

REVISED REBUTTAL TESTIMONY OF

RON MONG, CPA

Appearing on Behalf of the Area 6 Milk Dealers

Rebuttal Testimony before Pennsylvania Milk Marketing Board

Cost Replacement Hearing Based on 2017 Annual Reports

March 11, 2019

Revised Rebuttal Testimony of Ron Mong, CPA

Area 6 – Cost Replacement Hearing

I am Ronald W. Mong, Senior Manager at Herbein + Company, Inc. and my address is 2763 Century Blvd., Reading, PA 19610. I wish to present Revised Rebuttal Testimony on behalf of the Area 6 Milk Dealers. I attach my Curriculum Vitae, as Rebuttal Exhibit D1, which outlines my education, and experience in the dairy industry.

Study Conducted

On behalf of the Area 6 Milk Dealers, I have reviewed the audit files and proposed adjustments prepared by the Pennsylvania Milk Marketing Board audit staff, have conducted fieldwork at each of the dealers in the cross-section and have prepared exhibits which present my findings.

Cost Replacement Process

This hearing will accomplish the annual cost replacement process in which the Pennsylvania Milk Marketing Board substitutes new cost information for the prior information, which is then utilized in developing its wholesale and resale prices. This hearing will include a container cost update utilizing March 2018 cost information as the new starting point for container updating. These March 2018 container costs are updated monthly based upon cost information submitted by the cross-section dealers and reviewed by Board staff. This hearing will also include ingredient cost updating utilizing March 2018 cost information. Ingredient costs are updated on a quarterly basis for flavored milk, flavored reduced fat milk and flavored non-fat milk. These updates occur on January 1st, April 1st, July 1st, and October 1st of each year. All exhibits are prepared utilizing a weighted average based on the controlled sales in the area. All exhibits have been adjusted for inter-plant transfers. An inter-plant transfer is a transaction where a product is manufactured in one plant and transferred to an affiliate plant that then sells the product to the ultimate consumer. These exhibits have been prepared reflecting the sales to the ultimate consumer in the applicable area. This weighting and averaging method has been consistently applied from year to year.

Cross-Section

The Area 6 cross-section of dealers utilized includes Dean Dairy Products Company, LLC (Sharpsville, PA), Galliker Dairy Co. (Johnstown, PA), Ritchey's Dairy, Inc., Tuscan/Lehigh-Schuylkill Haven, Turner Dairy

Farms Inc., and Valley Farms Dairy, LLC. Turner and Schuylkill Haven have been added to the cross-section and Meadow Brook Dairy Co., Erie, PA, which has stopped processing fluid milk has been excluded from the cross-section. The cross section companies process, package and deliver most of the controlled milk products in Area 6. This group of companies includes organizations that deliver to supermarkets, convenience stores, schools, institutions, and small retail outlets. In my opinion this cross-section of dealers is representative of the dealers selling controlled milk products in Area 6.

Rebuttal Exhibits

Rebuttal Exhibit D2 reflects the processing, packaging, and delivery cost per point for calendar year 2017. Please note that the points presented are for sales in the PMMB Area 6 made by the cross-section dealers. These costs should replace the existing costs from 2016, which are currently being utilized by the Board in establishing prices. These costs are calculated in accordance with PMMB rules and regulations and have been consistently applied from the previous year. Our calculation of the processing, packaging, and delivery costs agrees with the amount presented by Board Staff on Staff Exhibit 2.

Rebuttal Exhibit D2-A is prepared to reflect the effect of the cost replacement process by comparing the 2016 processing, packaging, and delivery costs in the current order with the 2017 processing, packaging, and delivery costs. Additionally, this exhibit reflects the 2018 cost increase adjustment from Exhibit D7 and removes the 2017 cost increase adjustment. Including the cost update adjustments, the increase in the cross-section dealer costs from the prior cost replacement hearing is \$0.0380 per quart equivalent (point), or \$0.1520 per gallon.

Exhibit D2 shows the number of points (quart equivalents) that are associated with each cost center. For example, the bottling department points for 2017 are 87,159,648 for the cross-section dealers. For 2016 the bottling cost center points were 83,979,283, an increase of about 3 million points, or 4%. About 6,000,000 points of the increase was caused by the removal of Meadow Brook and the addition of Turner and Schuylkill Haven to the cross-section. This was offset by a points decrease of about 3,000,000 due to less volume being packaged at the cross-section plants. Two of the Area 6 cross-section dealers had a decrease in the quantity of products processed, packaged and delivered in 2017 compared to 2016.

Rebuttal Exhibit D3 and D3-A have been updated to container costs utilized in the February 2019 resale price development. The container shrinkage factor reflected on this exhibit is a statewide average and will be

utilized for all areas. This study was conducted for the period January to March 2009 and it is my opinion that it is reasonable to continue using this study's container shrinkage statistics for these Cost Replacement Hearings. There are no controlled milk products sold in Area 6 in paper half gallons, 12-ounce containers, 10-ounce containers, or plastic half pints. The container sizes indicated with footnote (5) should continue to be updated monthly when minimum prices are announced using March 2018 as the new starting point.

Our container cost calculations agree with those calculated by Board Staff and presented in their Staff Exhibit 3.

Rebuttal Exhibit D4 is prepared to present the ingredient costs per pound of finished product as of March 2018 for inclusion in the product formulas used in the monthly price announcements. Rebuttal Exhibit D4-A reflects the ingredient costs presented on Rebuttal D4 and shows the increase or decrease from the ingredient costs used in calculating the February 2019 minimum prices.

The ingredient costs are shown on D4 in cents per pound of finished product. The PMMB minimum price calculations multiply these ingredient costs per pound times the milk weight of each container size. For example, a quart of flavored milk weighs 2.0 pounds. The PMMB price formulas would calculate the ingredient costs of a quart of flavored milk by multiplying the quart weight of 2.0 times the ingredient cost of \$0.0387, which is \$0.0774 per quart.

Our ingredient cost calculations agree with those calculated by Board Staff and presented in their Staff Exhibit 4.

