M E M O R A N D U M

March 19, 1997

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER)

RE: DOCKET NO. 960776-TL -- FRONTIER COMMUNICATIONS OF THE SOUTH, INC.
RATE RE-BALANCING AUDIT REPORT - PERIOD ENDED DECEMBER 31, 1996
AUDIT CONTROL NO. 96-351-1-1

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit working papers are available for review on request. There are no confidential working papers associated with this audit.

Please forward a complete copy of the audit report to:

Frontier Communications of the South, Inc.
Ms. Laurie A. Maffett
Frontier Telephone Group
180 South Clinton Avenue
Rochester, NY 14646-0400

DNV/sp
Attachment
cc: Chairman Johnson
Commissioner Clark
Commissioner Deason
Commissioner Garcia
Commissioner Kiesling
Mary Andrews Bane, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Devlin/Causseaux/Johe/File Folder)
Tampa District Office (McPherson)

Research and Regulatory Review (Harvey)
Office of Public Counsel

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

12 MONTHS ENDED DECEMBER 31, 1996

FIELD WORK COMPLETED

MARCH 12, 1997

FRONTIER COMMUNICATIONS OF THE SOUTH, INC. (FLORIDA OPERATIONS)

PENSACOLA, FLORIDA\ATMORE, ALABAMA

ESCAMBIA COUNTY

RATE RE-BALANCING AUDIT

DOCKET NO. 960776-TL

AUDIT CONTROL NO. 96-351-1-1

Jocelyn Y. Stephens

JOCELYN Y. STEPHENS

AUDIT STAFF

S. R. MAYES

MINORITY OPINION

YES ____ NO JAM

James A. McPherson

JAMES MCPHERSON
REGULATORY ANALYST SUPERVISOR
TAMPA, FLORIDA

INDEX

I. Executive Summary

Audit Purpose: We have applied the procedures described in Section II of this report to audit the schedules of Average Rate Base, Net Operating Income and Capital Structure (as included in the Earnings Surveillance Report) for the twelve month period ending December 31, 1996 prepared by Frontier Communications of the South, Inc. for their petition for Rate Re-Balancing, FPSC Docket 960766-TL.

Scope Limitation: Frontier Communications did not provide a General Ledger for 12/31/96 which agreed to their Trial Balance at 12/31/96. When account balances differed, we were told to use the Trial Balance amount.

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

Opinion: The schedules of Average Rate Base, Net Operating Income and Average Capital Structure for the twelve month period ending December 31, 1996 represent Frontier Communication of South, Inc.'s books and records maintained in substantial compliance with Commission Directives. The expressed opinion extend only to the scope of work described in section II of this report.

Summary Findings:

1) Company failed to provide information, in violation of the Florida Administrative Code Rule 25-4.019.
2) Company did not adjust its property tax accrual to actual tax expense for 1996.
3) Company did not use current depreciation rates.
4) Company began charging Interest During Construction in June, 1996, retroactive to January, 1996.
5) Company's Advertising Account contained charges for contributions, membership fees and dues.
6) Company failed to record certain revenues to the General Ledger during 1996.
7) Staff computations for Average Rate Base and for Average Capital Structure do not agree to Company's Computation in its ESR filing.
8) Company included non-regulated expenses in its ESR filing.
9) Company included non-recurring costs in its Net Operating Income.
10) Company did not provide Affiliated Company costs charged to or by Frontier Communications of the South.

II. Audit Scope:

The opinions contained in this report are based on the audit work described below. When used in this report, the following definition shall apply.

> COMPILED - The audit staff reconciled exhibit amounts with the general ledger, visually scanned accounts for error or inconsistency, disclosed any unresolved error, irregularity, or inconsistency, and , except as noted, performed no other audit work.

AVERAGE RATE BASE: Compiled Plant in Service at 12/31/96. Determined Company's use of appropriate Capitalization vs Expense accounting method. Identified large projects completed by company since 1992. Compiled and recomputed Accumulated Depreciation. Normalized the one-time booking of depreciation as a result of the 1996 Depreciation Study. Analyzed and computed Telephone Plant under Construction. Determined that Company began charging Interest during Construction in 1996. Computed Working Capital Allowance. Determined General Support Assets and associated Accumulated Depreciation that were allocable to Florida. Compared Average Staff computed Rate Base to Company filing.

