract, and the Customer agrees to take from the Company, subject to Company's standard Terms and Conditions of Service as regularly filed with the Tennessee Regulatory Authority, all the electric energy of the character specified herein that shall be purchased by the Customer in the premises located at 100 Clinchfield St., Kingsport, TN 37660.

The Company is to furnish and the Customer is to take electric energy under the terms of this Contract for an initial period of 60 months from the time such service is commenced, and continuing thereafter until terminated upon 12 months' written notice given by either party of its intention to terminate the Contract. The date that service shall be deemed to have commenced under this Contract shall be on the first day of the first billing month following the approval of this Contract, including the Supplement and Addendum attached hereto, without change or condition, by the Tennessee Regulatory Authority.

The electric energy delivered hereunder shall be alternating current at approximately 138000 volts, 3-wire, 3-phase, and it shall be delivered at the Company-owned dead-ends on Customer's 138 kV structure in Industry Drive Station, which shall constitute the point of delivery under this Contract. The said electric energy shall be delivered at reasonably close maintenance to constant potential and frequency, and it shall be measured by a meter or meters owned and installed by the Company and located on the Customer's 13.8 kV bus inside Industry Drive Station and by Customer-owned metering, as more fully explained in Addendum A hereto.

The Customer and Company agree that the Customer is to receive service under the provisions of the Company's Tariff INDUSTRIAL POWER - TRANSMISSION, code 324, any successor thereto, or other later-approved applicable Tariff. The Customer agrees to pay the Company monthly for electric energy delivered hereunder at the rates and under the provisions of the Company's Tariff INDUSTRIAL POWER - TRANSMISSION, code 324, any successor thereto, or other later-approved applicable Tariff, as regularly filed with the Tennessee Regulatory Authority, as long as that schedule is, or such other schedules are, in effect. In the event that Tariff INDUSTRIAL POWER - TRANSMISSION is replaced by a new or revised tariff incorporating different rates or provisions, or both, the Company and Customer understand and agree that the Company will continue to provide service, and the

Customer will continue to take service, under this Contract, subject to such changed provisions, and that the Customer will pay for such service at the new rates on and after the date such rates become effective. Nothing in this Contract shall prohibit Customer from intervening in any rate case or tariff filing of the Company. If Customer becomes eligible for service under more than one (1) Company Tariff, then, upon proper notice, Customer shall be entitled to choose the Tariff under which it is to receive service from Company.

The Customer's contract capacity under the tariff named herein is hereby fixed at 43,000 kW. If a time-of-day demand is available under the tariff and is selected by the Customer, the reservation of capacity aforementioned shall be the peak period reservation of capacity and shall determine the tariff's minimum monthly billing demand. The amount of capacity requested during the off-peak period is 43,000 kW.

There are no unwritten understandings or agreements relating to the service hereinabove provided. This Contract cancels and supersedes all previous agreements, relating to the purchase by Customer and sale by Company of electric energy at Customer's premises as referred to above, on the date that service under this Contract commences.

The Supplement and Addendum A, which are attached hereto, are incorporated herein as part of this Contract. The Parties expressly agree that this Contract is assignable, and shall be binding upon any entity that hereinafter acquires or becomes the owner of Customer's paper mill located at 100 Clinchfield Street, Kingsport, Tennessee. This Contract, including the Supplement and Addendum attached hereto and made a part hereof, shall be filed with the Tennessee Regulatory Authority as a Special Contract.

This Contract shall be in full force and effect on the first day of the first billing month following the oral approval of this Contract, including the Supplement and Addendum attached hereto, without change or condition, by the Tennessee Regulatory Authority; provided, however, if the written order of the Tennessee Regulatory Authority approving this Contract either changes the Contract, or conditions its approval, in any way, then this Contract shall be null and void, unless the Parties agree otherwise in writing.