Rebuttal Exhibit D5 updates the cost of milk shrinkage and the costs and revenues from bulk cream and bulk milk transactions. Milk shrinkage in a dairy plant is the cost of milk that is purchased from dairy farmers or dairy cooperatives but not accounted for in any finished products. The cross-section dairy plants have two types of bulk milk transactions. The first type of transaction is when raw milk not needed by the plant goes directly from the farm to another dairy plant. The plant buying the unneeded milk typically manufactures cheese or nonfat dry milk. This transaction is called a diversion. The second type of transaction is when milk is received, standardized, and pasteurized, and then shipped to a food manufacturing plant. The purchasing plant could make candy, baked goods, puddings, soups, or many other varieties of food products. These transactions are called transfers. In Exhibit D5 both types of transactions are combined on the bulk milk row. Bulk cream sales occur at

fluid milk plants because the butterfat test of the incoming raw milk is about 3.8% butterfat, and the average butterfat test of the packaged products sold is closer to 2.0% butterfat.

The PMMB monthly price calculations correctly account for the costs of milk shrinkage and the costs and revenues for the sales of bulk cream and bulk milk.

The current order establishes a net cost of \$0.0074 per pound and the new net cost, based on 2017 transactions is \$0.0062 per pound. There has been a new net change of \$0.0012 per pound.

Our calculation of milk shrinkage costs and the costs and revenues of bulk milk and bulk cream transactions agree with those calculated by Board Staff and presented in their Staff Exhibit 5.

Rebuttal Exhibit D6 reflects a comparison of the current order butterfat tests by product type and compares those tests with the 2017 actual butterfat tests. This exhibit also reflects the increase or decrease in butterfat content. Because the butterfat component of milk has a higher cost than the skim component, a decrease in butterfat content will result in a decrease in the cost of milk in the wholesale and resale prices. An increase in butterfat content will increase the cost of milk in finished products. I recommend that the Board replace the current butterfat by product with the 2016 tests reflected on this exhibit.

Our calculations of butterfat content by product type agree exactly with those calculated by Board Staff and presented in their Staff Exhibit 6.

Rebuttal Exhibit D7 is prepared to calculate the cost increases and decreases incurred during the six (6) month period ending June 30, 2018 with the six (6) month period ending June 30, 2017 for three important expense categories in a dairy plant. These three expenses are: labor and fringe benefits, utilities, and insurance. This adjustment allows for an updating of significant costs, which can change significantly from year to year. This year the cost increase (decrease) analysis was calculated with utilizing the first six (6) months of 2018 and comparing that with the first six (6) months for 2017. We calculated the weighted points for the first six (6) months of 2018 are 7.8% less than the weighted points for the first six (6) months of 2017. The three expense categories used in this calculation increased 1.0% during that same period.

Our calculation of the cost increases for labor, insurance and utility expenses agree exactly with those calculated by Board Staff and presented in their Staff Exhibit 7.

Rebuttal Exhibit D8 has been updated to reflect the December 2018 diesel fuel costs, which were used in calculating the minimum prices for February 2019. Additionally, this exhibit reflects the calculation of the average diesel fuel cost for calendar year 2017, which becomes the new starting point for the monthly adjustments. I recommend that this adjustment be continued monthly. The average diesel fuel cost for 2017 for the cross-section dealers is \$0.0165 per point. This is significantly more than the amount we saw in the Area 5 cost replacement hearing. The lower diesel fuel costs in Area 5 compared to Area 6 are due to the shorter distances needed to deliver milk and the somewhat flatter terrain in Western Pennsylvania compared to Central Pennsylvania.

Rebuttal Exhibit D9 has been updated to reflect October 2018 natural gas costs and reflects OGO A-937 effective June 1, 2006 concerning heating fuel costs. Additionally, this exhibit reflects the calculation of the average heating fuel cost for calendar year 2017, which becomes the new starting point for the monthly adjustments. I recommend that this adjustment be continued monthly.

Our calculation of the cost increases for the diesel fuel adjustment and the heating fuels adjustment agree with those calculated by Board Staff and presented in their Staff Exhibits 8 & 9.

Rebuttal Exhibit D10-A and D10-B are prepared to reflect the wholesale minimum price for a gallon of reduced fat milk and a half pint of flavored non-fat milk for February 2019. These exhibits also cross-reference the exhibits that support the individual line items.

Container Efficiency Adjustment

An important part of the calculation of PMMB's minimum resale prices is the container efficiency adjustment. These adjustments are in place to allocate the fluid milk processors' costs appropriately to the various sizes of containers sold. The impact of the container efficiency adjustment is to deduct costs from the two larger packages, gallons and half gallons, and to add costs to the smaller containers. Our calculation of updated container efficiency adjustments is shown at Exhibit D11.

The container efficiency adjustment was implemented to be revenue neutral, meaning the container efficiency adjustment did not add costs and did not generate new revenue. The adjustments as originally calculated added a dollar of costs to the smaller containers for every dollar deducted from the larger containers. When correctly calculated the container efficiency adjustments will not be a revenue-generation tool, but instead

will serve as a cost allocation tool. The plusses should equal the minuses so that the total of plusses and minuses foots to zero.

The container efficiency adjustments currently used in the monthly PMMB price calculations have not been updated for more than ten years. During those years there have been significant changes in four important areas:

- 1) The number of containers of each size sold in the Area 6 has changed. We have observed changes in both the mix of container sizes sold and the total volume of milk packaged at cross-section dealers. In 2007 the cross-section dealers sold about 9 million gallon containers. Gallons represented about 61% of the volume of milk sold. In 2017 only about 8 million gallon containers. In 2017 gallon container sales were only 53% of milk sold in Area 6. Half pint sales in 2007 were about 36 million units, or 15% of Area 6 milk sales. In 2017 Area 6 cross-section dealers sold about 30 million half pints. Half pint sales in 2017 accounted for 13% of the Area 6 sales volume. Half gallon sales in Area 6 went from about 3 million in 2007 to 8 million in 2017. Without reflecting these changes, the current container efficiency adjustments are inaccurate,
- 2) The current container efficiency adjustments are based on an estimate to determine the quantity of each container, which does not do a good job of approximating actual sales. In this hearing our Exhibits and Staff Exhibits are based on actual container sales in Area 6. Ten years ago, the container quantities sold were estimated based on each cross-section dealer's weighted average sales in Area 6. The weighted average method tended to significantly understate the quantities of some container sizes and overstate other sizes. To ensure the most accurate allocation of costs, it is necessary to utilize the actual sales figures.
- 3) The speeds of the machines filling containers at some of the cross-section dealers has changed. As a result, the amount of time it takes at each plant to package the products has changed. The amount of time it takes to package each container size is the key factor in allocating the bottling cost center costs.
- 4) The cost center costs of the processors filling those containers have changed. In 2007 the Area 6 cross-section dealers packaged 89 million points at an average cost of \$0.046 per point. In 2017

the cross-section packaged 87 million points at an average cost of \$0.060 per point. The average bottling costs increased by 30% and each dealer in the cross section has had significant changes in their bottling cost center costs. As each plant's bottling costs changed, the allocation between large containers and small containers changed as well.

