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(LICENSED IN TEXAS ONLY)

January 16, 2004

Mr. Troy Rendell
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: North Peninsula Utilities Corporation
Rate Investigation; PSC Docket No. 030601-SU
Our File No. 26097.04

JAN 16 PM 4:54
COMMISSION
CLERK
REGISTRATION PSC

Dear Troy:

Thank you very much for your letter of December 16, 2003. I believe we can agree with almost everything within your letter with regard to the further handling of this case.

1. We agree to file the Annual Report by March 31, 2004 and of course, the staff has the right to conduct further analysis and seek clarification from the Utility.
2. We agree to increase the Letter of Credit to an amount not less than \$8,197. This has already been applied for by the company and as soon as documentation of that increased Letter of Credit is received, I will forward that onto you. I should have this to you within approximately two and a half weeks.
3. While we were certainly agreeable to forgo the 2003 index because of fears of overearnings, and because of the need for the staff to review the actual results of 2003 to determine whether or not those overearnings exist, the Utility sincerely believes that once the information for 2003 is provided to the staff, you will see that the Utility did not overearn during that year and that the 2004 index can appropriately be implemented by the Utility without causing it to be in an overearnings situation. We will, however, agree not to implement that index until at least the end of June 2004 in order to allow this case to reach conclusion.

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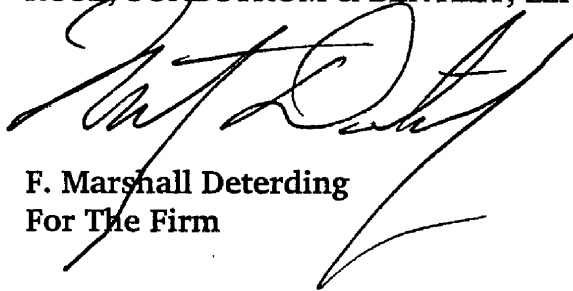
Mr. Troy Rendell
January 16, 2004
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Please let me know if you have any problems with this proposal. In the meantime, I will be getting you the information which you need relative to the increased Letter of Credit and we will supply you the Utility's Annual Report by March 31, 2004 and will go from there to finalize this case.

If you have any questions or concerns with the above proposal, please let me know.

Sincerely,

ROSE, SUNDSTROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

FMD/tms

cc: Blanca S. Bayo
Ms. Jennifer Iwenjiora
Katherine Fleming, Esq.
Mr. Tyree F. Wilson, Jr.
Mr. Robert Hillman