

Mr. David E. Hasulak
Mayor
The Town of Pine Knoll Shores
100 Municipal Circle
Pine Knoll Shores, NC 28512

Dear Mayor Hasulak:

I received your letter of July 11, 1995 and remain puzzled by the comments and/or positions that both you and Robert Gallo have apparently taken.

Enforceability of Contracts

Obviously, we would not have referred to our "recorded enforceable legal covenants" and "binding legal contracts" with numerous developers and land owners if we had not discussed these matters thoroughly with our attorneys. Many months ago, I received the written opinions of the Sidley & Austin and McDermott, Will & Emery law firms in Chicago, as well as Hunton & Williams in Raleigh. They have advised us that the covenants and contracts are clearly enforceable and would, in fact, prohibit most customers from taking service from a competing water utility — whether private or municipal. It is puzzling that the Town has still not even requested copies of all relevant agreements.

We have been advised by our counsel that the Town has the right to secure a judicial determination as to the enforceability of all such contracts. We also realize that a final legal determination could take over three years and cost our company over \$250,000 in legal and court related costs.

Sales Price of Water Facilities

Prior to our letter of June 30, 1995, we had not given the Town a proposed sales price for the water facilities — either verbally or in writing. Accordingly, we do not consider the price of \$3,750,000 an increase. Perhaps you are referring to previous correspondence and financial projections reflecting financial feasibility and coverage of a \$3,500,000 bond issue by the Town.

Clearly, we would like to avoid the time, effort and significant legal costs involved in protracted legal disputes with the Town. For this reason, I am willing to recommend a reduced sales price of \$3,500,000, subject to approval by our Board of Directors and the execution of a mutually acceptable purchase agreement prior to October 1, 1995.

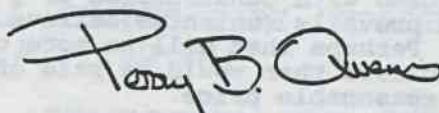
Savings Accruing to the Town's Residents

Your insinuation that our Company is price-gouging the residents of Pine Knoll Shores is most disappointing. Our rates to the Town's residents are higher than they would otherwise be, solely due to the North Carolina Utilities Commission's refusal of our request to charge rates on a system-specific basis in Pine Knoll Shores.

Finally, I again point out that Commissioner Gallo is again quoted in the papers as stating that the Town "can offer water service to town residents at costs at least 30 percent lower than those charged by the private firm". These statements are clearly misleading and untrue. The actual savings, assuming all of your construction and legal cost projections are accurate, would amount to a reduction of approximately 10 percent or \$2 per month.

We look forward to the Town's response which should be directed to our legal counsel, Edward Finley, Jr., Hunton & Williams, One Hanover Square, Suite 1400, Raleigh, North Carolina, 27601.

Sincerely,



Perry B. Owens

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cc: R. Gallo
K. Kirkman
E. Finley