The current container efficiency adjustment currently used has two components:

- 1) Bottling costs allocation – based on filling speeds at each processing plant
- 2) Cold room and delivery costs allocation – based on number of units packed in a plastic milk case.

Our proposed container adjustment has these same two components but incorporates additional adjustments as I will explain.

Our Container Efficiency Study

Our study of the current container efficiency adjustments revealed that the current method does not correctly allocate costs across the various container sizes. In some PMMB Areas this caused overall minimum prices to be too high, and in other areas the minimum prices were too low. The current container efficiency adjustments stopped being revenue neutral because cross-section sales quantities changed and because costs center costs changed. There were also shifts of volume between processors with different cost structures and filling machine speeds.

Every cross section dealer was visited by either me or another accountant from the Herbein dairy group at my direction. At each plant we observed the actual speed at which each container size was packaged. For example, at Plant "A" the half pint machine was operating at 340 units per minute. We also observed the number of employees operating each filling line. Some packaging lines filling plastic containers require two employees, other fillers only need one employee. We observed and recorded how many units each plant put in a plastic milk case. For example, a standard milk case holds four gallons, nine half gallons, and sixteen quarts. The container efficiency adjustment allocates the cold room and delivery costs by the milk case rather than the individual units. The number of units per case was needed to correctly compute the number of milk cases used for each container size.

We worked with PMMB Staff to obtain actual sales of cross section dealers by Area. It was critically important to have actual container sales by Area to accurately compute updated container efficiency adjustments.

The old method for allocating containers sales by area used a percentage method - for example, if a Plant "B" sold 50% of its controlled products in Area 6 and 50% in Area 6, and sold a total of 10 million half pints in a year, the old method determined that 5 million half pints were sold in Area 6 and 5 million half pints were sold in Area 6. When actual sales quantities were reported we could find out that in fact, 7 million half pints were sold in Area 6 and only 3 million in Area 6.

The current container efficiency adjustments were inaccurate because they were based on outdated container sales quantities, calculated by an incorrect method, and ten-year old costs.

Bottling Cost Center

The bottling cost center costs shown on Exhibit D2 are \$0.0607 per point. This is an average of all sizes packaged at all the cross-section plants. Our calculation starts with this average cost. The goal of the calculation, which we achieved, is to adjust the average bottling cost center costs for the individual container sizes so that in total the average cost per point remained \$0.0607. Our next step in the updated container efficiency adjustment divided the bottling cost center costs into two categories: labor and fringe benefits and all other costs.

We calculated the number of minutes that each plant used to package the quantity of containers sold in Area 6 by that plant. We calculated the minutes two ways: once with the number of filler operators included, and once with just the machine speeds without regard to the number of operators. We used the number of minutes with the number of filler operators included to allocate that plant's bottling labor and fringe benefits. We used the number of minutes with just the machine speeds to allocate all the non-labor costs: repairs and maintenance, depreciation, supplies, utilities, equipment rental, etc. For each plant we made certain that we only allocated the actual costs for that plant. We made certain that the minuses from the large containers equaled the add-ons to the small containers to ensure revenue neutrality.

The concept of using the number of filler operators for the labor cost allocation was not used ten years ago when the current container efficiency adjustments were calculated. Some of the half gallon, quart, and pint containers sold in Area 6 back then were in paper containers. Those paper carton filling machines only had one operator. Today most of the half gallons, quarts, and pints sold are in plastic containers. Many of those packaging machines require two operators. The number of operators is now an important factor in allocating labor costs in the bottling department accurately.

For the non-labor costs, it is correct to allocate using only the machine filling speeds without considering the number of operators. The number of operators working on a filling line directly changes labor costs, but not the other costs like repairs and maintenance, supplies, utilities, and other non-payroll costs.

Cold Room and Delivery Cost Centers

The cold room cost center costs shown on Exhibit D2 are \$0.0370 per point and delivery cost center costs per point are \$0.1619 per point. An allocation of the costs in these in two cost centers is needed because dairy container packages are not sold individually but in plastic milk cases. The dairy employees handle these cases and not the individual units. Each plastic case holds a different number of points for each container size.

We calculated the number of milk cases each plant used to handle the containers it sold in 2017. We allocated the total cold room and delivery costs to each size based on the number of milk cases used for that size. As we did in the bottling cost center allocation, we made certain we only allocated the actual costs at that plant. No additional costs were added or deducted. The cold room and delivery costs pluses and minuses were equal. The adjustments were revenue neutral.

Exhibit D11

Exhibit D11 shows the results of our container efficiency update calculations. The actual quantity of each size container is shown in the first column. These quantities are multiplied by our calculated container efficiency adjustments to determine the impact on cross-section dealer revenue. For example, the updated adjustments would allocate \$865,083 out of the gallon package and add \$620,654 to the paper half pint. The net effect of the plusses and minuses is a loss to the dealers of \$1,468. This isn't zero because we are only calculating the container efficiency adjustments to four decimal places, but in the world of accounting this kind of small difference due to rounding is reasonable.

The columns on the right of D11 show the container efficiency adjustments in the current order. The current adjustments are multiplied by the 2017 actual container sales. The result is that based on 2017 sales wholesale prices in Area 6 were too low by \$306,009. This means actual costs are incorrectly allocated. More costs are being deducted from the large containers than is being added to the small containers. The current

container efficiency adjustments aren't revenue neutral. As we go through the other PMMB areas we will see that some are out-of-balance in each direction.

Based on our collaborative efforts, I anticipate that our calculation of the proposed, updated container efficiency adjustments will be the same as those that have been calculated by Board Staff and presented in their Staff Surrebuttal Exhibit.

