

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: July 20, 2000
TO: Division of Economic Regulation (ECR) - Butts
FROM: Division of Regulatory Oversight (Vandiver)
RE: Docket No. 000467-WU; Gem Estates Utilities, Inc.
 Audit Report; Staff-assisted Rate Case - Historical Year Ended May 31, 2000
 Audit Control No. 00-138-3-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, they should send it to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Regulatory Oversight (Hoppe/Harvey/File Folder)
 Orlando District Office
 ✓ Division of Records and Reporting
 Division of Legal Services

Hollis Malberg
 Gem Estates Utilities, Inc.
 P. O. Box 2016
 Zephyrhills, FL 33539-2016

APP _____
 CAF _____
 CMP _____
 COM _____
 CTR _____
 ECR _____
 LEG _____
 OPC _____
 PAI _____
 RGO _____
 SEC _____
 SER _____
 OTH _____

DOCUMENT NUMBER-DATE

08913 JUL 24 8

FPSC-RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES*

Orlando District Office

GEM ESTATES UTILITIES, INC.

STAFF-ASSISTED RATE CASE

HISTORICAL YEAR ENDED MAY 31, 2000

**DOCKET NO. 000467-WU
AUDIT CONTROL NO. 00-138-3-1**

A handwritten signature in black ink, appearing to read "Jeffery A. Small", written over a horizontal line.

Jeffery A. Small, Audit Manager

A handwritten signature in black ink, appearing to read "Charleston J. Winston", written over a horizontal line.

Charleston J. Winston, District Audit Supervisor

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	SUMMARY OF SIGNIFICANT FINDINGS	2
	SUMMARY OF SIGNIFICANT PROCEDURES	2
II.	EXCEPTIONS	
	1. UTILITY BOOKS AND RECORDS	4
	2. ORIGINAL COST STUDY FOR FPSC DOCKET NO. 921206-WU	5
	3. UTILITY-PLANT-IN-SERVICE (UPIS) AND LAND	6
	4. ACCUMULATED DEPRECIATION OF UPIS	8
	5. CAPITAL STRUCTURE	10
	6. REVENUES	11
	7. OPERATIONS AND MAINTENANCE EXPENSE (O&M)	12
	8. TAXES OTHER THAN INCOME (TOTI)	14
III.	DISCLOSURES	
	1. PRO FORMA UPIS AND O&M EXPENSE	15
	2. PENDING SALES CONTRACT FOR UTILITY ASSETS	16
IV.	EXHIBITS	
	1. RATE BASE	17
	2. NET OPERATING INCOME	18
	3. CAPITAL STRUCTURE	19

**DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT**

JULY 12, 2000

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules for Rate Base, Net Operating Income, and Capital Structure for the historical 12-month period ended May 31, 2000, for Gem Estates Utilities, Inc. The attached schedules were prepared by the auditor as part of our work in Docket No. 000467-WU.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT FINDINGS

The utility's books and records are not in compliance with the NARUC Uniform System of Accounts (USOA).

The utility's utility-plant-in-service (UPIS), established by an Original Cost Study (OSC) referenced in Order No. PSC-94-1472-FOF-WU, issued on November 30, 1994, is overstated by \$366, and its accumulated depreciation is understated by \$779.

The utility's UPIS and land balance for water operations is \$64,585.05 as of May 31, 2000.

The utility's accumulated depreciation (A/D) balance for water operations is \$18,716.76 as of May 31, 2000.

The utility's capital structure for water operations is \$47,881 of common equity as of May 31, 2000.

The utility's revenue from water operations is \$12,434 for the 12-month period ended May 31, 2000.

The utility's operations and maintenance (O&M) expense for water operations is \$16,097 for the 12-month period ended May 31, 2000.

The utility's taxes other than income for water operations are \$738 for the 12-month period ended May 31, 2000.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining certain transactions and account balances which we believe are sufficient to base our opinion. Our more important audit procedures are summarized below. The following definitions apply when used in this report.

Scanned - The documents or accounts were read quickly looking for obvious errors.

Verified - The items were tested for accuracy, and substantiating documentation was examined.

Assembled - Presented in Commission-required format financial information that was provided to the audit staff and is the representation of company management.

