

**COOPERATIVE MILK PROCUREMENT COST HEARING**

**OCTOBER 5, 2020**

**BOARD STAFF SURREBUTTAL TESTIMONY OF STEVEN ZALMAN**

My name is Steven Zalman. I am the Director of Enforcement and Accounting for the Pennsylvania Milk Marketing Board. Board Staff has reviewed the rebuttal testimony of the interested parties. For the Board to make decisions based on reliable information, our surrebuttal will consist of responding to testimony that we consider inaccurate and misleading.

Mong Procurement Rebuttal Exhibit D2 is an analysis of premiums paid and recovered. The study was conducted by the Pennsylvania Association of Milk Dealers (PAMD) for the first quarter of 2018. They selected ten PA dealers for their analysis and concluded that the ten dealers paid out more in total premiums to their producers than they collect in total premiums built into wholesale prices applicable to their PA controlled sales. They further conclude that the ten-dealer cross-section is representative and reliable for the study, yet the methodology in the selection of those ten dealers is unclear, and they offer no statistical evidence as to its representativeness. It is important while making this type of study to include the entire cross section, not half of it.

The cost replacement hearing (CRH) cross-section in 2018 consisted of sixteen PA processing dealers. The Dean-Meadowbrook plant was not part of the cross-section in 2018 CRH, however for consistency purposes I left Dean-Meadowbrook in Board Staff's analysis, for a total of seventeen processing PA dealers (Dean Meadowbrook and Dean Sharpsville are combined into one report). Board Staff Surrebuttal Exhibit 1 shows the seventeen dealers. The seventeen dealers purchased a total of 936,703,999 pounds with 705,664,273 of those pounds being PA

produced in the first quarter of 2018. In PAMD Exhibit D2, the total pounds purchased are 545,864,569 pounds with 390,145,606 of those pounds being PA produced.

The results of our study are shown in Board Staff Rebuttal Exhibit 2. The Over-Order Premium (OOP) paid was \$2,180,575 (Line #3). \$2,368,940 (Line #4) was recovered, resulting in \$188,364 more recovered than paid. Voluntary PA Class 1 premiums paid to PA producers were \$350,519 (Line #6) while \$523,362 (Line #7) was recovered, resulting in \$172,843 more recovered than paid. The current PMMB pricing system recovered \$361,208 (\$188,364 + \$172,843) more than what the PA processing dealer cross section paid in premiums, shown on line #9.

There were also voluntary premium payments made to PA producers other than PA class 1 premiums of \$970,102 (Line #10). \$683,204 (Line #11) of the \$970,102 are the result of four cross section dealers having nearly 80% of their sales out of state, and therefore not recovering these premiums through the PMMB pricing system. We do not try to recover these premiums through our pricing system, because we do not set out of state prices. We are confident that dealers are recovering these premiums through their out of state pricing policies. Although the PMMB pricing system is not designed to recover premiums when products are sold out of state, our system, and the PA consumer, contributed \$361,208 (Line #9) towards paying those premiums. If we include what the PMMB system contributed to paying premiums that should be recovered on out of state sales, the cross-section dealers in aggregate recovered \$74,310 (excluding outliers) more than they paid, regardless of where the product was sold. Again, we are confident the cross-sections dealers are recovering these dollars in their out of state pricing policies.