I recommend that the container efficiency adjustments be updated in this cost replacement hearing. In addition, I recommend that adjusting these important factors becomes part of every year's cost replacement hearing so that revenue neutrality can be maintained from year-to-year.

Class II Controlled Products

The annual cost replacement process could include an updating of Class II product costs. Class II controlled products include half & half, light cream, sour cream, and heavy cream. We are not presenting any recommendation to change the method used for Class II pricing. We ask that the Board continue with the existing methodology. The Area 6 milk dealers have considered and will continue to review other approaches but do not see a need for modifying the status quo.

Rate of Return

I recommend that the Board maintain the rate of return for the Area 6 dealers at least 3.4%. Milk dealers in Area 6 and across the Commonwealth are facing a serious battle for profitability as fluid milk demand continues to decline year-over-year.

I reviewed the Statements of Operations for the year ended 12/31/2017 for the six cross-section dealers. These are submitted by the dealers on Exhibit B of the PMMB-60 Milk Dealer's Financial Statement. The 2017 weighted average rate of return for the Area 6 cross-section dealers was -0.1%. The Board may be wondering how the rate of return can be that low if the statutory rate of return is set at 3.5%. There are many reasons, including the fact that cost replacement lags the period when the operating costs were incurred. Given this dismal profit and loss situation, it is essential that the Board continue the rate of return of at least 3.4%.

Summary and Recommendation

The Area 6 Milk Dealers recommend that the Milk Marketing Board make the cost replacement adjustments, which are reflected in my testimony and exhibits. Thank you for your consideration of my analysis and opinions.

AREA 6

COST REPLACEMENT HEARING DEALER REVISED REBUTTAL EXHIBITS

MARCH 11, 2019

PMMB AREA 6

MARCH 11, 2019 COST REPLACEMENT HEARING

INDEX OF REVISED REBUTTAL EXHIBITS

**Dean Dairy Products Company, LLC (Sharpsville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC**

Revised Rebuttal Exhibit D1	Ronald W. Mong, CPA Curriculum Vitae
Revised Rebuttal Exhibit D2	Processing, Packaging and Delivery Costs/Point
Revised Rebuttal Exhibit D2-A	Cost Replacement Adjustments for Processing, Packaging and Delivery Costs
Revised Rebuttal Exhibit D3	Summary of Current Container Costs with Adjustments for Shrinkage and Loss and Update to Current Month
Revised Rebuttal Exhibit D3-A	Adjusted Container Costs Compared to Current Month Container Costs
Revised Rebuttal Exhibit D4	Summary of Current Ingredient Costs
Revised Rebuttal Exhibit D4-A	Cost Replacement Adjustments for Ingredients
Revised Rebuttal Exhibit D5	Weighted Cost of Shrinkage and Weighted Costs and Revenues from Bulk Cream and Bulk Milk
Revised Rebuttal Exhibit D6	Butterfat Content of Price Controlled Products
Revised Rebuttal Exhibit D7	Cost Increases (Decreases) for Labor, Insurance and Utility Costs
Revised Rebuttal Exhibit D8	Changes in Diesel Fuel Costs
Revised Rebuttal Exhibit D9	Changes in Heating Fuel Costs (Natural Gas)
Revised Rebuttal Exhibit D10-A	Calculation of Minimum Wholesale Price Gallon Reduced Fat Milk (2%)
Revised Rebuttal Exhibit D10-B	Calculation of Minimum Wholesale Price Half Pint Flavored Nonfat Milk (Skim)
Revised Rebuttal Exhibit D11	Adjustments for Container Efficiencies Due to Container Size

Ronald W. Mong, CPA
Curriculum Vitae

EDUCATION

Pennsylvania State University – B.S. Degree in Accounting, High Distinction (1977)

EMPLOYMENT

Herbein + Company, Inc., Reading, PA

2003 to present

Senior Manager – Dairy Consulting

- Cost benchmarking
- Milk shrinkage reduction projects
- Dairy accounting seminars
- Regulatory issues – PA Milk Marketing Board, Federal Milk Marketing Orders, other state regulatory agencies
- Mergers and acquisitions
- Specialized financial reporting for dairy businesses
- Software installation assistance
- Dairy cost accounting for basic and complex products

Wilcox Farms, Inc., Roy, WA

2001 – 2003

Director of Finance & Administration (CFO)

- Developed and implemented a Balanced Financial Scorecard
- Supervised and trained accounting, office, and information technology staff at multiple locations
- Negotiated innovative bank financing package that significantly lowered interest costs
- Successfully managed the financial, banking, and accounting aspects of a significant acquisition

Herbein Consulting, Inc., Reading, PA

1999 – 2001

Manager – Dairy Financial Consulting

- Performed a variety of financial consulting services to dairy processing plants of varying sizes, product lines, and locations
- Served as interim CFO for dairy companies during personnel transitions
- Developed content for the IDFA Dairy Cost Accounting workshops

Schneider's Dairy, Inc., Pittsburgh, PA

1996 – 1999

General Manager, Mong Dairy Division

- Profitably managed and grew an ice cream manufacturing and dairy distribution business
- Successfully managed transition from non-union to union workforce
- Effectively directed sales, purchasing, personnel, distribution, maintenance, and accounting functions

Ronald W. Mong, CPA

Mong Dairy, Inc., Seneca, PA

1990 – 1996

President

- Expanded market share and distribution area
- Increased product lines and installed new packaging line
- Effectively positioned company for sale

1979 – 1990

Vice President and Controller

- Selected, planned, and installed first computerized accounting system
- Successfully reorganized work to reduce office staff by 50%
- Increased sales with key accounts
- Developed and implemented financial reporting

Arthur Andersen & Co., Pittsburgh, PA

1977 – 1979

Senior Accountant

- Supervised audit and tax work for a variety of public and private clients

PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS

CPA – Commonwealth of Pennsylvania

Firm Member – Allinial Global

Member – American Institute of Certified Public Accountants (AICPA)

Member – Pennsylvania Institute of Certified Public Accountants (PICPA)

Board of Directors – Pennsylvania Association of Milk Dealers

Board of Directors, Secretary-Treasurer – National Ice Cream Mix Association

Board of Governors & Insurance Committee – Manufacturer's Association of Northwest Pennsylvania