RATE BASE: Scanned and verified 100 percent of utility-provided documents used to identify water utility-plant-in-service (UPIS) and accumulated depreciation as of May 31, 2000. Determined rate base balances established by an OSC referenced in Order No. PSC-94-1472-FOF-WU. Calculated working capital balance. Calculated depreciation expenses and the associated ending accumulated depreciation using rates established in the above-mentioned OCS and by Rule 25-30.140, Florida Administrative Code (F.A.C.).

NET OPERATING INCOME: Scanned and verified 100 percent of utility-provided documents used to identify water account balances for utility revenues, operations and maintenance expenses, and taxes other than income for the 12-month period ended May 31, 2000. Recalculated revenues to verify the existing rates charged by the utility.

CAPITAL STRUCTURE: Scanned and verified 100 percent of utility-provided documents used as components of its capital structure as of May 31, 2000.

OTHER: Audited the utility's 1999 Regulatory Assessment Fee returns filed with the Commission.

Audit Exception No. 1

Subject: Utility Books and Records

Statement of Facts: Gem Estates Utilities, Inc. provides water services for approximately 220 residential customers and one clubhouse, all within Gem Estates, a mobile home community located in Pasco County, Florida.

Utility records provided for this audit engagement consisted of the following items.

- Utility check register and bank statements
- 1999 Annual Report filed with the Commission on March 27, 1999
- Vendor invoices and canceled checks for utility purchases

NARUC, Class C, Accounting Instruction 2. A, states,

“The books of accounts of all water and wastewater utilities shall be kept by the double entry method on an accrual basis.”

NARUC, Class C, Accounting Instruction 2. B, states,

“All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries.”

Rule 25-30.115 (1), F.A.C., requires all water and wastewater utilities to maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts (USOA).

Recommendation: The utility does not maintain its books and records per the Commission rule cited above.

Additionally, the utility has experienced management and financial instability from 1995 through 1999, and its 1999 Annual Report cannot be relied upon for this rate case proceeding because it was prepared using estimates and incomplete financial information.

The Commission should require the utility to conform to the Commission rule cited above.

Audit Exception No. 2

Subject: Original Cost Study for Docket No. 921206-WU

Statement of Facts: Commission Order No. PSC-94-1472-FOF-WU, granted Gem Estates Utilities, Inc. original Certificate No. 563-W to provide water service in its territory and established rates based on an Original Cost Study (OCS) prepared by Regulatory Consultants, Inc. as of December 31, 1993.

The OCS determined a total UPIS and land balance of \$24,740.90 and an accumulated depreciation (A/D) balance of \$10,476.47 as of December 31, 1993. The following items were included in the determination of these balances.

- 1) The retirement of a well and its associated improvements reduced Account No. 307, Wells and Springs and Account No. 408, A/D by \$1,634.05 and \$854.40, respectively.
- 2) The addition of an air compressor in 1993 increased Account No. 339, Other Plant and Miscellaneous Equipment and Account No. 408, A/D by \$2,000.09 and \$74.99, respectively.

Recommendation: Audit staff has determined from its tour of UPIS facilities on June 12, 2000, that the utility system continues to use the retired well mentioned above as a backup source of potable water and that the air compressor also mentioned above was never placed in service as planned in 1993.

The Commission should reduce the utility's UPIS by \$366.04 (\$1,634.05 - \$2,000.09), and it should increase the A/D balance by \$779.41 (\$854.40 - \$74.99) to properly reflect the UPIS assets observed by the audit staff during its plant tour on June 12, 2000.

		Debit	Credit
Account No. 307	Wells & Springs	\$1,634.05	
Account No. 408	Acc/Depreciation		\$ 854.40
	To add back potable well that is still in service		
Account No. 339	Miscellaneous Equipment		\$2,000.09
Account No. 408	Acc/Depreciation	\$ 74.99	
	To remove an air compressor that was never placed in service		

Audit Exception No. 3

Subject: UPIS and Land

Statement of Facts: Gem Estates Utilities, Inc. has no records that completely separate or specifically identify its UPIS and land balance.

The OCS, referenced in Audit Exception No. 2 of this report, established a total UPIS and land balance of \$24,740.90 as of December 31, 1993.

Recommendation: The utility's UPIS and land balance as of May 31, 2000, was not properly recorded per the Commission rule cited previously in this report. The utility provided the audit staff with access to all invoices, canceled checks, and other utility records to assemble its UPIS and land balance for this rate case proceeding.

