

EXHIBIT II
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JUN 4 1990

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STEAM SERVICE AGREEMENT

RATES AND TARIFFS

AGREEMENT entered into this _____ day of _____, 1990, between EAST KENTUCKY POWER COOPERATIVE, INC., a Kentucky corporation with its principal offices located at 4758 Lexington Road, Winchester, Kentucky 40391 (hereinafter called "EKPC"), FLEMING-MASON RURAL ELECTRIC COOPERATIVE CORPORATION, a Kentucky corporation with its principal offices at P. O. Box 328, Elizaville Road, Flemingsburg, Kentucky 41041 (hereinafter called "Cooperative") and INLAND CONTAINER CORPORATION, a Delaware corporation with its principal offices at 4030 Vincennes Road, Indianapolis, Indiana 46268-0937, (hereinafter called "Customer"),

W I T N E S S E T H:

That for and in consideration of the covenants and agreements hereinafter contained, the parties hereto agree to and with each other as follows:

I. SERVICE TO BE FURNISHED

Cooperative agrees to supply to Customer and Customer agrees to take from Cooperative, under and in accordance with and subject to the limitations provided by the terms hereof, all high pressure steam (at approximately 200 PSIG, and enthalpy of approximately 1250 Btu per pound and a maximum capacity of approximately 300,000 pounds per hour) that may be required by Customer for process and space heating purposes, for Customer's

use in Customer's papermill to be located on real estate adjacent to EKPC's Spurlock Station in Mason County, Kentucky. Cooperative shall purchase such steam from EKPC pursuant to the terms of the Wholesale Steam Agreement between Cooperative and EKPC. Customer shall be designated as a third party beneficiary to the Wholesale Steam Agreement.

II. FACILITIES TO BE PROVIDED BY EKPC

EKPC will design and construct, pursuant to the terms of the Project Schedule, attached hereto as Exhibit I, and hereby incorporated as a part of this Agreement, the following: station steam piping and control additions and modifications, safety devices, a lift station and necessary transformer facilities to provide power for the operation of the lift station, water treating facilities, reboiler, pressure reducing equipment, necessary metering for billing purposes, main steam supply line and returned condensate line to a point to be established by agreement of the parties where Customer will continue construction of the main steam supply line and returned condensate line to its plant site, all necessary systems to receive condensate returned from the papermill to the EKPC reboiler system, and all other facilities required to deliver steam to Customer's main steam supply line from EKPC's Spurlock Station, including facilities and equipment substantially in accordance with the specifications contained in Exhibit II hereto, which is hereby incorporated as a part of this Agreement, and as the same may be amended from time to time. The facilities described above are referred to herein as

EKPC's "Additional Investment." EKPC will own, operate and maintain the Additional Investment facilities except that, as described below, Customer will own, operate, maintain and provide for electric service for the pumping system in the lift station which is required to pump water to the Customer's papermill.

Customer and EKPC will confer during the design and construction of the facilities to (a) ensure that the facilities, as constructed, have sufficient capacity and reliability to service Customer's requirements and (b) protect Customer and EKPC's respective interests in minimizing capital, operating and maintenance expenses. EKPC agrees that all such Additional Investment facilities and equipment shall be designed, constructed and tested in a workmanlike manner in accordance with prevailing industry standards and will be fit for the purpose of permitting EKPC and Cooperative to honor their obligations under this Agreement and the Wholesale Steam Agreement.

EKPC agrees that before it enters into any arrangement for the financing of the improvements and additions referred to in this Section, EKPC will disclose the details of the proposed financing to Customer. If Customer proposes an alternative financing arrangement to EKPC under which Customer or an affiliate of Customer would lend funds to EKPC on comparable terms with a lower per annum interest rate than the rate provided for in EKPC's proposed financing or on terms otherwise more favorable to EKPC, then EKPC agrees to enter into such alternative financing arrangement proposed by Customer, subject to any necessary

approvals of regulatory authorities or existing lenders to EKPC.

