

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

April 5, 2007

IN RE:

**JOINT PETITION OF KINGSPORT POWER
COMPANY d/b/a AEP APPALACHIAN POWER AND
WEYERHAEUSER COMPANY FOR APPROVAL OF A
SPECIAL CONTRACT**

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**DOCKET NO.
06-00301**

ORDER GRANTING APPROVAL OF SPECIAL CONTRACT

This matter came before Chairman Sara Kyle, Director Eddie Roberson, and Director Pat Miller of the Tennessee Regulatory Authority (“TRA” or the “Authority”), the voting panel assigned to this Docket, at a regularly scheduled Authority Conference held on January 8, 2007, for consideration of the *Petition* filed on December 4, 2006 by Kingsport Power Company d/b/a AEP Appalachian Power (“Kingsport” or “Company”) and Weyerhaeuser Company (“Weyerhaeuser”) for approval of a special contract.

BACKGROUND

Kingsport, a public utility with its principal office in Kingsport, Tennessee, is engaged in the business of furnishing electric power services to retail customers in its service delivery area which includes parts of Sullivan, Washington and Hawkins County, Tennessee, the City of Kingsport, Tennessee, and the Town of Mt. Carmel, Tennessee. Kingsport purchases all of its electric power requirements from Appalachian Power Company, under rates and charges that are subject to the jurisdiction of the Federal Energy Regulatory Commission (“FERC”).

Weyerhaeuser owns and operates a paper mill located in the City of Kingsport, Sullivan County, Tennessee, and is a retail customer of Kingsport that purchases a portion of its power requirements from Kingsport under a special contract approved by the Authority in Docket No. 98-00546 (herein, the “Existing Special Contract”). Traditionally, Weyerhaeuser has supplied a portion of its electric needs at the paper mill with generation from turbines located behind-the-meter(s) used to measure the power purchased by Weyerhaeuser from Kingsport. Those turbines have been retired, and on October 2, 2006, as a part of its paper manufacturing process, Weyerhaeuser began operating a new turbine generator with a nameplate capacity of 50 megawatts (“Turbine Generator #1”) at the paper mill. Under the Existing Special Contract, the output of Turbine Generator #1 is used to serve Weyerhaeuser’s load at the paper mill.

THE SPECIAL CONTRACT

Pursuant to TRA Rule 1220-4-1-.07, Kingsport and Weyerhaeuser have jointly filed a Petition seeking approval of a special contract (the “Special Contract”), which would supersede the Existing Special Contract, and which permits Weyerhaeuser to sell the output of Turbine Generator #1 to PJM Interconnection, LLC (“PJM”)¹ or into the wholesale market, and to purchase the full electric requirements of the paper mill from Kingsport. This Special Contract, negotiated by the parties, consists of four parts: (1) the base Contract, (2) a Supplement, (3) an Addendum, and (4) a Letter Agreement.

The base Contract states that Kingsport will supply the Weyerhaeuser paper mill’s full electric requirements and Weyerhaeuser will purchase the full electric requirements of the paper mill from Kingsport. Further, the base Contract specifies the terms of the purchase agreement, the applicable tariff and voltage in accordance with Kingsport’s Industrial Power – Transmission

¹ PJM is a Regional Transmission Organization that operates the electricity market, dispatches power, and helps ensure reliability in parts of thirteen states and the District of Columbia.

(code 324) schedule, the contract capacity, and the effective date. The initial term of the base portion of the Special Contract is sixty months.

The Supplement portion of the Special Contract sets forth the terms under which Weyerhaeuser will sell the output of Turbine Generator #1 to PJM or into the wholesale market. The initial term of the Supplement is six years and the parties expressly agree that, so long as Weyerhaeuser takes any electric service from Kingsport at rates regulated by the TRA, the Supplement shall survive the cancellation or termination of the base Contract. Further, the Supplement states that Weyerhaeuser will sell all energy it produces to PJM or into the wholesale market. In addition, Weyerhaeuser must provide five years written notice prior to using its own generation to supply its electric needs and will not be eligible for back-up power while selling its generation into the wholesale market.

The Addendum to the Special Contract outlines the methodology for calculating Weyerhaeuser's retail billing determinants as a result of Weyerhaeuser's sale of the output of Turbine Generator #1 to PJM or into the wholesale market. Kingsport's metering will only measure the net load requirements and not the full retail load requirements of Weyerhaeuser. As a result, the Addendum is required in order to ensure that Weyerhaeuser is properly billed for power.

The Letter Agreement of the Special Contract establishes an alternate effective date for the Special Contract in the event that TRA approval is granted prior to the satisfaction of two prerequisites. Specifically, as to the filing of the *Petition*, the first prerequisite that must be satisfied in order to permit Weyerhaeuser to begin selling the output of Turbine Generator #1 to PJM or into the wholesale market is authorization by or an agreement with PJM. The final prerequisite is the installation of the necessary metering and related equipment.

JANUARY 8, 2007 AUTHORITY CONFERENCE

TRA Rule 1220-4-1-.07, states:

Special contracts between public utilities and certain customers prescribing and providing rates, services and practices not covered by or permitted in the general tariffs, scheduled, or rules filed by such utilities are subject to supervision, regulation, and control by the Authority. A copy of such special agreements shall be filed, subject to review and approval.

At a regularly scheduled Authority Conference held on January 8, 2007, the voting Panel assigned to this docket voted unanimously to approve the *Petition* after making the following findings:

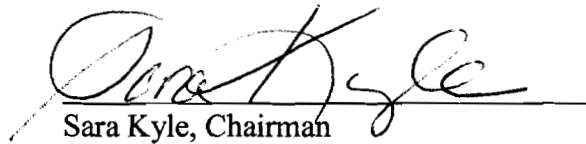
1. The full-requirements Special Contract, negotiated to accommodate Weyerhaeuser's desire to sell the output of its Turbine Generator #1 to PJM or the wholesale market, will supersede the Existing Special Contract between the parties;
2. The Special Contract requires Weyerhaeuser to provide written notice to Kingsport five years prior to becoming a less than full-requirements customer of Kingsport;
3. Kingsport has represented that any potential increase in retail rates to other Kingsport customers is attributed solely to an increase in the amount of wholesale power purchased rather than to the structure of the Special Contract between the parties²; and
4. While it is possible that an increase in Weyerhaeuser's purchases from Kingsport may lead to increased wholesale power prices, such an instance may be attributed to changing market conditions rather than the terms of the Special Contract. Should an increase in Kingsport's purchases from Appalachian Power Company lead to an increase in wholesale rates, Kingsport's purchased power adjustment rider ("PPAR") allocates the increase to each class based on the contribution of each to Kingsport's total demand and energy usage. It is noted, however, that the Company's allocation percentages have not been updated since the PPAR went into effect in 1994. Therefore, any future petition filed with the TRA by the

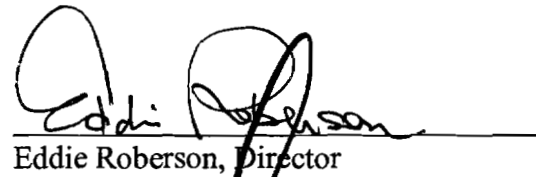
² Data Response #1 (December 18, 2006).

Company to alter its PPAR should be accompanied by an updated class cost study with new allocation factors.

IT IS THEREFORE ORDERED THAT:

The Special Contract by and between Kingsport Power Company d/b/a AEP Appalachian Power and Weyerhaeuser Company is approved.


Sara Kyle, Chairman


Eddie Roberson, Director


Pat Miller, Director