The utility's UPIS and land balance as of May 31, 2000, is \$64,585.05 based on the following audit staff findings.

- 1) The balance for UPIS established by the OCS used in Docket No. 921206-WU is overstated by \$366.04 as discussed in Audit Exception No. 2 of this report.
- 2) The utility added \$36,280.19 of net UPIS during the 12-month period ended December 31, 1994.
- 3) The utility added \$3,930.00 of UPIS during the 12-month period ended May 31, 2000.

See Schedule A on the following page for details.

Schedule A
Audit Exception No. 3

Acc#	Account Description	Balance per Order PSC-94-1472-FOF-WU @12/31/93	Audit staff's adjustment to Original Cost Study	Additions for 12-month period ended 12/31/94	Additions for 12-month period ended 05/31/00	UPIS Balance @05/31/00
301	Organization Cost	\$0.00		\$35,541.31		\$35,541.31
303	Land & Land Rights	742.57				742.57
304	Structures & Improvements	150.51				150.51
307	Wells & Springs	6,738.17	1,634.05			8,372.22
309	Supply Mains	0.00			3,430.00	3,430.00
311	Pumping Equipment	5,181.28		738.88	500.00	6,420.16
320	Water Treatment Equipment	142.22				142.22
331	Transmission & Distribution	8,518.94				8,518.94
339	Miscellaneous Equipment	<u>3,267.21</u>	<u>(2,000.09)</u>	<u>0.00</u>	<u>0.00</u>	<u>1,267.12</u>
	UPIS Totals	\$24,740.90	(\$366.04)	\$36,280.19	\$3,930.00	\$64,585.05

Audit Exception No. 4

Subject: Accumulated Depreciation (A/D) of UPIS

Statement of Facts: Gem Estates Utilities, Inc. has no records that completely separate or specifically identify its A/D balance.

The OCS, referenced in Audit Exception No. 2 of this report, established an A/D balance of \$10,476.47 as of December 31, 1993.

The OCS, used to determine rates in Docket No. 921206-WU, applied a 2.5 percent composite depreciation rate to UPIS assets through December 31, 1993.

Rule 25-30.140 (2), F.A.C., establishes average service lives for all water utilities to be used in rate case proceedings before the Commission.

Recommendation: The utility's A/D balance as of May 31, 2000, is not properly recorded per the Commission rule cited previously in this report. The utility provided the audit staff with access to all invoices, canceled checks, and other utility records to assemble its A/D for this rate case proceeding.

The utility's A/D balance as of May 31, 2000, is \$18,716.76. This balance incorporates the effects of adjustments to UPIS discussed in Audit Exceptions Nos. 2 and 3 of this report and the following additional audit staff findings.

- 1) Audit staff used the composite depreciation rate of 2.5 percent as mentioned above to calculate the A/D balance as of ended May 31, 1999.
- 2) Audit staff used the depreciation rates established in the Commission rule cited above for the 12-month period ended May 31, 2000.
- 3) Depreciation expense for the 12-month period ended May 31, 2000 is \$1,908.07.

See Schedule B on the following page for details.

Schedule B
Audit Exception No. 4

Acc#	Account Description	Balance per Order PSC-94-1472-FOF-WU @12/31/93	Audit staff's adjustment to Original Cost Study	Additions 01/01/94 through 12/31/94	Additions 01/01/95 through 12/31/95	Additions 01/01/96 through 12/31/96	Additions 01/01/97 through 12/31/97	Additions 01/01/98 through 12/31/98	Additions 01/01/99 through 05/31/99	Additions 06/01/99 through 05/31/00	Accumulated Depreciation Balance @05/31/00
301	Organization Cost	\$0.00		\$444.27	\$888.53	\$888.53	\$888.53	\$888.53	\$444.27	\$888.53	\$5,331.19
304	Structures & Improvements	80.33		3.76	3.76	3.76	3.76	3.76	1.88	5.38	106.39
307	Wells & Springs	2,812.09	854.40	188.88	209.31	209.31	209.31	209.31	104.65	310.08	5,107.34
309	Supply Mains	0.00		0.00	0.00	0.00	0.00	0.00	0.00	53.59	53.59
311	Pumping Equipment	3,307.97		(2,077.88)	148.00	148.00	148.00	148.00	74.00	362.95	2,259.04
320	Water Treatment Equipment	142.22		0.00	0.00	0.00	0.00	0.00	0.00	0.00	142.22
331	Transmission & Distribution	4,011.34		212.97	212.97	212.97	212.97	212.97	106.49	224.18	5,406.86
339	Miscellaneous Equipment	<u>122.52</u>	<u>(74.99)</u>	<u>56.68</u>	<u>31.68</u>	<u>31.68</u>	<u>31.68</u>	<u>31.68</u>	<u>15.84</u>	<u>63.36</u>	<u>310.13</u>
	Acc/Dep Totals	\$10,476.47	\$779.41	(\$1,171.32)	\$1,494.25	\$1,494.25	\$1,494.25	\$1,494.25	\$747.13	\$1,908.07	\$18,716.76