NET OPERATING INCOME: Compiled Operating Revenues and Expenses. Obtained company's allocation methodology for regulated and non-regulated amounts. Reviewed parent company procedures for charges to and from affiliates. Reviewed policies relating to Customer Deposits and Uncollectible Revenues, Advertising, Charitable Contributions and Lobbying. Obtained reason for 91.5% increase in Plant Specific expenses from 1992 to 1995. Calculated applicable Income Taxes. Compared Net Operating Income Schedule to Company filing.

AVERAGE CAPITAL STRUCTURE: Compiled Capital Structure at 12/31/96. Determined Cost of Capital. Calculated long-term cost rate. Reviewed company's policy regarding equity ratio. Adjusted Capital Structure for non-regulated/non-utility assets. Compared Staff computed Average Capital Structure to Company filing.

OTHER: Obtained list of non-regulated, non-utility services the company is currently providing. Obtained and scanned 1995 Federal and State Income Tax Returns for any unusual items. Determined Company's compliance with Rule 25-14.013, Accounting for Deferred Income Taxes Under SAS 109.

AUDIT EXCEPTION NO. 1

SUBJECT: FAILURE TO PROVIDE INFORMATION

STATEMENT OF FACT:

In Document Request (DO) Nos. 28 and 29, Frontier Communications of the South, Inc. (Company) was asked to provide information regarding its Local Service Revenues (1993), State Access Revenues (1991 - 1996), and Long Distance Revenues (subsequent to 1992). In DO No. 43, Company was asked to provide costs and source documentation for Land and Buildings (1995).

In the response to Document Request Nos. 28 and 29, Company stated that "The Company does not have access to the proper records in Rochester, N.Y. to answer this question. The records are stored in Atmore, AL. without the proper personnel at the location to retrieve the records currently. The Company has available accounting records to explain the revenues and expenses variations for the years 1995 and 1996 at the Rochester, N.Y. location. The Company plans on relocating all accounting records from Atmore, AL to an offsite storage facility in Rochester, N.Y. by the end of 1997."

In its response to Document Request No. 43 Company again stated that the records are stored in Atmore, AL without proper personnel to retrieve them. And, "....The Company is currently contacting the vendor for copies of the invoices and will forward them to the FL PSC Audit Staff's office in Tampa, FL upon receipt by the Company."

AUDIT OPINION:

The Company is in violation of the Florida Administrative Code Rule 25-4.019 (1) "...The utility shall also furnish the Commission with any information concerning the utility's facilities or operations which the Commission may reasonable request and require. All such data, unless otherwise specified, shall be consistent with and reconcilable with the utility's annual report to the Commission."

Since it is the Company's option as to where records are stored, this should not preclude their responsibility under Rule 25-4.019 to furnish data as requested.

RECOMMENDATION:

The Company should provide the data as requested. When provided, the information will be forwarded as a supplemental binder to the work papers.

AUDIT DISCLOSURE NO. 1

SUBJECT: ACCRUAL OF PROPERTY TAXES

STATEMENT OF FACT:

Company accrued monthly amounts for property taxes in its General Ledger which totaled $114,310.

Property taxes (real and tangible) due and payable at the November (maximum discounted month) amount, for 1996, totaled $112,750.

The difference between the tax accruals and the actual amounts due for taxes is $1,560.

In its response to Document/Record Request #31, Company stated that "It is the company's policy to accrue property taxes to the expense accounts during the current year on a monthly basis based on an estimate of last year's property taxes paid with an inflation factor added for the current year. When the actual property tax bills are received, the company pays them against the estimated accrual account and the expense accounts are adjusted for any under or over accrual of expense for the current year. The adjustment for the accrual of expense for 1996 did not occur in 1996; instead the adjustment for 1996 property taxes paid will occur in 1997."

AUDIT OPINION:

Based on the difference between the accrual and the actual taxes paid, an audit adjustment should be made to reduce the 1996 Property Tax Expense by $1,560.