III. FACILITIES TO BE SUPPLIED BY CUSTOMER

Customer will design, construct, own, operate and maintain the main steam supply line and returned condensate line from the point of ownership change to its plant site and the necessary pipelines ("Customer's Water Lines") to connect the lift station to the papermill for the transportation of water for Customer's own use. Customer will own, operate and maintain the pumping system at the lift station required to pump water to Customer's premises and Customer's Water Lines. EKPC will grant Customer mutually agreeable, permanent easements for the pumping system located in the lift station and for Customer's Water Lines.

IV. BILLING - PAYMENT FOR SERVICE

Steam sales to Customer pursuant to this Agreement shall be made by and through Cooperative. Cooperative will render Customer a bill by the 7th of each month for services for previous month and Customer shall pay said bill in usable funds by the 21st of the month. Such charges shall be computed in accordance with Section V, hereinbelow, and the Steam Service-Retail Rate Schedule which is attached as Exhibit III and is hereby incorporated as a part of this Agreement.

EKPC will install necessary metering as needed in the piping systems for steam supply to and condensate return from the reboiler in order to determine the demand and energy supplied to Customer and billed under Section V. Customer shall have the right to observe verification of the calibration of such metering.

Said charges for service will be subject to a late payment charge of prime plus one percent. Prime will be based upon the published prime rate in the Wall Street Journal on the last business day of the month in which the service was rendered. Charges will be computed from the due date until usable funds are received by Cooperative on the basis of a 360-day year (days late/360) x (prime + 1) x bill = late payment charge .

V. MONTHLY CHARGES

(a) Monthly Facilities Charge

For the term of this Agreement only, Customer shall pay a fixed facilities charge to reimburse EKPC for the Additional Investment at the Spurlock Station to serve the Customer. Cooperative shall pass this payment directly to EKPC. The fixed facilities charge shall include interest, depreciation, taxes, insurance, and other costs as deemed appropriate by the parties.

The actual fixed facilities charge shall be the monthly amount necessary to permit EKPC to recover the actual construction costs, including direct contract cost, interest during construction, direct labor, material, and other items which are consumed in the construction of the Additional Investment facilities and are supplied by EKPC, taxes, insurance, and other costs deemed appropriate by the parties. EKPC's direct labor cost will include a provision for those benefits directly related such as payroll taxes, vacation, sick leave, and other related costs. The interest component shall be determined based on (a) the actual interest rate applicable to the arrangement by which EKPC financed

the Additional Investment if such investment is financed externally or (b) the average yield on long-term treasury bonds during the most recent calendar month ending prior to the completion of EKPC's Additional Investment facilities if such investment is financed with internally generated funds. The actual construction costs and actual facilities charge shall be determined by the parties following completion of EKPC's Additional Investment facilities and shall be reflected on an addendum to this Agreement.

The monthly fixed facilities charge shall be determined by amortizing the total of the costs described hereinabove over a period of 20 years. Payment of the monthly fixed facilities charge shall commence on the month steam service to Customer commences, but in no event later than 3 months following the completion of the Additional Investment facilities.

During the term of this Agreement, the facilities charge shall be subject to change based upon the same factors used to calculate the initial facilities charge in order to reflect additions, retirements, renewals, replacements or modifications of EKPC's Additional Investment and to reflect the cost of a representative level of materials and supplies inventory (not including fuel) carried for the sole purpose of operating and maintaining such facilities. Except in emergency situations Customer shall be notified in writing of such additions, retirements, renewals, replacements or modifications at least sixty (60) days prior to actual work and no such amounts shall be

included in the facilities charge unless Customer has been notified of the need for any additions, retirement, renewals, replacements or modifications, and the construction, design, and cost thereof. Such changes to the fixed facilities charge shall be amortized over the remaining years of the 20 year term of this Agreement at the time of such change.

Customer shall have the right, on reasonable notice to Cooperative and EKPC, to have reasonable access to and copies of information and documentation relating to the appropriate amount of charges paid by Customer pursuant to this Section V (a) of this Agreement. This right shall not be exercised by Customer more often than once during each calendar year of the term of this Agreement.

