

REBUTTAL TESTIMONY OF

CARL D. HERBEIN, CPA

Appearing on Behalf of the Area 2 Milk Dealer Association

Rebuttal Testimony before Pennsylvania Milk Marketing Board

Cost Replacement Hearing Based On Annual Reports Filed In 2017

February 6, 2018

## **Rebuttal Testimony of Carl D. Herbein, CPA**

### **Area 2 – Cost Replacement Hearing**

I am Carl D. Herbein, CPA, President and CEO of Herbein + Company, Inc. and my address is 2763 Century Blvd., Reading, PA 19610. I wish to present Rebuttal Testimony on behalf of the Area 2 Milk Dealers Association. 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 2 Dealers Association, 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 April 2017 cost information as the new starting point for container updating. These April 2017 container costs are updated on a monthly basis based upon cost information submitted by the cross-section dealers and reviewed by Board staff. This hearing will also include ingredient cost updating utilizing April 2017 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 1<sup>st</sup>, April 1<sup>st</sup>, July 1<sup>st</sup>, and October 1<sup>st</sup> 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 2 cross-section of dealers utilized includes Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy), Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA). These companies process, package and deliver the majority of fluid milk products in Area 2 and comprise a group of companies which include organizations that deliver to supermarkets, convenience stores, schools, institutions, and small retail outlets. In my opinion this cross-section of dealers continues to be representative of the dealers selling fluid milk in Area 2 and this cross-section remains unchanged from the immediate prior hearing.

### **Rebuttal Exhibits**

Rebuttal Exhibit D2 reflects the processing, packaging, and delivery cost per point for calendar year 2016. Please note that the points presented are for sales in the PMMB Area 2 made by the cross-section dealers. These costs should replace the existing costs from 2015, 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.

### **Rebuttal Exhibits D2-A through D10-B**

Rebuttal Exhibit D2-A is prepared to reflect the effect of the cost replacement process by comparing the 2015 costs in the current order with the 2016 costs. Additionally, this exhibit reflects the 2017 cost decrease adjustment and removes the 2016 cost increase adjustment to eliminate any possibility of duplication. It should also be noted that the bottling department points for 2016 are 88,518,803 for the cross-section dealers and this compares with 2015's bottling department points of 85,173,691. This comparison reflects a 3.9% increase in bottling department points when comparing 2016 with 2015. This comparison shows that plant volume is affected by consumer demand and customers served.

Rebuttal Exhibit D3 and D3-A have been updated to container costs utilized in the April 2017 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 the 2017 Cost Replacement Hearings.

The cross-section of dealers utilized for each area and for each container is representative of the dealers selling fluid milk in Area 2. It is important to note that these container costs have been updated on a monthly basis and that process of monthly updating should be continued utilizing April 2017 as adjusted as a new starting point.

The Area 2 Milk Dealer Association requests and recommends that the blending concept be continued for all containers that are represented by both plastic and paper with the exception of the half pint container. The blending of containers, including blow-molded and purchased plastic containers should be continued for each container utilized in this area. The wholesale and resale prices for the control product sold in half pint containers should be determined utilizing the paper container cost for paper and by applying a plastic add-on for half pint containers that are “ridged plastic in nature.” The plastic add-on must be updated and the new reset should be \$0.0389 and it should continue to be adjusted monthly in accordance with OGO A-957.

Rebuttal Exhibit D4 is prepared to present the ingredient costs as of April 2017, which should be inserted into the product formulas for pricing purposes and should replace the ingredient costs which are currently being used.

Rebuttal Exhibit D4-A reflects the ingredient costs presented on Rebuttal D4 and demonstrates the increase or decrease when the cost replacement process occurs.

Rebuttal Exhibit D5 updates the cost of shrinkage and cost and revenues from bulk cream and bulk milk. The current order establishes a net revenue of (0.0044) per pound and the new net revenue, based on 2016 is (0.0022) per pound. Thus, there has been a new net change of 0.0022 per pound.

Rebuttal Exhibit D6 reflects a comparison of the current order butterfat tests by product category and compares those tests with the 2016 actual butterfat tests. This exhibit also reflects the increase or decrease in butterfat content. A decrease in butterfat content will result in less cost of milk in the wholesale and resale prices, which will result from this process and an increase in butterfat content will result in more cost of milk in the wholesale and resale prices, which will result from this process. I recommend that the Board replace the current butterfat by product with the 2016 tests reflected on this exhibit.

Rebuttal Exhibit D7 is prepared to calculate the cost increases and decreases incurred during the six (6) month period ending June 30, 2017 with the six (6) month period ending June 30, 2016 for labor and fringe benefits, utilities, and insurance. This calculation is performed by comparing labor and fringe benefits, utilities,

and insurance on a per point basis. This adjustment allows for an updating of significant costs, which change rapidly. This year the cost increase (decrease) analysis has been performed utilizing the first six (6) months of 2017 and comparing that with the first six (6) months for 2016. It should also be noted that the weighted points for the six (6) month period of 2017 are 2.2% more than the weighted points for the first six (6) months of 2016. This comparison of 2016 and 2017 demonstrates the effect of volume change in the cross-section dealer plants and its effect on cost per point.

Rebuttal Exhibit D8 has been updated to reflect the March 2017 diesel fuel costs, which were used in issuing the minimum prices for October 2017. Additionally, this exhibit reflects the calculation of the average diesel fuel cost for calendar year 2016, which forms the basis for the annual adjustment and update. I recommend that this adjustment be continued on a monthly basis.

Rebuttal Exhibit D9 has been updated to reflect the August 2017 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 2016, which forms the basis for the annual adjustment and update. I recommend that this adjustment be continued on a monthly basis.