AUDIT DISCLOSURE NO. 2

SUBJECT: RATES USED TO CALCULATE DEPRECIATION EXPENSE

STATEMENT OF FACT:

In the 1996 Depreciation Study by Frontier Communications of the South, Inc. (PSC Order No. PSC 96-1431-GOG-TL; Docket 960788-TL), the Commission approved Average Remaining Life (ARL) - Depreciation rates which were calculated out to one-tenth of one percent (0.0).

In computing depreciation expense, the Company used depreciation rates calculated out to one-hundredth of one percent (0.00.)

Using the audit computed Average Plant in Service totals, staff performed a calculation to determine the resulting difference in Depreciation Expense, when using the Company rates and the Commission rates. Depreciation expense was as follows:

Depreciation Expense (Company rates)	$ 549,443
Depreciation Expense (Commission prescribed rates)	547,599

	$ 1,844
	========

AUDIT OPINION:

Recommend Company use Commission prescribed rates as listed in the PSC Order PSC-96-1431-FOF-TL. Also, based upon the above noted difference, an audit adjustment should be made to reduce Depreciation expense by $1,844.

AUDIT DISCLOSURE NO. 3

SUBJECT: INTEREST DURING CONSTRUCTION

STATEMENT OF FACT:

Beginning in June of 1996, Company began charging Interest During Construction (IDC) to Telephone Plant Under Construction (TPUC).

In response to Document Record Request No. 35, Company stated that it "....started 6/30/96 recording interest during construction (IDC) on telephone plant under construction projects with an entry in its general ledger accounts retroactive to 1/1/96."

Company further stated that its authorization was "FCC Docket 93-50 for Allowance for Funds Used During Construction (AFUDC) on construction projects with an effective date of 9/6/95. The docket moves more towards GAAP (FAS-34) in requiring that the interest rate to be used on the telephone plant under construction (interest during construction) should be based on a company's weighted-average cost of debt and that all construction projects would now be eligible for AFUDC as the distinction between short and long-term telephone plant under construction has been eliminated. For Frontier's Telephone Group Companies who follow the FCC rules for both interstate and intrastate reporting, this FCC Docket was adopted during 1966 retroactive to 1/1/96 for all telephone plant under construction projects authorized and/or expenditures to date, per the CWIP sub-ledger, of $25,000 or more. Projects accrue IDC after $5,000 of material or labor has accumulated in the CWIP sub-ledger for the project."

The Company's annual weighted-average cost of debt was 6.1% for 1996 as calculated by Frontier Corporation's regulatory staff. The company's annual weighted-average cost of debt will be recalculated on an annual basis and the IDC calculation program modified accordingly."

On a schedule provided by company, audit staff noted total IDC computed for 1996 equaled $12,882.

AUDIT OPINION:

An audit calculated balance for IDC, charged to Florida TPUC projects, equaled $4,752.

This Information is provided for informational purposes only.

AUDIT DISCLOSURE NO. 4

SUBJECT: VARIANCES IN AVERAGE RATE BASE BALANCES

STATEMENT OF FACT:

Audit computation of several Average Rate Base items differ from those amounts recorded by Company in its 1996 Earnings Surveillance Report (ESR).

Specific differences, in the average balances, were noted:

	Average Balance Per Company ESR	Avg Balance Per Staff	Difference
1) Cable and Wire Facilities (Plant in Service)	5,960,503	5,962,833	< 2,330 >
2) Accumulated Depreciation	4,234,835	4,109,206	125,629
3) Telephone Plant Under Construction (TPUC)	246,697	241,878	4,819
4) Working Capital Allowance	40,789	1,026	39,763

We computed the average balances (for Cable and Wire Facilities and Working Capital Allowance) using the General Ledger (G/L) balance at 12/31/95, adding the monthly activity for each month (January 1996 thru December 1996), and then calculating 12 month-end balances, using a Lotus formula. The resultant 12/31/96 balance was then agreed to the G/L balance at 12/31/96. For the computation of the working capital allowance, Staff used the account numbers that were provided by company in its response to Document Request No. 20-1.