(b) Operation and Maintenance Expenses on Additional Investment Facilities

EKPC shall be responsible for all routine operation and maintenance of the Additional Investment facilities. Customer shall be responsible for all non-routine, unanticipated or extraordinary repair or maintenance to said facilities, except that EKPC shall assume the first \$25,000 of expenses for each instance of such non-routine repairs or maintenance, exclusive of Customer's responsibility for renewals and replacements for such facilities, as provided in Section V (a) hereinabove. EKPC's total obligation for such non-routine repair or maintenance expenses in any calendar year under this Agreement shall not exceed \$100,000.

that the cutoff date shall not be less than twenty seven (27) days after the mailing date of the original bill. Cooperative shall also have the right to disconnect Customer for material non-compliance with service rules as contained herein, or upon the discovery of a dangerous condition on Customer's premises which requires such disconnection.

VI. TERMS AND CONDITIONS OF SERVICE

Steam service will be provided hereunder on a firm basis, subject to events of force majeure as defined in Section XII, hereinbelow. For the purposes of this Agreement, "firm basis" shall mean that Cooperative or EKPC will not interrupt or curtail its steam service to Customer except as a part of pro-rata service reduction to all other electric and/or steam customers. EKPC and Cooperative shall use their best efforts to provide regular and uninterrupted supply of steam. In the event of any non-force majeure interruption or curtailment in steam supply to Customer in any month, whether scheduled or unscheduled, which exceeds 24 continuous hours, demand component charges during such month shall be reduced, on a pro rata basis, by the ratio of the hours of such outages in the month divided by the total hours in such month.

Each party agrees to protect, indemnify and save harmless the other parties from any and all claims, demands or actions for damages made by any person (other than employees of such other parties), including reasonable attorneys' fees, resulting from or in connection with the negligence of such

indemnifying party, except to the extent caused by the negligence of the non-indemnifying party.

Insofar as possible, Customer's operating personnel will notify EKPC's Spurlock operating personnel of abnormal operations such as higher or lower than normal steam flows or anticipated shutdowns. EKPC's Spurlock operating personnel will notify Customer's operating personnel of any anticipated conditions which could affect the steam supply to Customer including prior notice of any anticipated or threatened interruptions or curtailments in steam supply.

VII. TERM OF AGREEMENT

The obligations of Cooperative, as retailer, and EKPC, as wholesaler, to supply, and of Customer to accept and pay for, steam service under the terms of this Agreement shall commence on a date mutually agreeable to Cooperative and Customer. Steam service under this Agreement shall be for an initial period of twenty (20) years from the service commencement date. This Agreement shall automatically renew on a year to year basis thereafter unless either Cooperative or Customer provides two years' prior written notice of its intention not to renew the Agreement. Customer shall have the option of cancelling this Agreement at any time after ten (10) years from the date of commencement of service hereunder by providing Cooperative with two years' prior written notice; provided, however, that upon cancellation Customer shall reimburse EKPC's Additional Investment as described in Section V hereof, less the amount of such

investment recovered prior to cancellation through the fixed facilities charge, less any salvage, plus removal and restoration costs, and demobilization costs relating to the Additional Investment.

VIII. ASSIGNMENT OF AGREEMENT

This Agreement may be assigned, pledged or mortgaged by any party hereto, and shall inure to and bind the respective successors and assigns of the parties hereto: provided, however, that the assignment, pledge or mortgage hereof by either party shall not relieve such party, without the written consent of the other party, of any obligations pursuant to this Agreement.