Board of Directors – Oil City Area Chamber of Commerce

Board of Directors (charter) – MilkPEP

Chairman of the Board – Oil City Housing Authority

Board of Directors – Venango County United Way

Chairman of Administrative Board – Calvary United Methodist Church

Distinguished Service Award – Oil City Jaycees

Ronald W. Mong, CPA

COURSES INSTRUCTED

International Dairy Foods Association (IDFA) Dairy Cost Accounting Workshop – May 16, 2006
International Dairy Foods Association (IDFA) Dairy Cost Accounting Workshop – May 16, 2007
Dairylea Cooperative – Dairy Accounting 101 & 102 – May 2008
International Dairy Foods Association (IDFA) Dairy Cost Accounting Workshop – May 14, 2008
International Dairy Foods Association (IDFA) Dairy Cost Accounting Workshop – May 13, 2009
International Dairy Foods Association (IDFA) Dairy Cost Accounting Workshop – May 11-12, 2010
Dean Foods – Northeast Marketing Area Federal Order 1 – July 20-21, 2010
International Dairy Foods Association (IDFA) NEW Dairy Cost Accounting Workshop – May 11, 2011
International Dairy Foods Association (IDFA) Dairy Accounting & Finance Workshop – May 15-16, 2012
Farmland Dairy – Dairy Accounting Workshop – August 21-22, 2012
Wawa – Dairy Accounting Workshop – November 7, 2012
HP Hood – Dairy Accounting Workshop – February 12-13, 2013
International Dairy Foods Association (IDFA) Dairy Accounting & Finance Workshop – May 14-15, 2013
Saputo Dairy – Dairy Accounting Workshop – April 15, 2014
International Dairy Foods Association (IDFA) Dairy Accounting & Finance Workshop – May 20-21, 2014
Webinar – Intro to Dairy Product Costing – September 10, 2014
Webinar – Applying Dairy Product Costing to Finished Products – September 17, 2014
Webinar – Advanced Milk Accounting Topics – September 24, 2014
International Dairy Foods Association (IDFA) Dairy Accounting & Finance Workshop – May 12-13, 2015
Rutter's – Dairy Accounting Workshop – November 4, 2015
Dean Foods – Dairy Accounting Workshop – April 27, 2016
International Dairy Foods Association (IDFA) Dairy Accounting & Finance Workshop – November 16-17, 2016
Kemps LLC – Dairy Accounting Workshop – December 15, 2016
Byrne Dairy – Dairy Accounting Workshop – April 11-12, 2017
International Dairy Foods Association (IDFA) Dairy Accounting & Finance Workshop – December 12-13, 2017
Dean Foods – Dairy Accounting Workshop – January 10, 2018
Webinar Series – California Federal Milk Marketing Order – September 13, 20, & 27, 2018
Dairy Institute of California - Milk Pricing & Cost Accounting Workshop – October 17-18, 2018, October 24-25, 2018
Readington Farms - Milk Pricing & Cost Accounting Workshop – January 14-15, 2019
Maryland & Virginia Milk Producers Cooperative - Milk Pricing & Cost Accounting Workshop – January 31-February 1, 2019

Ronald W. Mong, CPA

SPECIFIC DAIRY RELATED EXPERIENCE

Considerable experience in implementing the prices and regulations of the Pennsylvania Milk Marketing Board; has presented sworn testimony in General Price Hearings.

Extensive experience in costing, pricing, and marketing of milk, cultured products, and ice cream.

Significant experience in production, distribution, and quality assurance of dairy products.

Management experience includes both union and non-union environments.

Great deal of experience in the installation and ongoing operation of the major computerized route accounting systems.

Served on the Charter of Board of Directors of the National Fluid Milk Promotion Board (MilkPEP), the group that developed the now-famous "milk mustache" ads.

EXPERT WITNESS TESTIMONY

Pennsylvania Milk Marketing Board – Expert Testimony – Over Price Premium Adjustment Hearing
(hearing held February 2, 2005)

REVISED REBUTTAL EXHIBIT D2

PMMB AREA 6

MARCH 11, 2019 COST REPLACEMENT HEARING

PROCESSING, PACKAGING AND DELIVERY COSTS/POINT
(WEIGHTED AVERAGE BASED ON SALES IN AREA 6)

Dean Dairy Products Company, LLC (Sharpsville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC

<u>Cost Center</u>	<u>Total 2017 Points in PMMB Area 5 (1)</u>	<u>Weighted Average 2017 Cost/Point (1)</u>
Receiving, lab and field work	73,347,864	\$ 0.0235
Standardization and pasteurization	86,295,829	0.0224
Bottling	87,159,648	0.0607
Cold room	97,705,892	0.0370
Delivery	96,350,158	0.1619
Selling	89,557,932	0.0205
		<u>\$ 0.3260</u>

(1) Reflects points (and related cost/point) for sales in PMMB Area 6 for the cross-section dealers.

REVISED REBUTTAL EXHIBIT D2-A

PMMB AREA 6

MARCH 11, 2019 COST REPLACEMENT HEARING

COST REPLACEMENT ADJUSTMENTS FOR PROCESSING, PACKAGING AND DELIVERY COSTS

Dean Dairy Products Company, LLC (Sharpsville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC

	2017 Weighted Average Cost/Point	2016 Cost/Point Included in Existing Order (1)	Increase (Decrease)
Receiving, lab and field work	\$0.0235	\$0.0223	\$0.0012
Standardization and pasteurization	0.0224	0.0190	0.0034
Bottling	0.0607	0.0607	0.0000
Cold room	0.0370	0.0342	0.0028
Delivery	0.1619	0.1499	0.0120
Selling	<u>0.0205</u>	<u>0.0202</u>	<u>0.0003</u>
Sub total	\$0.3260	\$0.3063	\$0.0197
Add:			
2018 Cost increase (decrease) adjustment - Exhibit D7			0.0235
Less:			
2017 Cost (increase) decrease adjustment (1)			<u>(0.0052)</u>
Net change			<u>\$0.0380</u>