Average balances for Telephone Plant Under Construction (TPUC) were computed using Company prepared schedules entitled "Gross Additions - Frontier of the South - Detail". These schedules listed current month and year to date totals, by work order. The work orders were summarized by Plant Accounts to be used when the work orders are closed.

Average balances for Accumulated Depreciation were computed using the balance for accumulated depreciation per the FPSC Depreciation Study audit at 1/1/96. Monthly depreciation was then calculated, using the Plant Balances at 1/1/96 and Commission prescribed rates from the same audit. Finally, Company adjustments for all account adjustments and for plant retirements were then incorporated into staff schedule.

AUDIT OPINION:

Audit calculated balances should be used until the Company is able to reconcile the differences noted above.

AUDIT DISCLOSURE NO. 5

SUBJECT: CHARGES TO INCORRECT ACCOUNTS:

STATEMENT OF FACT:

The Company was requested to provide certain invoices supporting charges to Advertising, Account 6722. The invoices were reviewed by the auditor.

AUDIT OPINION:

Invoices in the amount of $2,521.44 were charged incorrectly to Account 6722. They were for contributions and membership fees and dues that are properly charged to Account 7370. Of this total, 25% or $630.36 should be removed from the Florida Account 6722 and charged to the Florida Account 7370.

AUDIT DISCLOSURE NO. 6

SUBJECT: REVENUE ADJUSTMENTS

STATEMENT OF FACTS:

In response to Document Request No. 41, Company stated that they did not book amounts related to access revenues during the months of November and December, 1996, due to an oversight. This was comprised of $65,316 for switched access, $4,342 for special access and $19,390 for state access.

In response to Document Request No. 29, the Company stated that they did not book an amount of $7,694 for toll private line revenues and $18,124 of long distance message revenues. The above amounts were included in the 1996 Earnings Surveillance Report (ESR).

The company also made adjustments in its ESR to increase Rent Revenue and Directory Advertising Revenue by $2,900 and $34,054, respectively. The adjustments were based upon thirteen months of revenues.

AUDIT OPINION:

The amounts related to access revenues, rent revenues and directory advertising revenues should have been recorded on the books of the Company rather than an adjustment to the ESR. These amounts should be included in the Annual Report to the Commission so future year comparisons will be valid.

The rent revenues and directory advertising revenues should be for the calendar year and not for thirteen months of revenues (December 1995 thru December 1996), as the Company has calculated. The rent revenue adjustment should be decreased by $68 to $2,832 and the directory advertising revenue should be reduced by $2,358 to $31, 696 to eliminate the December 1995 portion of the adjustment.

AUDIT DISCLOSURE NO. 7

SUBJECT: VARIANCES IN AVERAGE CAPITAL STRUCTURE BALANCES

STATEMENT OF FACT:

Audit computation of the Average Capital Structure and Adjustments to Common Equity differ from those amounts recorded by Company, in its 1996 Earnings Surveillance Report (ESR).

We computed the Average balances using the General Ledger (G/L) balance at 12/31/95, adding the monthly activity for each month (January 1996 thru December 1996), and then calculating 12 month-end balances, using a Lotus formula. The 12/31/96 balance was then agreed to the G/L balance at 12/31/96. Additionally, we compared the G/L account balances to the balances per the Trial Balance (T/B) at 12/31/96. Where differences between the G/L and the T/B were noted, we used the 12/31/96 month-end balance per the T/B in the computation of the Average Balance.

We noted specific differences in the average balances of the following account groupings:

	Average Balance Per Company ESR	Avg Balance Per Staff	Difference
1) Long-Term Debt	9,592,713	9,584,353	< 8,360>
2) Common Equity	17,045,020	15,917,753	<1,127,267>
3) Non-Regulated Investments	1,113,278	1,092,063	< 21,215>
4) A/R Frontier Investments & Interest Receivable	4,264,213	4,164,804	99,409

The list of accounts and the account groupings that were used by staff, in the computation of the average balances, for items (3) and (4) above, were provided by the Company in its response to Document Request No. 15. In a telephone conversation with Company personnel, staff was provided the account groupings for items (1) and (2) above.

AUDITOR OPINION:

A portion of the difference may be due to the fact that we did not have a final General Ledger, as noted in the scope limitation.

The Company should be required to reconcile the differences noted above.

