

*The following letters are being printed to keep our citizens informed of the progress of negotiations with Carolina Water Service. The letter of June 29 was written to determine the intent of Carolina Water Service to enter in negotiations in good faith. The offer of \$3,750,000 that Mr. Owens made in his letter of June 30, 1995 indicates to us that they don't appear to be interested in "good faith" in their reply to us. At the Town Meeting on June 6, it was estimated that the estimated cost of building a new water system, also confirmed by Carolina Water Service Engineers, was \$3,500,000.*

June 29, 1995

Dear Perry:

Over the past three months, we have exchanged a number of letters concerning the various differences between your company's reports and the Preliminary Engineering Report prepared by Colonial Engineering, Inc. I have reviewed all of the differences you have kindly pointed out and thank you and your company for providing the information. Some items I believe are minor in nature, while others are more substantial. I have attempted to address all those I believe are substantial.

**Item 1.** The Construction of the Third Water Tower.

Based on your company's position that we do not need a third tower, I have removed the cost of construction for this tower from our overall construction cost, thereby reducing our total construction outlay. We have, however, placed this item into future considerations given Town growth and needs.

**Item 2.** Backflow Preventors.

While your company indicates there is no need for these devices, I have attached a letter from the Building Code Council of North Carolina indicating the opposite point of view. Again, the cost of these devices can be removed if the State advises us they are not needed. Again, reducing the overall cost of construction for us.

**Item 3.** Legal Responsibility for Contracts You Now Hold.

We have discussed this with our Town Attorney and he advises us that they have no bearing on the Town. They are between you and whomever you have them with. (See attached Letter)

**Item 4.** Revenue and Expense Projections.

As discussed with you and your staff, I have used your figures in determining the feasibility of owning a water company.

**Item 5.** Reduction of Rates by 30%

I believe you and your company now understand what we have been saying from day one.

**Item 6.** Paying of Taxes.

While it is true that you pay more taxes than I do, the amount is three (3) dollars not three (3) times the amount you pay. Further, we have three Commissioners who pay more taxes than you.

**Item 7.** Adjusting the Preliminary Report.

Since there is a Preliminary Report, we will not make any adjustments until we are ready to submit a final report.

**Item 8.** Cost of Current System.

Based on your information, we have adjusted the cost downward. We now believe it is worth less than we first thought.

**Item 9.** Financing of New System.

We are aggressively pursuing financing for the construction of a new system and have received preliminary approval.

Perry, we are deadly serious about owning our own water system. If we cannot agree to purchase your system at a fair and reasonable price, we will construct our own system.

If you recall, there were about 100 people who attended the last Town Hall meeting on June 6, 1995. The opinions expressed by them represent a substantial number of voting citizens. Their collective opinion is that we build and not purchase a used system. However, before we proceed to build our system, I am willing to make you and your company one final offer to sell Carolina Water Service. Perry, I do not want to take advantage of your company, nor do I want to see your company take advantage of Pine Knoll Shores.

Based on all of the current information we now possess, I am authorized to make you one final offer for Carolina Water Service. Pine Knoll Shores is willing to offer you 1.6 million dollars for the system. This latest and last figure is based on depreciated value of your system, plus potential cost to upgraded the cost of constructing a new system.

Our offer is subject to the acceptance by your Board no later than July 20, 1995. We have already submitted application to RECD for a loan to build our own water system. If we do not hear from your company by the deadline of July 20, 1995, we must assume your company is not willing to sell your system, and we will proceed with the necessary steps to construct our own water system.

Yours truly,

Robert F. Gallo