IX. REGULATORY AUTHORITY AND OTHER APPROVALS

Cooperative and EKPC represent and warrant, to the best of their knowledge and belief, the following regulatory approvals and permits and third-party consents are or may be necessary for the effectiveness of this Agreement: the Public Service Commission of Kentucky (the "Commission"); the Rural Electrification Administration ("REA"); the National Rural Utilities Cooperative Finance Corporation ("CFC") and bond trustees under various financing transactions relating to the construction of Spurlock Station Unit No. 1 and pollution control facilities for Spurlock Station Units 1 and 2. Cooperative and EKPC further agree to promptly seek to obtain all such regulatory approvals and third-party consents necessary for their participation in this Agreement. Customer agrees to promptly seek

to obtain all necessary governmental approvals and permits related to its business, activities and operations hereunder.

The rates and charges provided for herein may be changed only upon the specific approval or authorization of the Commission in the manner and to the extent prescribed by Kentucky law, and with the necessary approvals from REA, CFC, and other supplemental lenders having the right to approve such rate adjustments. EKPC and Cooperative agree to provide Customer with 30 days prior written notice of the filing with or submission to the Commission by EKPC and/or Cooperative of any proposed change to the rates, service or other conditions applicable to this Agreement. EKPC and Cooperative further agree to provide written notice to Customer of any proposed change in the rates, service or other conditions applicable to this Agreement sought by any other party or being considered by such Commission as soon as practicable after EKPC or Cooperative has received notice or knowledge of any such proposed change.

The parties agree and acknowledge that the terms of this Agreement, including the terms concerning rates described herein, have been relied on by Customer in making its decision to locate its papermill in the service area of Cooperative and to accept steam service from EKPC's Spurlock Station. This Agreement is a special contract relating to the unique circumstances applicable to Customer's papermill project. This Agreement is not subject to the tariffs, rate schedules, rules and regulations and conditions of service applicable to electric service by Cooperative except as

otherwise stated herein.

Cooperative agrees that during the term of this Agreement, or any extension thereof, it shall not apply to the Commission for or otherwise propose or support any adjustment to rates except to pass through wholesale steam rate increases by EKPC which relate to service under this Agreement. Appendix A, "Schedule of Rates", shall be amended from time to time to reflect such Commission-approved pass throughs of EKPC wholesale steam rate increases by Cooperative on their effective dates.

X. NOTICES

Written notices pursuant to this Agreement shall be mailed to:

If to EKPC: President and General Manager
East Kentucky Power Cooperative, Inc.
P. O. Box 707
Winchester, KY 40391

If to Cooperative: President and General Manager
Fleming-Mason Rural Electric
Cooperative Corporation
P. O. Drawer 328
Flemingsburg, KY 41041 (with a
copy to EKPC as provided above)

If to Customer: Inland Container Corporation
Attn: General Mill Manager
Maysville, KY 41056

and

General Counsel
Inland Container Corporation
4030 Vincennes Road
Indianapolis, Indiana 46268

Any party may change the person and address to which such notices should be given by written notice to the other parties.

XI. REDUCTION IN COST OF SERVICE

Cooperative is a non-profit Kentucky corporation and Customer will benefit from any savings or reductions in cost of service in the same manner as any comparable customer as authorized by the Kentucky Revised Statutes, and by Cooperative's Articles of Incorporation and Bylaws as now in effect; provided, however, the Cooperative's board of directors may defer retirement of so much of the capital credited to patrons for any year which reflects capital credited to the Cooperative by EKPC until EKPC shall have retired such capital credited to the Cooperative. Customer shall participate in capital credits in accordance with the Kentucky Revised Statutes and Cooperative's Articles of Incorporation and Bylaws.

XII. FORCE MAJEURE

The obligations of each party to this Agreement shall be suspended during the continuance of any occurrence, beyond the affected party's control (a "force majeure"), which wholly or partially prevents the affected party from fulfilling such obligations, provided that the affected party gives notice to the other party of the reasons for its inability to perform within a reasonable time from such occurrence. As used in this section, the term force majeure shall include, but is not limited to: acts of God; strikes; wars; acts of a public enemy; riots; storms; floods; civil disturbances; explosions; failures of machinery or equipment; interruptions in steam deliveries from Cooperative's steam supplier; or actions of federal, state or local governmental

authorities, which are not reasonably within the control of the party claiming relief. However, force majeure shall not include any inability of Cooperative to perform due to a failure (not caused by an event of force majeure) by EKPC to perform its obligations hereunder or under the Wholesale Steam Agreement or any inability by EKPC to perform due to a failure by Cooperative (not caused by an event of force majeure) to perform its obligations hereunder or under the Wholesale Steam Agreement.