NOTE: Negative additions indicated above are the net effect of retirements to UPIS and A/D in the indicated time period.

Audit Exception No. 5

Subject: Capital Structure

Statement of Facts: Gem Estates Utilities, Inc. operates as a Florida corporation that is controlled by Hollis J. Malberg, sole owner. Additionally, Ms. Malberg is the sole trustee of the Marjorie Hill Trust which is responsible for all operations at the Gem Estates mobile home community other than utility operations.

During the period 1995 through 1999, the Marjorie Hill Trust paid approximately \$34,136 of obligations incurred for utility operations. The utility maintains that the above amount should be treated as a loan to the utility from the Marjorie Hill Trust.

Prior Order No. 13796, issued on October 22, 1984, classifies utility debt that is advanced by stockholders to cover operating losses as common equity.

Prior Order No. PSC-00-1165-PAA-WS, issued on June 27, 2000, classifies utility debt that is not supported by a debt instrument or an interest cost as other common equity.

Recommendation: The utility has experienced management and financial instability from 1995 through 1999. The utility has no debt and its capital structure consists solely of common equity.

The \$34,136 paid on behalf of utility operations by the Marjorie Hill Trust should be treated as other common equity because there is no debt instrument or interest cost associated with the loans per the Commission Orders cited above.

The utility's capital structure as of May 31, 2000, is \$47,881 of equity, which includes \$34,136 of other common equity, and reconciles with the audit staff's calculation of the utility's rate base indicated in Exhibit I of this report. See the schedule below for details.

Common Equity (\$47,881 - \$34,136)	\$13,745
Other Common Equity	<u>\$34,136</u>
Total Equity	\$47,881

Audit Exception No. 6

Subject: Revenues

Statement of Facts: Gem Estates Utilities, Inc. has no records that completely separate or specifically identify its revenue balance.

The utility's rates for water service were last established in Order No. PSC-95-0326-FOF-WU, issued on March 9, 1995, as a flat rate of \$14.13 collected quarterly.

The utility provided water service to 220 customers during the 12-month period ended May 31, 2000.

Recommendation: The utility's revenue for the 12-month period ended May 31, 2000, is not properly recorded per the Commission rule cited previously in this report. The utility provided the audit staff with access to utility records to assemble its revenue for this rate case proceeding.

Audit staff has calculated utility revenue of \$12,434.40 for its water operations for the 12-month period ended May 31, 2000. See the schedule below for details.

Total Number of Customers		220
Approved Tariff Rate	times	\$14.13
Annual Billing Cycle (quarterly)	times	<u>4</u>
Total Revenue	equals	\$12,434.40

Audit Exception No. 7

Subject: Operation and Maintenance Expenses (O&M)

Statement of Facts: Gem Estates Utilities, Inc. has no records that completely separate or specifically identify its O&M expenses.

Rule 25-30.433 (2) calculates working capital as one-eighth of O&M expenses for rate case proceedings.

Recommendation: The utility's O&M expenses for the 12-month period ended May 31, 2000, is not properly recorded per the Commission rule cited previously in this report. The utility provided the audit staff with access to all invoices, canceled checks, and other utility records to assemble its O&M expenses for this rate case proceeding.

Audit staff has calculated utility O&M expenses of \$16,096.84 and a working capital balance of \$2,012.11, using the rule cited above, for the utility's water operations for the 12-month period ended May 31, 2000.

