

COOPERATIVE MILK PROCUREMENT COST HEARING
OCTOBER 5, 2020
BOARD STAFF REBUTTAL TESTIMONY OF STEVEN ZALMAN

My name is Steven Zalman. I am the Director of Enforcement and Accounting for the Pennsylvania Milk Marketing Board. This hearing addresses the continuation of the cooperative procurement cost recovery which was temporarily implemented from January 1, 2020 through December 31, 2020.

Board staff will present the financial effects of continuing the cooperative procurement charge as proposed by Troye Cooper.

Troye Cooper, in his submitted testimony concluded the best and most equitable way for dealers to recover these costs would be “Blending directly into Dealer costs”. Matt Hartman calculated the coop charge to be \$.3341 /cwt in 2017, so we used that amount in our calculations. Now that the Dairy Farmers of America Cooperative (DFA) purchase of Dean Foods is complete, we calculated the cross-section obligations as if DFA owned the PA Dean plants in 2017. The first calculation we made was the dealer obligation that would be paid to the coops. We took each cross-section dealers audited monthly 62 submissions for 2017 and computed their obligations by using the same formula used during the temporary implementation. The formula is shown in Staff Rebuttal Exhibit 1. The cross-section dealer’s obligation in 2017 would have been \$406,051.

A second calculation was made to calculate the amount of recovery dealers would receive as the result of higher wholesale prices. We added each cross-section dealer’s obligation into the Receiving, Lab, and Fieldwork cost center of the spreadsheets used in 2017 Cost Replacement

Hearings and calculated a new processing cost per point for each area. For each area, the new cost per point was added to the wholesale price buildup to calculate a new wholesale price per quart. For each area, the difference between the new wholesale price and the old wholesale price (original price) results in the recovery amount per quart and are shown in Staff Rebuttal Exhibit 2. PA Class 1 sales pounds were converted to quart equivalents by dividing the pounds for each Class 1 product by its appropriate conversion factors. Quart equivalents of Class 1 PA sales pounds were multiplied by the recovery amount per quart to arrive at the recovery dollars for each cross-section dealer. The cross-section consists of nineteen dealers, six of them would have been obligated to pay a coop premium in 2017. The total recovery of these six dealers would have been \$190,748 with none of them receiving full recovery shown in Board Staff Rebuttal Exhibit 5, Table 1. Three of the six dealers would have paid \$357,294 and recovered \$41,497, while the other three would have paid \$48,757 and recovered \$9,224. The remaining dealers would have paid \$0 and recovered \$140,027. This data is shown in Exhibit 5, Table 2.

Presentation on Price Sheets

During the interim compromise the coop charge was reduced to an elusive footnote on producer and resale prices. Board Staff continues to believe in the spirit of transparency, and urges the Board, if they should decide to continue the charge, to also support transparency by requiring showing the charge on price sheets where it can be clearly seen. In previous hearings Board Staff has proposed showing the charge in the same way the Over-Order Premium (OOP) and the Over-Price Premium (OPP) are shown. Board Staff Rebuttal Exhibit 3 shows the Resale price sheet and Board Staff Rebuttal Exhibit 4 shows the Producer price sheet.