Kingsport Power Company,

d/b/a AEP Appalachian Power

By: David M. Nance

David M. Nance

Title: Customer Services Manager

Date: 12/1/06

Weyerhaeuser Company

By: Steven R. Rogel

Steven R. Rogel

Title: Chairman, President and CEO

Date: 11/30/06

Account Number: 015 914 260 2

**Supplement to the
December 1, 2006 Contract Between
Kingsport Power Company and Weyerhaeuser Company**

This Supplement to the December 1, 2006 Contract between Kingsport Power Company, d/b/a AEP Appalachian Power (Company), and Weyerhaeuser Company (Customer), is entered into this 1st day of December, 2006.

WHEREAS, Customer has traditionally provided a portion of its needs at the Customer's paper mill located at 100 Clinchfield Street, Kingsport, Tennessee (Kingsport Mill) with generation from turbines located behind-the-meter or meters that are used to measure the power purchased by Customer from Company; and

WHEREAS, Customer has retired the old turbines located behind-the-meter as part of improvements made at the Kingsport Mill; and

WHEREAS, on or about October 1, 2006, Customer intends to begin operating, as part of Customer's paper manufacturing process, a new turbine generator, with a nameplate capacity of 50 Megawatts (Turbine Generator #1) located behind-the-meter at the Kingsport Mill; and

WHEREAS, Customer desires to sell the output of Turbine Generator #1 to PJM Interconnection, LLC (PJM) or into the wholesale market, and purchase the full requirements of the Mill under the terms of the December 1, 2006 Contract between Company and Customer, and

WHEREAS, the Company and Customer have had discussions and agreed upon the terms for Company to provide full requirements electric service to the Kingsport Mill and for Customer to sell the output of its Turbine to PJM or into the wholesale market.

W I T N E S S E T H:

For and in consideration of the mutual covenants and agreements contained herein, Company and Customer agree as follows:

1. During the Term of this Supplement, Customer shall sell the output of Turbine Generator #1, or any replacement turbine installed at the Kingsport Mill during the Term of this Supplement, to PJM or into the wholesale market.

2. The initial Term of this Supplement shall be six (6) years. The Term shall be extended each year, for an additional one (1) year, on the anniversary of the Effective Date of this Supplement (Anniversary Date). Customer may terminate this Supplement effective on the Anniversary Date in 2012 or thereafter, by providing Company with a written notice of cancellation at least five (5) years prior to such Anniversary Date. Beginning five (5) years from the first Anniversary Date after such written notice, absent agreement of the Parties, Customer will be required to use the output of Turbine Generator #1 to serve the electric needs of the Kingsport Mill and Company's obligation to supply power to Customer, under the Contract of which this Supplement is a part, shall be correspondingly reduced. The Effective Date of this Supplement shall be the first day of the first billing month following the oral approval of this Addendum by the Tennessee Regulatory Authority (TRA), subject to the provisions of numbered paragraph 13 hereof.

3. If, at any time during the Term of this Supplement, Customer is legally precluded (either by federal or state law or federal or state regulatory action) from selling to PJM or into the wholesale market, then the Parties agree to meet to discuss the appropriate treatment of the output of Turbine Generator #1, including, but not

limited to, the possibility of the Company or another AEP operating company within the AEP-East System purchasing and/or selling the output of Turbine Generator #1.

Nothing in this Agreement will require Company to agree to a change to the cancellation notice required under this Supplement, or require Company or another AEP operating company within the AEP-East System to either buy or sell the output of Turbine Generator #1.

4. As long as Customer takes electric service from Company at rates regulated by the TRA, if Company provides a written request to Customer, then the Parties agree to meet to discuss the possibility of selling the output of Turbine Generator #1 to Company or any other AEP operating company within the AEP-East System. Nothing in this Agreement will require either Party to agree to sell to, or buy from, the other Party if such a request is made by Company.