See Schedule C on the following page for details.

Schedule C
Audit Exception No. 7

Acc#	Account Description	Per Utility @05/31/00	Adjustment	Per Audit @05/31/00
601	Salaries & Wages - Employees	\$0.00	\$2,100.00	\$2,100.00
603	Salaries & Wages - Officers	0.00	0.00	0.00
610	Purchased Water	0.00	321.36	321.36
615	Purchased Power	0.00	1,399.63	1,399.63
618	Chemicals	0.00	130.50	130.50
620	Materials & Supplies	0.00	1.95	1.95
630	Contractual Services - Billing	0.00	0.00	0.00
631	Contractual Services - Professional	0.00	2,100.00	2,100.00
635	Contractual Services - Testing	0.00	1,211.30	1,211.30
636	Contractual Services - Other	0.00	5,674.39	5,674.39
640	Rents	0.00	2,400.00	2,400.00
650	Transportation Expense	0.00	0.00	0.00
655	Insurance Expense	0.00	192.20	192.20
665	Regulatory Commission Expense	0.00	205.86	205.86
670	Bad Debt Expense	0.00	0.00	0.00
675	Miscellaneous Expense	<u>0.00</u>	<u>359.65</u>	<u>359.65</u>
	Total O&M Expense	\$0.00	\$16,096.84	\$16,096.84
	Working Capital (\$16,096.84/8)	\$0.00	\$2,012.11	\$2,012.11

Audit Exception No. 8

Subject: Taxes Other Than Income (TOTI)

Statement of Facts: Gem Estates Utilities, Inc. has no records that completely separate or specifically identify its TOTI balance.

Per NARUC, Class C, Income Accounts, Account No. 403 A.,

These accounts shall include the amount of ad valorem, gross revenue or gross receipt taxes, regulatory agency general assessments for purposes of public utility regulation, . . . , and all other taxes assessed by federal state, county, municipal, or other governmental authorities, except income taxes.

Recommendation: The utility's TOTI balance for the 12- month period ended May 31, 2000, is not properly recorded per the Commission rule cited previously in this report. The utility provided the audit staff with access to all invoices, canceled checks, and other utility records to assemble its TOTI balance for this rate case proceeding.

Audit staff has calculated TOTI of \$738.21 for the utility's water operations for the 12-month period ended May 31, 2000. See the schedule below for details.

Authority	Assessment	Per Utility	Adjustment	Per Audit
Pasco County	Personal property tax	\$0.00	\$116.00	\$116.00
Pasco County	Tangible Personal Property	\$0.00	\$63.21	\$63.21
Florida Public Service Commission	Regulatory Assessment Fees	<u>\$0.00</u>	<u>\$559.00</u>	<u>\$559.00</u>
	Totals	\$0.00	\$738.21	\$738.21

Audit Disclosure No. 1

Subject: Pro Forma UPIS and O&M Expenses

Statement of Facts: Prior Order No. PSC-94-1472-FOF-WS, notified the utility that the Commission would consider changing its current flat rate structure to metered rates in its next rate case proceeding.

The utility has provided audit staff with the following vendor estimates for installing meters at all customer connections.

Vendor	Description of Item and/or Service	Price per connection
U.S. Filter Distribution	5/8" x 3/4" meter, meter box, and fittings	\$54.50
Paul Lawhon Plumbing, Inc.	5/8" x 3/4" meter, meter box, fittings, and labor for installation	\$99.00
ABB, Inc.	5/8" x 3/4" meter	\$40.00
Jim Mattice Plumbing	backflow preventor, fittings, and labor for installation	\$60.00
Dennis L. Williams Plumbing	5/8" x 3/4" meter, meter box, fittings, and labor for installation	\$110.00
Dennis L. Williams Plumbing	Labor for installation only	\$25.00

Additionally, the utility has provided the following vendor estimates for cleaning, sanding, and painting its 3,000 gallon hydro-pneumatic water storage tank.

Vendor	Description of Item or Service	Price
E&S Property Maintenance	Clean, sand, prime, seal, and paint the water tank.	\$380.00
Bob White Painting	Clean, sand, prime, and paint the water tank.	\$495.00

Recommendation: Should the Commission require the installation of individual customer meters, the utility and audit staff estimate an additional annual salary expense of \$1,920 for meter reading and billing.