Notwithstanding the above provisions, no event of force majeure shall relieve Customer of the obligation to pay the minimum monthly charge, or the monthly fixed facilities charge.

XIII. OBLIGATION OF EKPC TO CUSTOMER

EKPC shall be contractually and legally obligated to Customer to provide wholesale service to Cooperative necessary to permit Cooperative to provide the services to Customer provided for herein and to comply with all of Cooperative's obligations hereunder.

IN WITNESS WHEREOF EKPC, Cooperative and Customer have caused this Agreement to be executed as of the day, month and year first above written.

Attest:

EAST KENTUCKY POWER COOPERATIVE, INC.

By: _____
Title: _____

Attest:

FLEMING-MASON RECC

By: _____
Title: _____

Attest:

INLAND CONTAINER CORPORATION

By: _____
Title: _____

FLEMING-MASON RURAL ELECTRIC COOPERATIVE CORPORATION
STEAM SERVICE - RETAIL RATE SCHEDULE

Character of Service:

Steam supply to Inland Container as defined in the Steam Service Agreement.

Monthly Rates:

Demand Charge per million British Thermal

Units (Btu) of Billing Demand: \$419.514

Energy Charge per million British Thermal

Units (Btu): \$2.187

Determination of Billing Demand:

The monthly billing demand shall be the greater of (A) or (B) listed below:

- (A) The consumer's highest billing demand during the current month, or
- (B) The demand equal to eighty percent of the consumer's highest billing demand during the preceding eleven months.

The highest billing demand shall be the highest average rate at which steam energy is used during any sixty-minute interval in the below listed hours for each month, expressed in million Btu.

<u>Months</u>	Hours Available for <u>Demand Billing - EST</u>
October thru April	7:00 A.M. to 12:00 Noon 5:00 P.M. to 10:00 P.M.
May thru September	10:00 A.M. to 10:00 P.M.

Minimum Monthly Charge

The minimum monthly charge shall be the monthly billing demand, as provided above, and in no case shall be less than \$100,000.00.

Fuel Adjustment Clause (FAC)

The monthly charges for steam energy shall be increased or decreased by \$0.001 per million Btu for each one-thousand of a cent change in the base fuel cost of \$.01248/kWh in accordance with 807 KAR 5:056.

Steam Measurement Adjustment

Steam demand and steam energy and FAC rates have been developed upon the basis of a standard measure of unit efficiency. This standard measure of unit efficiency is a heat rate (Btu/kWh) of 10,250. However, unit efficiency is a dynamic process in that it is constantly changing due to several variables. Thusly, an adjustment for this change in unit efficiency is required to properly measure the steam energy and steam demand and FAC.

Steam demand and steam energy and FAC will be adjusted monthly on a moving twelve-month weighted average of the heat rate of Spurlock Unit No. 2 divided by the standard heat rate of 10,250.

Economic Development Rider

An Economic Development Rate (EDR) shall apply to this Agreement consisting of a demand credit determined as follows:

For sixty consecutive months, beginning with the first month that customer's increased metered demand exceeds 1,000 kW, or at a date specified in the contract, whichever shall first occur, a Demand Credit will be applicable to customer's power usage, and will be equal to the product of the increased metered demand times the Demand Charge and as it may be modified from time to time, multiplied by the following applicable percentage:

- (1) 50% credit for the first twelve consecutive months of the credit period.
- (2) 40% for the second twelve consecutive months of the credit period.
- (3) 30% for the third twelve consecutive months of the credit period.
- (4) 20% for the fourth twelve consecutive months of the credit period.
- (5) 10% for the fifth twelve consecutive months of the credit period, and none thereafter.