REVISED REBUTTAL EXHIBIT D3

PMMB AREA 6

MARCH 11, 2019 COST REPLACEMENT HEARING

SUMMARY OF CURRENT CONTAINER COSTS WITH ADJUSTMENT FOR SHRINKAGE AND LOSS AND UPDATE TO CURRENT MONTH

**Dean Dairy Products Company, LLC (Sharpsville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC**

<u>Container Size</u>	<u>March 2018 Container Cost (1)</u>	<u>Adjust from March 2018 to January 2019 - Current (2)</u>	<u>Subtotal</u>	<u>Calculated Shrinkage and Loss (4)</u>	<u>Shrinkage Cost</u>	<u>Total Container Cost</u>
Gallon (5)	\$ 0.2096	\$ (0.0025)	\$ 0.2071	1.96%	\$ 0.0041	\$ 0.2112
1/2 gallon - plastic	0.1540					
1/2 gallon - paper						
1/2 gallon - blended (5)	<u>0.1540</u>	(0.0105)	0.1435	1.93%	0.0028	0.1463
Quart - plastic	0.2123					
Quart - paper	<u>0.0876</u>					
Quart - blended (5)	<u>0.2098</u>	0.0010	0.2108	1.57%	0.0033	0.2141
Pint - plastic	0.1569					
Pint - paper	<u>0.0613</u>					
Pint - blended (5)	<u>0.1549</u>	(0.0006)	0.1543	1.62%	0.0025	0.1568
Twelve ounce	(3)					
Ten ounce	(3)					
1/2 pint - plastic (5)	(3)					
1/2 pint - paper (5)	0.0291	0.0010	0.0301	0.85%	0.0003	0.0304
Four ounce - paper	0.0276		0.0276	1.53%	0.0004	0.0280
Dispenser	0.1311		0.1311	1.30%	0.0017	0.1328

- (1) For containers not purchased in March 2018 the most recent invoice was used.
- (2) January 2019 container costs were used by the PMMB to establish minimum resale prices for February 2019.
- (3) Container not packaged in this Area.
- (4) Calculated based on actual container loss from a state-wide cross section of processing dealers for controlled containers used during the period January – March 2009. This state-wide cross section is composed of every processing dealer that participates in a cost replacement hearing.
- (5) Current container costs would replace these costs monthly when the PMMB minimum resale prices are announced.

REVISED REBUTTAL EXHIBIT D3-A

PMMB AREA 6

MARCH 11, 2019 COST REPLACEMENT HEARING

ADJUSTED CONTAINER COSTS COMPARED TO CURRENT MONTH
CONTAINER COSTS – APRIL 2017

Dean Dairy Products Company, LLC (Sharpsville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC

<u>Container Size</u>	<u>Adjusted Container Costs from Exhibit D3</u>	<u>Container Costs in Current Prices (1)</u>	<u>Difference</u>
Gallon (2)	\$ 0.2112	\$ 0.1982	\$ 0.0130
Half Gallon (2)	0.1463	0.1467	(0.0004)
Quart (2)	0.2141	0.2165	(0.0024)
Pint (2)	0.1568	0.1483	0.0085
1/2 pint - paper (2)	0.0304	0.0317	(0.0013)
Four ounce - paper	0.0280	0.0276	0.0004
Dispenser (per quart)	0.1328	0.0592	0.0736

(1) Per General Order No. A-956 (CRO 8) as updated.

(2) These container costs to be updated monthly.

REVISED REBUTTAL EXHIBIT D4

PMMB AREA 6

MARCH 11, 2019 COST REPLACEMENT HEARING

SUMMARY OF INGREDIENT COSTS
(WEIGHTED AVERAGE BASED ON ACTUAL SALES IN AREA 6)

Dean Dairy Products Company, LLC (Sharpsville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC

	March 2018 Ingredient Cost Per Pound (1)
Standard	\$.0000
Reduced fat (2%) milk	.0001
Low fat (1%) milk	.0001
Non fat (skim) milk	.0006
Flavored milk	.0364
Flavored reduced fat milk	.0387
Flavored nonfat milk	.0344
Buttermilk	.0294
Eggnog	.1838

(1) For ingredients not purchased in March 2018 the most recent invoice was used.

REVISED REBUTTAL EXHIBIT D4-A

PMMB AREA 6

MARCH 11, 2019 COST REPLACEMENT HEARING

COST REPLACEMENT ADJUSTMENTS FOR INGREDIENTS

Dean Dairy Products Company, LLC (Sharpsville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC

	<u>March 2018 Weighted Average Cost/Pound</u>	<u>Cost/Pound included in Existing Order (1)</u>	<u>Increase (Decrease)</u>
Standard milk	\$0.0000	\$0.0000	\$0.0000
Reduced fat milk (2%)	0.0001	0.0001	0.0000
Lowfat milk (1%)	0.0001	0.0001	0.0000
Nonfat milk (skim)	0.0006	0.0007	(0.0001)
Flavored milk (2)	0.0364	0.0344	0.0020
Flavored reduced fat milk (2)	0.0387	0.0413	(0.0026)
Flavored nonfat milk (2)	0.0344	0.0354	(0.0010)
Buttermilk	0.0294	0.0226	0.0068
Eggnog	0.1838	0.1982	(0.0144)

- (1) Per General Order OGO A-956 (CRO 8) as updated for flavored milks on January 1, 2019.
- (2) Ingredient costs to be updated on a quarterly basis for flavored milk, flavored reduced fat milk and flavored nonfat milk. Updates should be effective on January 1, April 1, July 1 and October 1.

REVISED REBUTTAL EXHIBIT D5

PMMB AREA 6

MARCH 11, 2019 COST REPLACEMENT HEARING

WEIGHTED COST OF SHRINKAGE AND WEIGHTED COSTS AND REVENUES FROM BULK CREAM AND BULK MILK

Dean Dairy Products Company, LLC (Sharpville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC

PMMB Area 6	Costs	Revenues	Weighted Net Cost (Revenue)	Weighted Pounds (1)	Weighted Cost (Revenue) Per Pound
Shrinkage	\$ 648,952		\$ 648,952		
Bulk milk revenue minus milk costs		(277,327)			
Bulk milk cost center costs & freight	25,451				
Net bulk milk cost (revenue)			302,778		
Bulk cream revenue minus milk costs		173,222			
Bulk cream cost center costs	107,218				
Net bulk cream cost (revenue)			(66,004)		
Total	<u>\$ 781,621</u>	<u>\$ (104,105)</u>			
Net cost (net revenue) - calendar year 2017			\$ 885,726	141,720,979	\$ 0.0062
Net cost (net revenue) in current order - calendar year 2016			<u>\$ 1,037,647</u>	139,820,404	<u>0.0074</u>
Net change - cost increase (cost reduction)			<u>\$ (151,921)</u>		<u>\$ (0.0012)</u>

(1) Beginning in calendar year 2013 producer milk diverted to other plants is excluded from the calculation of weighted pounds.

