

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

Staff's Motion for Authority to File	)	
a Complaint Against New Florence	)	Case No. TO-2006-0143
Telephone Company.	)	

**RESPONSE OF NEW FLORENCE TELEPHONE COMPANY  
TO STAFF'S MOTION FOR AUTHORITY TO FILE A COMPLAINT**

Comes now New Florence Telephone Company ("New Florence") and for its Response to Staff's Motion for Authority to File a Complaint Against New Florence Telephone Company states to the Missouri Public Service Commission ("Commission") as follows:

1. On September 30, 2005, the Staff filed a Motion for Authority to File a Complaint Against New Florence Telephone Company in which it sought authority to file a complaint based on its investigation of New Florence and allegations of improper activities by its management. Staff indicates that it intends to seek penalties against New Florence for violations of both statute and Commission rule.

2. Staff states that its investigation has produced information that supports a complaint against New Florence for violation of Commission rule 4 CSR 240-30.040 which requires New Florence to keep its accounts in accordance with the uniform system of accounts prescribed by the Federal Communications Commission ("FCC"). Staff cites the requirement that all services from affiliates are to be provided at cost, unless a market value for the services can be determined. Specifically, Staff alleges that New Florence is in violation of this provision due to additions to the support costs charged to New Florence by Local Exchange Company, LLC, ("LEC"), management support services from other affiliated companies and charges for a switch invoiced to New Florence by affiliates controlled by its management.

3. To the extent any past payments to LEC may have been in excess of actual costs, they were identified by New Florence's auditors nearly nine months ago, reported to the National Exchange Carrier Association ("NECA") and the Universal Service Administrative Company ("USAC") as well as this Commission, and appropriate adjustments are being made. On June 22, 2005, New Florence provided Re-issued Financial Statements with Independent Auditors' Report for the years 2003 and 2004 for both New Florence and its parent company, Tiger Telephone, Inc. Note 10 to the Independent Auditors' Report for New Florence fully disclosed the alleged error in reporting operating expenses. As of August 12, 2004, the management of New Florence was changed, and as of January 1, 2005, all support services were moved so that services are no longer provided by LEC. New Florence has taken appropriate action to remove Ken Matzdorff from any management, financial or other involvement in the operations of the Company. Mr. Matzdorff resigned from the board and was removed from all financial and management involvement on August 12, 2004, more than one full year ago.<sup>1</sup> All functions previously provided by LEC (such as accounting, regulatory, administration, billing & collection) have been moved to a non-affiliated, third party. As soon as the problems involving support costs were identified, New Florence promptly took all the necessary steps to rectify these problems. A complaint and penalty action by the Staff at this time will serve no purpose other than to harm the company's ratepayers and cause a decline in those customers' quality of service.

4. Staff further states that New Florence is subject to a complaint action because of charges for a switch that was invoiced to New Florence by affiliates controlled by Robert

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<sup>1</sup> After January of 2005, Mr. Matzdorff no longer had any ownership interest in Tiger Telephone, Inc.

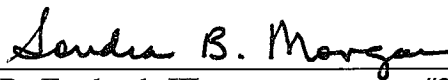
Williams and Kenneth Matzdorff. To the extent any payments for this switch were in excess of actual costs, they were identified by New Florence's external auditors nearly nine months ago, reported to NECA and USAC, and appropriate adjustments are being made. Note 9 to the Re-issued Financial Statements for 2003 and 2004 provided to the Staff on June 22, 2005, explain the steps taken by the company to rectify this misunderstanding. Staff stated in its Report that, "New Florence Telephone Company's customers have not been directly impacted in rates by the improper activities detailed in this report." (Report at p. 49) Yet, Staff now seeks authorization to file a complaint against New Florence and to seek penalties based on actions of prior management that have been corrected. Staff's request to file a complaint and seek penalties now after all of these steps have been taken will serve no purpose other than to harm the Company's ratepayers by causing a decline in those customers' quality of service.

5. Staff also seeks authorization to file a complaint based on charges for "management support services" from affiliates LEC, South Holt Communications, Inc. ("South Holt") and Matzco, LLC ("Matzco"). The payments to South Holt and Matzco were for management services provided by Robert Williams and Kenneth Matzdorff. Both these principals had extensive experience in the management and operation of telecommunications companies in Missouri, and the payments to these entities on their behalf were neither fraudulent nor excessive when compared with fees paid for management by similar companies. These payments were in the nature of a salary which is always a fixed amount per month, and it is not unusual for small companies such as New Florence to not have formal contracts with its managers or executives. Mr. Matzdorff provided the executive management services while Mr. Williams supervised the operations of the company. LEC provided the business and office management services. When

Mr. Matzdorff resigned from the board of New Florence and was no longer involved with the company, the payments to Matzco ceased. The only difference in this case, was that rather than be paid directly by the company, Mr. Williams and Mr. Matzdorff elected to have the fees owed to them paid to entities set up to facilitate receipt of fees from different companies they owned or managed (i.e., common paymaster). There is nothing fraudulent or improper regarding this arrangement, and a review of comparable companies would have shown that the fees paid were not excessive. To the extent that Staff may believe that the compensation is excessive, that is an issue for a rate case/earnings investigation, but it is not reason to bring a complaint against the company.

Wherefore, New Florence respectfully requests that the Commission deny Staff's Motion for Authority to File a Complaint and for any other relief appropriate in the circumstances.

Respectfully submitted,



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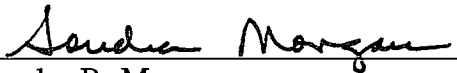
Attorneys for New Florence Telephone Company

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document was sent electronically, by U.S. Mail, postage prepaid, or hand-delivered on this 11th day of October, 2005, to the following parties:

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