5. Throughout the Term of this Addendum, if Customer receives a bona fide offer to purchase any of the "Renewable Energy Credits" or "RECs" associated with Turbine Generator #1, then Customer shall notify Company of such offer and Company shall have twenty-four (24) hours from such notification to match said offer. "Renewable Energy Credits" or "RECs" mean any credit certificate, allowance or similar right that is related to the Non-Power Attributes of Turbine Generator #1, whether arising pursuant to regulation, certification, markets, trading, private transaction, renewable portfolio standards, voluntary programs or otherwise. Without limiting the generality of the foregoing definitions, RECs shall include certificates recognized by the Generation Attribute Tracking System ("GATS") of PJM Environmental Information Services, Inc. ("PJM-EIS") and associated with the generation of electricity from Turbine Generator #1,

known herein as "GATS Certificates". "Non-Power Attributes" means the fuel, emissions, or any other characteristic of Turbine Generator #1 deemed of value to the Parties except for the energy, capacity, reliability, or power quality attributes of the electricity. Non-Power Attributes include, but are not limited to, any avoided emissions of pollutants to the air, soil or water such as sulfur dioxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO), mercury (Hg), particulates, and any other pollutant that is now or may in the future be regulated under the pollution control laws of the United States; and further include any avoided emissions of carbon dioxide (CO2) and any other greenhouse gas (GHG) that contributes to the actual or potential threat of altering the Earth's climate by trapping heat in the atmosphere.

6. Customer shall not take any actions, before a state or federal regulatory body, in court, or otherwise (other than the cancellation notice provided for herein), to permit it to use the output of Turbine Generator #1 to meet its electric needs at the Kingsport Mill, even if the total cost of electric power from Company is greater than the price that Customer receives from PJM or the wholesale market for the output of Turbine Generator #1.

7. The Company and other AEP operating companies, including Appalachian Power Company, which currently supplies wholesale power to Company at rates regulated by the Federal Energy Regulatory Commission (FERC), reserve their rights to request any changes to FERC or TRA tariffs to address issues related to behind-the-meter generation, such as Turbine Generator #1, including but not limited to pricing differentials between embedded cost rates on the one hand, and replacement costs or

market prices on the other hand. Customer reserves the right to participate in any such proceedings.

8. So long as the output of Turbine Generator #1 is being sold into the wholesale market, Company shall have no obligation to provide back-up or maintenance service to Customer. If Customer provides Company with the proper written notice and the output of Turbine Generator #1 is used thereafter to serve the Kingsport Mill, then Customer shall be entitled to any such services that Company is required to provide to similarly situated entities.

9. Customer agrees to pay for all protection, interconnection, metering and associated costs (including appropriate gross up for taxes) reasonably required by Company to protect its facilities, to provide for proper metering of Customer's generation and services provided by Company, and to meet any and all conditions necessary to comply with PJM interconnection or operations requirements.

10. So long as Customer takes any electric service from Company at rates regulated by the TRA, the Parties expressly understand and agree that this Supplement shall survive the cancellation or termination of the Contract to which this Supplement is appended, unless otherwise agreed by the Parties in writing.


11. Except as modified hereby, the terms and conditions of the Contract, including any Addendum, shall remain in full force and effect.

12. This Supplement shall be binding upon each Parties' heirs, successors or assigns.

13. This Supplement shall be in full force and effective upon the first day of the first billing month following the oral approval of this Supplement, without change or

condition, by the TRA; provided, however, if the written order of the TRA approving this Supplement either changes this Supplement, or conditions its approval, in any way, then this Supplement shall be null and void, unless the Parties agree otherwise in writing.