REVISED REBUTTAL EXHIBIT D6

PMMB AREA 6

MARCH 11, 2019 COST REPLACEMENT HEARING

BUTTERFAT CONTENT OF PRICE CONTROLLED PRODUCTS

Dean Dairy Products Company, LLC (Sharpsville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC

	<u>2017 Weighted Average Butterfat Test</u>	<u>Butterfat Test included in Existing Order (1)</u>	<u>Increase (Decrease)</u>
Standard milk	3.2741%	3.2618%	0.0123%
Reduced fat milk (2%)	1.9398%	1.9281%	0.0117%
Lowfat milk (1%)	0.9515%	0.9611%	-0.0096%
Nonfat milk (skim)	0.1281%	0.1369%	-0.0088%
Flavored milk	3.2823%	3.2631%	0.0192%
Flavored reduced fat milk	1.1130%	1.1560%	-0.0430%
Flavored nonfat milk	0.1478%	0.1489%	-0.0011%
Buttermilk	1.3002%	0.9920%	0.3082%
Eggnog	6.3983%	6.3089%	0.0894%

(1) Per General Order No. A-956 (CRO 8)

REVISED REBUTTAL EXHIBIT D7

PMMB AREA 6

MARCH 14, 2019 COST REPLACEMENT HEARING

COST INCREASES (DECREASES) FOR LABOR, INSURANCE AND UTILITY COSTS

Dean Dairy Products Company, LLC (Sharpsville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC

Type of Expense	Weighted Expenses for the Six Months Ended June 30 (1)		Weighted Points for the Six Months Ended June 30 (1)		Cost Per Point		Increase (Decrease) Per Point
	2018	2017	2018	2017	2018	2017	
Labor and fringe benefits	\$ 10,649,110	\$ 10,530,685	42,115,296	45,658,307	\$ 0.2529	\$ 0.2306	\$ 0.0223
Utilities	556,807	542,910	42,115,296	45,658,307	0.0132	0.0119	0.0013
Insurance	218,877	242,987	42,115,296	45,658,307	0.0052	0.0053	(0.0001)
					<u>\$0.2713</u>	<u>\$0.2478</u>	<u>\$0.0235</u>

(1) Weighted based on sales in PMMB Area 6

REVISED REBUTTAL EXHIBIT D8

PMMB AREA 6

MARCH 11, 2019 COST REPLACEMENT HEARING

CHANGES IN DIESEL FUEL COSTS

Dean Dairy Products Company, LLC (Sharpsville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC

Diesel fuel costs – calendar year 2017 (1)	\$1,594,294
Delivery points – calendar year 2017 (1)	<u>96,350,158</u>
Diesel fuel cost per point delivered	<u>\$0.0165</u>
Average diesel price – calendar year 2017 (2)	\$2.822
Average diesel price – December 2018 (2) (3)	<u>\$3.340</u>
Increase (decrease) from year 2017 to month December 2018	18.36%
Increase (decrease) in diesel fuel cost per point delivered	<u>\$0.0030</u>

- (1) Costs of cross-section dealers weighted by sales in Area 6.
- (2) On-highway diesel prices per gallon for the Central Atlantic Region as published by the U.S. Energy Information Administration.
- (3) December 2018 diesel fuel costs were used by the PMMB in establishing minimum prices for February 2019.

REVISED REBUTTAL EXHIBIT D9

PMMB AREA 6

MARCH 11, 2019 COST REPLACEMENT HEARING

CHANGES IN HEATING FUEL COSTS (NATURAL GAS)

**Dean Dairy Products Company, LLC (Sharpsville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC**

Heating fuel costs – calendar year 2017 (1)	\$169,513
Standardization & pasteurization points – calendar year 2017 (1)	<u>86,295,829</u>
Heating fuel cost per point pasteurized	<u>\$0.0020</u>
Average heating fuel costs – calendar year 2017 (2)	\$8.80
Average heating fuel costs – October 2018 (2) (3)	<u>8.47</u>
Increase (decrease) from year 2017 to month October 2018	-3.75%
Increase (decrease) in heating fuel cost per point pasteurized	<u>(\$0.0001)</u>

- (1) Costs of cross-section dealers weighted by sales in Area 6.
- (2) Industrial natural gas prices for Pennsylvania in dollars per thousand cubic feet as published by the U.S. Energy Information Administration.
- (3) October 2018 natural gas costs were used by the PMMB in establishing minimum prices for February 2019.

**REVISED REBUTTAL EXHIBIT D10-A
PMMB AREA 6**

MARCH 11, 2019 COST REPLACEMENT HEARING

**CALCULATION OF WHOLESALE MINIMUM PRICE
GALLON REDUCED FAT MILK (2%) FOR FEBRUARY 2019**

**Dean Dairy Products Company, LLC (Sharpsville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC**

	<u>Reference</u>	<u>Proposed Order</u>	<u>Current Order (2)</u>	<u>Change</u>
Butterfat test	D6	1.9398%	1.9281%	0.0117%
Butterfat price as announced by PMMB	(1)	\$ 2.5351 per lb.	\$ 2.5351 per lb.	
Extended butterfat value		\$ 0.0492 per lb.	\$ 0.0489 per lb.	
Skim price as announced by PMMB	(1)	\$ 10.69 per cwt.	\$ 10.69 per cwt.	
Extended skim value		\$ 0.1048 per lb.	\$ 0.1048 per lb.	
Total milk value at announced prices		<u>\$ 0.1540 per lb.</u>	<u>\$ 0.1537 per lb.</u>	<u>\$ 0.0003</u>
Ingredient cost	D4	0.0001	0.0001	
Cost of shrinkage / bulk milk & cream	D5	0.0062	0.0074	
Total milk cost per pound		<u>\$ 0.1603 per lb.</u>	<u>\$ 0.1612 per lb.</u>	<u>\$ (0.0009)</u>
Pounds per gallon (conversion)		8.62	8.62	
Total milk cost per gallon		<u>\$ 1.3818</u>	<u>\$ 1.3895</u>	<u>\$ (0.0077)</u>
Container cost (adjusted for shrinkage)	D3	0.2112 each	0.1982 each	0.0130
Cost center costs	D2	1.3040	1.2252	0.0788
1st half 2018 to 1st half 2017 adjustment	D7	0.0940	0.0208	0.0732
Container efficiency adjustment	D11	(0.1076)	(0.0936)	(0.0140)
Percentage discount adjustment	(3)	(0.0044)	(0.0044)	-
Diesel fuel adjustment	D8	0.0120	0.0220	(0.0100)
Heating fuels adjustment	D9	(0.0004)	0.0008	(0.0012)
		<u>\$ 2.8906 each</u>	<u>\$ 2.7585 each</u>	<u>\$ 0.1321</u>
Dealer profit at 3.4%	(2)	0.1017	0.0971	\$ 0.0046
Subtotal		<u>\$ 2.9923 each</u>	<u>\$ 2.8556 each</u>	<u>\$ 0.1367</u>
Less: average delivery cost	(2)	(0.5640)	(0.5640)	
Add: high cost delivery	(2)	0.9864	0.9864	
Wholesale minimum price		<u><u>\$ 3.4147 each</u></u>	<u><u>\$ 3.2780 each</u></u>	<u><u>\$ 0.1367</u></u>