AUDIT DISCLOSURE NO. 8

SUBJECT: NON-REGULATED EXPENSES INCLUDED IN ESR FILING

STATEMENT OF FACTS:

The Company provided a copy of the 1996 Telephone Earnings Surveillance Report (ESR). Using the company provided 1996 General Ledger and Trial Balance at 12/31/96, Staff prepared a Statement of Expenses. Staff compared the two items and in Document Request No. 42, asked the Company to reconcile noted differences.

Company Response to Request No. 42, stated that "Plant Specific expenses per the 1996 ESR included non-regulated Internet expenses (Acct. 9311-092) in error of $23,787." "Plant non-specific expenses per the 12/96 FL PSC surveillance report included non-regulated depreciation expenses (Acct. 9561-099) in error of $25,497."

AUDIT OPINION:

The above amounts of $23,787 and $25,497 should be removed from the expenses as shown on the Company's 1996 ESR.

AUDIT DISCLOSURE NO. 9

SUBJECT: NON-RECURRING COSTS

STATEMENT OF FACT:

In response to Document Request No. 28, Company explained an increase in costs to Account 6623 (Customer Service) as follows:

"Primarily higher charges from the consolidation to Burnsville, MN of the call center of $142,906 offset by lower allocations as described in Account 6533." Account 6533 is Testing. Increased costs for Account 6721 (Accounting/Finance) were attributable to "Severance payment for terminated accounting staff due to consolidation of accounting functions to Rochester, NY on 11/15/97 and higherMBC's[1] from Holding Company due to consolidation for learning curve of new personnel."

In response to Document Request No. 40, Company provided additional information regarding the higher costs. In reference to Account 6623, Company stated that "The consolidation of the Call Center resulted in additional charges of $143,000. As with any new process there is going to be some duplication of functions in the short term. As the process becomes more efficient the cost savings should increase." With reference to Account 6721, Company responded that "The amount of severance charged to Florida was $10,108.55"

AUDIT OPINION:

These appear to be one time non-recurring expenses. As such, the $143,000 related to the Call Center should be amortized over a period of time rather than being charged to the test period. It is recommended that a 5-year period be used at $28,600/year. The current year expense for Account 6623 should therefore be decreased by $114,000.

The $10,185 of severance pay is a non-recurring expense and, in our opinion, too small an amount to amortize. Therefore, we recommend that this entire amount be removed from Account 6721.

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[1] MBC: Mutually Beneficial Cost Allocation Factors

AUDIT DISCLOSURE NO. 10

SUBJECT: AFFILIATED COMPANY CHARGES

STATEMENT OF FACT:

The Company stated that costs of the parent company are allocated from Frontier Telephone to Frontier Communications of the South. This includes items such as executive expense, corporate planning, security and other general office functions. The Company describes these as consolidated shared management functions. These items are allocated on the basis of Company developed factors, MBC's that are based on revenues, capital, common equity and employees. Per Company response to Document Request (DR) No. 5, the amount for 1993, applicable to all affiliates, was $9,998,171 of which $325,641 went to Frontier of the South. For 1996, the amounts were $50,625,913 in total and $564,842 to Frontier of the South.

Amounts allocated to Frontier of the South, are further allocated to Florida, at approximately 25% which is the percent of Florida access lines compared to total access lines.

Per Company response to DR No. 10, the following specific services are billed by affiliates to Frontier of the South:

Frontier Infoservices	Directory Services
Frontier Information Technologies (FIT)	Computer services, bill processing and printing
Frontier Communications of Minnesota	Customer service, service center and other management functions including access planning, capital budgeting and marketing.

AUDIT OPINION:

Total costs allocated from affiliates to Frontier Communications of the South, for the calendar year 1996 were not made available by Company as of the last day of field work.