Audit staff defers the above issues to the analyst in Tallahassee.

Audit Disclosure No. 2

Subject: Pending Sales Contract

Statement of Facts: On March 22, 2000, Hollis Malberg, Trustee of the Ruth Cahill Trust, executed an "*Offer to Purchase and Contract for Sale*" agreement with the Gem Estates Mobile Home Owners Association for the transfer of all of the mobile home community's common property and utility assets.

The closing date is set for January 1, 2001, or within fifteen days thereof.

Recommendation: Audit staff defers the above issues to the analyst in Tallahassee.

EXHIBIT I

GEM ESTATES UTILITIES, INC.
DOCKET NO. 000467-WU
RATE BASE
AS OF MAY 31, 2000

DESCRIPTION	PER UTILITY	AUDIT EXCEPTION	REFER TO(1)	PER AUDIT
UTILITY-PLANT-IN-SERVICE	\$0	\$63,842	E-3	\$63,842
LAND	\$0	\$743	E-3	\$743
CONTRIBUTIONS-IN-AID-OF- CONSTRUCTION (CIAC)	\$0	\$0		\$0
ACCUMULATED DEPRECIATION	\$0	(\$18,717)	E-4	(\$18,717)
AMORTIZATION OF CIAC	\$0	\$0		\$0
WORKING CAPITAL	\$0	\$2,012	E-7	\$2,012
	=====	=====		=====
TOTAL	\$0	\$47,881		\$47,881

REQUIRED FOOTNOTES:

- (1) Audit adjustments do not include audit disclosures.
- (2) Small differences are due to rounding errors.

EXHIBIT II

**GEM ESTATES UTILITIES, INC.
DOCKET NO. 000467-WU
WATER NET OPERATING INCOME
12-MONTH PERIOD ENDED MAY 31, 2000**

DESCRIPTION	PER UTILITY	AUDIT EXCEPTION	REFER TO(1)	PER AUDIT
OPERATING REVENUES	\$0	\$12,434	E-6	\$12,434
	-----	-----		-----
OPERATION EXPENSES:				
O&M EXPENSE	\$0	\$16,097	E-7	\$16,097
DEPRECIATION EXPENSE	\$0	\$1,908	E-4	\$1,908
CIAC AMORTIZATION	\$0	\$0		\$0
TAXES OTHER THAN INCOME	\$0	\$738	E-8	\$738
INCOME TAX EXPENSE(2)	\$0	\$0		\$0
	-----	-----		-----
TOTAL OPERATION EXPENSE	\$0	\$18,743		\$18,743
	=====	=====		=====
NET OPERATING INCOME(LOSS)	\$0	(\$6,309)		(\$6,309)

REQUIRED FOOTNOTES:

- (1) Audit adjustments do not include audit disclosures.
- (2) Income tax set to zero because utility has not filed federal tax returns since 1994.
- (3) Small differences are due to rounding errors.

EXHIBIT III

**GEM ESTATES UTILITIES, INC.
DOCKET NO. 000467-WU
CAPITAL STRUCTURE
AS OF MAY 31, 2000**

DESCRIPTION	PER UTILITY	AUDIT EXCEPTION	REFER TO(1)	PER AUDIT	RATIO	COST RATE(3)	WEIGHTED COST OF CAPITAL
COMMON EQUITY	\$0	\$13,745	E-5	\$13,745	28.71%	8.93%	2.564%
OTHER COMMON EQUITY	\$0	\$34,136	E-5	\$34,136	71.29%	8.93%	6.366%
LONG-TERM DEBT	\$0	\$0		\$0	0.00%	0.00%	0.000%
SHORT-TERM DEBT	\$0	\$0		\$0	0.00%	0.00%	0.000%
CUSTOMER DEPOSITS(2)	\$0	\$0		\$0	0.00%	6.00%	0.000%
ITC	\$0	\$0		\$0	0.00%	0.00%	0.000%
TOTAL	\$0	\$47,881		\$47,881	100.00%		8.930%

REQUIRED FOOTNOTES:

- 1) Audit adjustments do not include audit disclosures.
- 2) The utility does not collect a customer deposit for service connections.
- 3) Cost rate for common equity established in Order No. PSC-99-1224-PAA-WS, issued June 21, 1999.