

**STAFF TESTIMONY BEFORE THE PENNSYLVANIA
MILK MARKETING BOARD
COST REPLACEMENT HEARING (QUARTER-TO-QUARTER UPDATES)
MILK MARKETING AREA 3
March 5, 2014**

Good morning. My name is Gary Gojsovich. I am employed by the Pennsylvania Milk Marketing Board as a Field Supervisor. This morning I will be discussing Staff Exhibits 7-A, 10-A, 11-A, and 12-A. We are using the same cross-section of dealers in this testimony and these exhibits that we used in our previous testimony and exhibits for the first part of this hearing.

Staff Exhibit 7-A

In Staff Exhibit 7-A, we are obtaining the most current costs available for three significant cost categories; labor, utilities, and insurance costs. To bring these costs forward, we are comparing the costs and related plant volume in the fourth quarter of 2012, with the costs and plant volume in the fourth quarter of 2013. We believe that bottling points are a good measure of the plants' overall volume or activity. In columns, A and B, we list the fourth quarter costs for 2013 and 2012 for each of the cost categories. In the next two columns, we list the bottling points for 2013 and 2012 for the fourth quarter. By dividing the costs by the points in columns E and F, we can compare the cost increase or decrease per point in column G.

Staff recommends replacing the quarter-to-quarter cost in the current Order with the bottom line cost in Staff Exhibit 7-A.

Staff Exhibit 10-A

Staff Exhibit 10-A summarizes the information from all previous Exhibits and relies on data from the base Order regarding Class I milk to arrive at a proposed wholesale price. In this Exhibit, we also compare the proposed wholesale price with the current wholesale price so the Board can see the effect of the changes in costs on the wholesale price of milk.

Column A provides the milk cost from Staff Surrebuttal Exhibit 6. Staff Surrebuttal Exhibit 6 provides a milk cost in terms of a cost per pound. We must multiply the milk cost per pound by the number of pounds per container. For example, there are 2.15 pounds of milk in every quart of standard milk. By multiplying the cost per pound for standard milk on Staff Exhibit Surrebuttal 6 by 2.15, you have the quart price for standard milk found in Column A of this exhibit.

Column B lists the container costs from Staff Surrebuttal Exhibit 3.

Column C combines the quarter-to-quarter adjustment from Staff Exhibit 7-A with the diesel and heating fuel adjustments from Staff Surrebuttal Exhibits 8 and 9. It also includes an adjustment per O.G.O. A-972 for the 'Discount Effect'.

Column D is the container efficiency adjustment from the price order. This adjustment accounts for the relative efficiency of filling large containers as opposed to filling and handling smaller containers. You can put milk in a gallon container more quickly and handle gallon containers more efficiently than you can 16 half pints.

Column E lists the processing costs from Staff Exhibit 2.

Column F is the sum of columns A through E.

Column G is profit. This percentage profit reflects the profit in the current Order.

Column H is the average price with profit. If all wholesale customers in the Milk Marketing Area received exactly the same amount of milk and the same level of service for every delivery, we could stop here.

Column I removes the average delivery. By removing the average delivery, we arrive at a cost for processing the milk and bringing it to the dock. All milk regardless of its ultimate destination will have the same cost at this point.

Column J adds back the cost of a relatively small high-cost delivery. By adding back the high-cost delivery, we have a price from which we may subtract discounts. In this way, we can match the cost of the delivery with price. For a large efficient delivery to a supermarket, we can subtract a large discount reflecting a low into store price. For smaller less efficient deliveries, we subtract a smaller discount reflecting the higher cost of the smaller delivery.

Column K is the sum of Columns H, I and J and is our proposed wholesale price.

Column L is the wholesale price under the current cost replacement order.

Column M is the difference between the proposed wholesale price and the current wholesale price.

Staff Exhibit 11-A

Staff Exhibit 11-A provides a methodology for arriving at the retail or out-of-store price for milk.

Column A is the proposed wholesale price from Staff Exhibit 10-A.

Column B is the deepest discount from the current general price order.

Column C is the average in-store handling cost from the current general order. This in-store handling cost has been updated monthly by the Consumer Price Index. Staff recommends that the Board continue to employ this form of cost update for the retail price.

Column D reflects the retail profit in the current Order.

Column E is the sum of columns A through D and is the proposed retail or out-of-store price.

Column F is the most recently announced retail price.

Column G is the difference between the proposed retail price and the current retail price.

Staff Exhibit 12-A

In the first part of this hearing, we presented the second quarter information. In this part of the hearing, we have presented the fourth quarter information. Exhibit 12-A is a comparison of the second quarter to the fourth quarter. The differences can generally be attributed to changes in business such as a loss or gain of customers and volume shifting from plant to plant.