The audit staff also requested the amounts charged for the services provided by Frontier of the South to other affiliates. This also was not provided as of the last day of field work.

onths Ended : FRONTIER COMMUNICATIONS OF THE SOUTH 31-Dec-96

	ERATING INCOME	(1) Total Company Columns (2 + 3)	(2) Interstate Toll	(3) Total Intrastate Columns (4 + 7)	(4) Intrastate Toll Columns (5 + 6)	(5) Intratoll Inter territory	(6) Intra territory	(7) Local
	BOOKED REVENUE							
1	Basic Local Service Revenue	$751,130	$0	$751,130	$0	$0	$0	$751,130
2	Network Access Revenue	625,387	523,609	101,778	101,778	101,778	0	0
3	Long Distance Revenues	116,723	0	116,723	116,723	0	116,723	0
4	Miscellaneous Revenue	137,019	8,254	128,765	0	0	0	128,765
5	Uncollectible Revenues	(20)	0	(20)	0	0	0	(20)
6	Net Booked Revenue	$1,630,239	$531,863	$1,098,376	$218,501	$101,778	$116,723	$879,875
	OPERATING EXPENSE							
7.	Plant Specific Operations Expense	378,431	119,299	259,132	32,348	21,460	10,888	226,784
8.	Plant Non Specific Operations Exp.	227,362	71,811	155,551	19,366	12,842	6,524	136,185
9.	Depreciation and Amortization	560,357	176,980	383,377	47,730	31,854	16,076	335,647
10.	Customer Operations Expense	375,624	78,322	297,302	128,401	58,502	69,899	168,901
11.	Corporate Operations Expense	330,950	88,895	242,055	65,333	33,081	32,252	176,722
12.	Other Income and Expenses	0	0	0	0	0	0	0
14	Total Operating Expense	$1,872,724	$535,307	$1,337,417	$293,178	$157,539	$135,639	$1,044,239
15.	% Distribution	100.00%	28.58%	71.42%	15.66%	8.41%	7.24%	55.76%
	OPERATING TAXES:							
16.	Federal Income Tax	($167,670)	($28,334)	($141,336)	($36,295)	($25,062)	($11,233)	($105,041)
	State Income Tax	(27,882)	(4,379)	(23,503)	(6,036)	(4,168)	(1,868)	(17,467)
	Other Taxes	129,870	38,104	93,766	24,730	13,156	11,574	69,036
19.	Total Operating Taxes	($65,682)	$5,391	($71,073)	($17,601)	($16,074)	($1,527)	($53,472)
	NET OPERATING INCOME:							
20.	Per Book NOI	($176,803)	($8,835)	($167,968)	($57,076)	($39,687)	($17,389)	($110,892)
21.	NOI Effect of Adjustments (Achieved)			$101,306				
22.	Adjusted Achieved NOI			($66,662)				
23.	NOI Effect of Adjustments (Annual/Pro Forma)			$0				
24.	Annualized/Pro Forma NOI			($66,662)				

RVICE COMMISSION
NINGS SURVEILLANCE REPORT

FRONTIER COMMUNICATIONS OF THE SOUTH

onths Ended : 31-Dec-96

	SE	(1) Total Company Columns (2 + 3)	(2) Interstate Toll	(3) Total Intrastate Columns (4 + 7)	(4) Intrastate Toll Columns (5 + 6)	(5) Intratoll Inter territory	(6) Intra territory	(7) Local
	AVERAGE RATE BASE							
1.	General Support	$173,822	$54,899	$118,923	$14,806	$9,819	$4,987	$104,117
2.	Central Office	2,261,923	748,050	1,513,873	125,186	78,042	47,144	1,388,687
3.	Information Orig./Term.	24,378	6,095	18,283	1,440	901	539	16,843
4.	Cable and Wire Facilities	5,960,503	1,850,124	4,110,379	578,645	387,496	189,149	3,533,734
5.	Amortizable Assets	0	0	0	0	0	0	0
6.	Plant In Service	$8,420,626	$2,659,168	$5,761,458	$718,077	$476,258	$241,819	$5,043,381
7.	Accumulated Depreciation and Amortization	4,234,835	1,340,148	2,894,687	378,115	250,587	127,528	2,516,577
8.	Net Plant In Service	$4,185,791	$1,319,020	$2,866,771	$339,962	$225,671	$114,291	$2,526,809
9.	Property Held for Future Use	0	0	0	0	0	0	0
10.	TPUC (No IDC)	246,697	0	246,697	0	0	0	246,697
11.	Acquisition Adjustments	0	0	0	0	0	0	0
12.	Working Capital Allowance	40,789	12,853	27,936	3,313	2,199	1,114	24,623
13.	Per Book Average Rate Base	$4,473,277	$1,331,873	$3,141,404	$343,275	$227,870	$115,405	$2,798,129
14.	% Distribution	100.00%	29.77%	70.23%	7.67%	5.09%	2.58%	62.55%
	ADJUSTMENTS TO AVERAGE RATE BASE							
15.	Adjustments for Achieved Rate Base			315,895				
	djusted Achieved Rate Base			$3,457,299				
	-ADJUSTED ANNUALIZED/PRO FORMA YEAR END RATE BASE							
17.	Year End Rate Base per Books			$3,629,528				
18.	Adjustments for Year End Rate Base			0				
19.	Adjusted Year End Rate Base			$3,629,528				
	RATES OF RETURN							
20.	Average Per Book	3.95%	0.86%	5.35%	16.63%	17.42%	15.07%	3.96%
21.	Average Adjusted Achieved			1.93%				
22.	Adjusted Year End			1.84%				