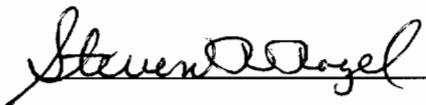
**KINGSPORT POWER COMPANY
d/b/a APPALACHIAN POWER COMPANY**

By: 
David M. Nance

Title: Customer Service Manager

Date: 12/1/06

WEYERHAEUSER COMPANY

By: 

Title: Chairman, President and CEO

Date: 11/30/06

ADDENDUM A

DETERMINATION OF RETAIL BILLING ADDENDUM TO WEYERHAEUSER COMPANY ELECTRIC SERVICE CONTRACT

This Addendum supplements and amends the Electric Service Contract (the "Contract") dated December 1, 2006 by and between Kingsport Power Company, d/b/a AEP Appalachian Power, and Weyerhaeuser Company to address, in general terms, the method by which retail billing will be determined as a result of the Customer's desire to have its new power production facilities, located at Customer's premises in Kingsport, Tennessee, recognized as either an Energy Resource or Capacity Resource by PJM.

WEYERHAEUSER COMPANY (Customer) has requested and KINGSPORT POWER COMPANY, D/B/A AEP APPALACHIAN POWER, (Company) has agreed, where applicable and consistent with the Terms and Conditions of Service as approved by the Tennessee Regulatory Authority as well as any behind the meter generation rules as approved by PJM Interconnection LLC (PJM), to calculate retail billing determinants, as defined in this Addendum, to compensate for the Customer's sale of energy or capacity of its new 50 MW turbine generator (Turbine Generator #1) to PJM. The Customer will sell the entire output of Turbine Generator #1 to PJM and will become a full requirements customer of the Company. Since the Company's metering will only measure the net load requirements and not the full retail load requirements of the Customer, this Addendum defines how retail billing determinants will be derived using the Company's revenue metering as well as any metering or related equipment ultimately required of the Customer.

The Company provides, and the Customer accepts, 138 kV electric service from the Company's transmission system, and the Company's revenue metering is located on the 13.8 kV side of the Customer's 138 / 13.8 kV transformers located in the

Customer's Industry Drive Station. The Company presently calculates the 138 kV retail billing determinants by adjusting the metered quantities from the 13.8 kV side of the Customer-owned transformers to compensate for associated transformer losses. The operation of the Customer's generator(s) reduces (or "nets") the metered 13.8 kV quantities needed to determine retail billing. Therefore, it is mutually agreed the 13.8 kV meter net values will be increased by the amount of metered generation to determine retail billing determinants. The generation will be metered on an interval basis to match the Company's tariff requirements. If the generator metering is located on the low voltage side of the generator step-up transformer, the generator metering will be loss adjusted to 13.8 kV.

The Customer will be solely responsible for any costs associated with any reasonable changes or additions that the Company determines need to be made to the Company's metering equipment. It is also expressly agreed the Company, as necessary for the purposes of determining retail billing determinants, shall have reasonable access to any metering owned by the Customer, including any required revenue or tele-metering, at no cost to the Company. It is also expressly agreed that any Customer installed metering including, but not limited to, equipment, installation, location and communications, must be approved by the Company. Customer-owned metering equipment must be periodically tested, maintained, and repaired by the Customer, or its contractor, per Company and/or applicable Regional Transmission Organization standards, and all associated costs are the sole responsibility of the Customer.

Except as modified hereby, the terms and conditions of the Contract, including any Supplement, shall remain in full force and effect, unless otherwise agreed by the Parties in writing. This Addendum shall expire on the latter of the date of expiration of the Contract or the Supplement thereto, unless otherwise agreed by the Parties in writing.

This Addendum shall be binding upon each Parties' heirs, successors or assigns.

This Addendum shall be in full force and effective upon the first day of the first billing month following the oral approval of this Addendum, without change or condition, by the TRA; provided, however, if the written order of the TRA approving this Addendum either changes this Addendum, or conditions its approval, in any way, then this Addendum shall be null and void, unless the Parties agree otherwise in writing.

**KINGSPORT POWER COMPANY
d/b/a APPALACHIAN POWER COMPANY**

By: David M. Nance
David M. Nance

Title: Customer Service Manager

Date: 12/1/06

WEYERHAEUSER COMPANY

By: Steven A. Vogel

Title: Chairman, President and CEO

Date: 11/30/06