(1) As announced for February 2019 by PMMB on January 17, 2019.

(2) Per OGO A-956 (CRO 8) as updated.

(3) Per OGO A-972 "Price Adjustments to Account for Interaction of Milk Prices and Wholesale Percentage Discounts."

REVISED REBUTTAL EXHIBIT D10-B

PMMB AREA 6

MARCH 11, 2019 COST REPLACEMENT HEARING

**CALCULATION OF WHOLESALE MINIMUM PRICE
HALF PINT FLAVORED NONFAT MILK (SKIM) FOR FEBRAURY 2019**

**Dean Dairy Products Company, LLC (Sharpville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC**

	<u>Reference</u>	<u>Proposed Order</u>	<u>Current Order (2)</u>	<u>Change</u>
Butterfat test	D6	0.1478%	0.1489%	-0.0011%
Butterfat price as announced by PMMB	(1)	\$ 2.5351 per lb.	\$ 2.5351 per lb.	
Extended butterfat value		\$ 0.0037 per lb.	\$ 0.0038 per lb.	
Skim price as announced by PMMB	(1)	\$ 10.69 per cwt.	\$ 10.69 per cwt.	
Extended skim value		\$ 0.1067 per lb.	\$ 0.1067 per lb.	
Total milk value at announced prices		<u>\$ 0.1104 per lb.</u>	<u>\$ 0.1105 per lb.</u>	<u>\$ (0.0001)</u>
Ingredient cost	D4	0.0344	0.0354	
Cost of shrinkage / bulk milk & cream	D5	0.0062	0.0074	
Total milk cost per pound		<u>\$ 0.1510 per lb.</u>	<u>\$ 0.1533 per lb.</u>	<u>\$ (0.0023)</u>
Pounds per gallon (conversion)		0.50	0.50	
Total milk cost per half pint		<u>\$ 0.0756</u>	<u>\$ 0.0767</u>	<u>\$ (0.0011)</u>
Container cost (adjusted for shrinkage)	D3	0.0304 each	0.0317 each	(0.0013)
Cost center costs	D2	0.0815	0.0766	0.0049
1st half 2018 to 1st half 2017 adjustment	D7	0.0059	0.0013	0.0046
Container efficiency adjustment	(2)	0.0206	0.0139	0.0067
Percentage discount adjustment	(3)	(0.0003)	(0.0003)	-
Diesel fuel adjustment	D8	0.0008	0.0014	(0.0006)
Heating fuels adjustment	D9	(0.0001)	0.0001	(0.0002)
		<u>\$ 0.2144 each</u>	<u>\$ 0.2014 each</u>	<u>\$ 0.0130</u>
Dealer profit at 3.4%	(2)	0.0075	0.0071	\$ 0.0004
Subtotal		<u>\$ 0.2219 each</u>	<u>\$ 0.2085 each</u>	<u>\$ 0.0134</u>
Less: average delivery cost	(2)	(0.0353)	(0.0353)	
Add: high cost delivery	(2)	0.0617	0.0617	
Wholesale minimum price		<u><u>\$ 0.2483 each</u></u>	<u><u>\$ 0.2349 each</u></u>	<u><u>\$ 0.0134</u></u>

(1) As announced for February 2019 by PMMB on January 17, 2019.

(2) Per OGO A-956 (CRO 8) as updated.

(3) Per OGO A-972 "Price Adjustments to Account for Interaction of Milk Prices and Wholesale Percentage Discounts."

Submitted: March 5, 2019

REVISED REBUTTAL EXHIBIT D11

PMMB AREA 6

MARCH 11, 2019 COST REPLACEMENT HEARING
 ADJUSTMENTS FOR CONTAINER EFFICIENCIES
 DUE TO CONTAINER SIZE

Dean Dairy Products Company, LLC (Sharpsville), Galliker Dairy Company, Ritchey's Dairy, Inc.,
 Turner Dairy Farms, Tuscan/Lehigh Dairies, Inc (Schuylkill Haven), Valley Farms Dairy LLC

Container Size	Container Quantities Sold by Cross-Section Dealers in 2017 in Area 6	Proposed		Container Efficiency Adjustments in Current Order (1)		Impact on Cross-Section Dealer Revenue
		Container Efficiency Adjustments	Impact on Cross-Section Dealer Revenue	Container Efficiency Adjustments	Impact on Cross-Section Dealer Revenue	
Gallon	8,039,807	\$ (0.1076)	\$ (865,083)	\$ (0.0936)	\$ (752,526)	
Half Gallon	7,866,863	(0.0380)	(298,941)	(0.0324)	(254,886)	
Quart	1,530,415	0.0986	150,899	0.0264	40,403	
Pint	2,683,412	0.1305	350,185	0.0249	66,817	
Half Pint - Paper	30,128,830	0.0206	620,654	0.0139	418,791	
4 oz.	951,927	0.0313	29,795	0.0200	19,039	
Dispenser (per quart)	1,450,398	0.0076	11,023	0.1078	156,353	
Net impact on cross-section dealer revenues			\$ (1,468)		\$ (306,009)	

(1) Per OGO A-956 (CRO 8) as updated.