Company: FRONTIER COMMUNICATIONS OF THE SOUTH
12 Months Ended: 31 Dec 96

AVERAGE CAPITAL		(1) Average Per Books	(2) Specific Adjustments	(3) Pro Rata Adjustments	(4) Adjusted Amount	(5) % of Total	(6) COST RATE Floor	(7) Midpoint	(8) Ceiling	(9) WEIGHTED COST RATE Floor	(10) Midpoint	(11) Ceiling
1	Long Term Debt	$9,592,713	($1,535,618)	($6,508,851)	$1,548,244	44.78%	6.61%	6.61%	6.61%	2.96%	2.96%	2.96%
2	Short Term Debt	0	0	$0	$0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
3	Preferred Stock	0	0	$0	$0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
4	Customer Deposits	150,221	0	($121,355)	$28,866	0.83%	6.00%	6.00%	6.00%	0.05%	0.05%	0.05%
5	Common Equity	17,045,020	(9,764,151)	(5,881,784)	$1,399,085	40.47%	11.00%	12.00%	13.00%	4.45%	4.86%	5.26%
6	Investment Tax Credits (Cost Free)	150,211	0	($121,346)	$28,865	0.83%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
7	Cost Free Capital (Deferred Taxes)	2,353,465	0	($1,901,225)	$452,240	13.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
8	Total Capital	$29,291,630	($11,299,769)	($14,534,561)	$3,457,300	100.00%				7.46%	7.86%	8.27%

INTERNAL FUNDS

9	% internal funds to construction expenditures after dividends (Total Company)	N/A
10	Times interest earned (NI + Interest + Income Tax)/Interest (Total Company)	N/A
11	Long Term Debt / Capital (Intrastate)	N/A
12	Short Term Debt / Capital (Intrastate)	N/A
13	Average adjusted achieved return on equity (Intrastate)	12.20%
14	Adjusted year end return on equity (Intrastate)	11.97%

I am aware that Section 837.06, Florida Statutes, provides:

Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree punishable as provided in s. 775.082, s. 775.083, or s. 775.084.

(Name and Title of Chief Financial Officer)

Michael J. Emma 2/26/97
(Signature)
Asst. Treasurer

(Date)

State of Florida

Commissioners:
SUSAN F. CLARK, CHAIRMAN
J. TERRY DEASON
JULIA L. JOHNSON
DIANE K. KIESLING
JOE GARCIA

DIVISION OF RECORDS &
REPORTING
BLANCA S. BAYO
DIRECTOR
(904) 413-6770

Public Service Commission

March 20, 1997

Ms. Laurie Maffett
Frontier Communications of the South, Inc.
180 South Clinton Avenue
Rochester, New York 14646-0400

RE: Docket No. 960776-TL -- Frontier Communications of the South, Inc.
Rate Re-balancing Audit Report
Audit Control # 96-351-1-1 (Tampa)

Dear Ms. Maffett:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

Kay Flynn

Kay Flynn, Chief
Bureau of Records

KF/cls
Enclosure
cc: Public Counsel
Young Law Firm