

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST KENTUCKY)
POWER COOPERATIVE FOR A CERTIFICATE)
OF PUBLIC CONVENIENCE AND NECESSITY) CASE NO. 90-197
TO CONSTRUCT CERTAIN STEAM SERVICE)
FACILITIES IN MASON COUNTY, KENTUCKY)

INTERIM ORDER

East Kentucky Power Cooperative, Inc. ("East Kentucky") filed its application on July 2, 1990 for a Certificate of Public Convenience and Necessity to construct certain facilities and equipment ("facilities") as its Spurlock Power Station near Maysville, Kentucky. The facilities will be needed to provide wholesale steam service to East Kentucky's member cooperative, Fleming-Mason Rural Electric Cooperative Corporation ("Fleming-Mason") to meet the steam service requirements of a new customer, Inland Container Company, Inc. ("Inland").

In support of its application East Kentucky filed a proposed steam service agreement ("agreement") to be entered into by East Kentucky, Fleming-Mason and Inland, which sets out the terms and conditions under which Inland would receive steam service at a proposed containerboard recycling plant to be located adjacent to East Kentucky's Spurlock Power Station. East Kentucky also filed an engineering study performed by Black and Veatch Engineers-Architects which sets forth in detail the specifications of the

steam facilities to be constructed and their estimated cost of approximately \$10 million.

East Kentucky proposed to construct, finance, and own the steam facilities required to serve Inland, with Inland reimbursing East Kentucky for all costs through monthly payments over the 20-year term of the agreement. East Kentucky, which has not finalized its plans for financing the construction, intends to use internal funds on an interim basis and apprise the Commission when its permanent financing plans are completed.

On August 1, 1990, the Commission issued an Order requesting additional information from East Kentucky regarding various terms of the agreement, East Kentucky's estimated costs to serve Inland, the financial impacts Inland will have on East Kentucky's system, and the degree of commitment or guarantee by Inland to reimburse East Kentucky the \$10 million cost of the facilities. East Kentucky filed its response to the Commission's Order on August 8, 1990 and provided an updated draft of the agreement, as well as various items of financial information. East Kentucky also indicated that all parties are expected to sign the agreement sometime in September 1990.

On August 16, 1990, Inland filed a motion to intervene and for leave to file comments on one of the issues raised by the Commission's August 1, 1990 information request. Specifically, Inland recognizes the Commission's concern that a customer provide adequate security to guarantee its contractual obligations with a utility. Therefore, Inland states that it is willing, if necessary, to provide a guarantee statement from its parent,

Temple-Inland, Inc., as security for Inland's obligation to pay the facilities cost of approximately \$10 million.

FINDINGS AND ORDERS

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Inland has requested East Kentucky and Fleming-Mason to supply electric and steam service to a new plant in Mason County, Kentucky. Steam service is an integral requirement for Inland's new plant. East Kentucky's existing steam production plant will be utilized and supplemented by additional facilities costing approximately \$10 million.

2. The steam facilities, as fully described in East Kentucky's application, are necessary to provide steam service to Inland, and their construction will not result in the wasteful duplication of facilities.

3. The draft agreement, as filed with East Kentucky's responses on August 8, 1990, is deficient to the extent that Inland has not provided adequate security for its obligation to pay a monthly facilities charge. Adequate security, in the form of a guarantee by Inland's parent, Temple-Inland, Inc., was subsequently offered by Inland in its August 17, 1990 comments. Upon execution of an agreement substantially similar to the most recently filed draft, modified to include the guarantee by Temple-Inland, Inc., the Commission will issue a Certificate of Convenience and Necessity for construction of the facilities.

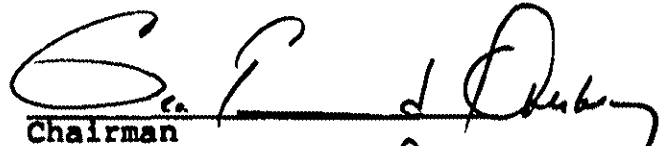
IT IS THEREFORE ORDERED that:

1. Inland's motion to intervene and request for leave to file comments be and they hereby are granted.

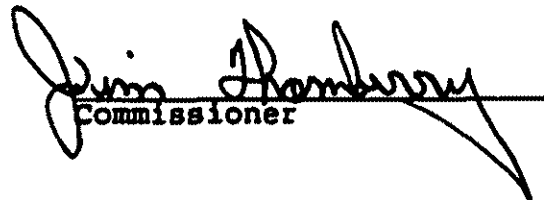
2. A Certificate of Public Convenience and Necessity will be issued upon submission of an executed steam service agreement, substantially similar to the one filed on August 8, 1990, but modified to include a guarantee by Temple-Inland, Inc. of the monthly facilities charge.

Done at Frankfort, Kentucky, this 20th day of August, 1990.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director