Rebuttal Exhibits 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 January 2018. These exhibits also cross-reference the exhibits that support the individual line items.

### **Class II Controlled Products**

The annual cost replacement process many times includes an updating of Class II product costs. We are not presenting such data at this time. We ask that the Board continue with the current methodology. The dealers have considered and will continue to review other approaches but do not presently see a basis for modifying the status quo.

### **Rate of Return**

I recommend that the Board maintain the rate of return for the Area 2 dealers at 3.5%. This rate of return will provide the ability for the dealers to reinvest in their facilities and create new products. In order to continue to foster the incentive and ability of these companies to continue to invest in product and plants that are able to compete for Pennsylvania and out-of-state volume the continuation of the 3.5% return is recommended.

### **Summary and Recommendation**

The Area 2 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 2**

## **COST REPLACEMENT HEARING DEALER REBUTTAL EXHIBITS**

**FEBRUARY 6, 2018**

**PMMB AREA 2**

**COST REPLACEMENT HEARING**

**INDEX OF REBUTTAL EXHIBITS**

**Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy),  
Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA)**

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



**Carl D. Herbein, CPA**  
***Curriculum Vitae***

**EDUCATION**

Elizabethtown College – B.S. Degree in Accounting (1968)  
Delta Mu Delta – National Honor Society – Co-captain Cross Country Team

**EMPLOYMENT**

Herbein + Company, Inc., Reading, PA  
October, 2004 to present  
President and CEO

July, 1985 to September, 2004  
Managing Partner

1974 to June, 1985  
Partner  
Reading, PA

Carl D. Herbein, CPA – Reading, PA  
1972 to 1974

Ernst & Young, Reading, PA  
1967 to 1972  
Staff/Senior Accountant

**PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS**

CPA – Commonwealth of Pennsylvania (1971)

Member – American Institute of CPAs – Council (1990 – 1991)

Member – Pennsylvania Institute of CPAs – President (1988 – 1989)

Firm Member – Allinial Global

Chairman – Reading Redevelopment Authority (1992 – 1998) Board of Directors (1984 – 1998)

Board Member

- Greater Berks Development Fund (1995 – present)
- Berks County Convention Center Authority - Treasurer (1996 – 2017); Chairman (2017 – present)
- Alvernia University (2012 – present)
- Greater Reading Chamber & Economic Development Corporation (2017 – present)

Berks County Chamber of Commerce (1980 – present)

- Chairman of the Board (1994 – 1996)
- Treasurer (1992 – 1993)
- Treasurer (2007-2009)

Greater Reading Economic Partnership (2005 – present)

Alvernia University

- Board of Trustees (2014 – present)
- Audit Committee (2014 – present)
- Fiscal & Physical Resources Committee (2017 – present)

Berkshire Country Club

- Board of Directors
- Treasurer (October 2001 – 2007)

Submitted: January 24, 2018

**Submitted August 13, 2018**

**PADC EXHIBIT 4.2.B**

**Carl D. Herbein, CPA**

**PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS – CONTINUED**

Elizabethtown College

- Board of Trustees (1987 – 1992)
- Accounting Advisory Committee (1993 – 2005)
- Member – Leadership Council (2007 – present)

**SPECIFIC DAIRY RELATED EXPERIENCE**

Grew up and worked on his parents' dairy farm

Partner-in-charge of services for all dairy clients currently serviced by the Firm

Performed the feasibility and accounting work for numerous successful dairy mergers

Currently leads the Firm's engagements in industry consolidation, including due diligence, valuation, and consolidation benefit analysis

Performed other special projects for dairies – Product cost analysis, route accounting and profitability analysis, by-product and excess butterfat cost analysis, buy-sell arrangements, labor contract negotiations, hauling cost analysis, plant shrink studies, delivery cost studies, market price analysis, cost benchmarking projects, business valuations, Federal Trade Commission analysis, and dairy financial reporting design

Has spent more than 16,000 hours of time in personally preparing for and testifying at over 140 Pennsylvania Milk Marketing Board price hearings between 1976 and 2016

Has visited and provided services to more than 155 dairy food companies

**COMMUNITY AWARDS**

2006 Eugene L. Shirk Community Builder Award

2010 Corporate Honoree – March of Dimes

2012 Franciscan Award – Alvernia University

2013 Business Weekly Unity Award

2017 Service to the College Award – Elizabethtown College

## REBUTTAL EXHIBIT D1

### Carl D. Herbein, CPA

#### SPEAKING ENGAGEMENTS (2006 – 2016)

International Milk Control Agency – Why Dairy Plants Relocate, August 13, 2006

All Star Dairy Association – Cost Benchmarking, March 16, 2006

Quality Chekd Dairy – Valuation of Your Dairy Company, February 1, 2007

All Star Dairy Association – Cost Benchmarking, March 28, 2007

All Star Dairy Association – Financial Reporting, March 6, 2008

Quality Chekd Dairy – Captive Insurance, April 21, 2008

Pennsylvania Association of Milk Dealers – Cost Comparison Analysis, September 22, 2009

World International Dairy Foods Association – Worldwide Food Expo – Dairy Industry Analysis, October 31, 2009

All Star Dairy Association – Forensic Accounting, March 23, 2010

Pennsylvania Association of Milk Dealers and Northeast Dairy Foods Association, Inc. – Delivery, Depots and Distributors – August 22, 2011

International Association of Milk Control Agencies (IAMCA) – California Federal Milk Marketing Order – September 14, 2015

International Dairy Foods Association – Capital Budgeting – September 15, 2015

All Star Association – Measure Your Success – March 2016

#### TEACHING ASSIGNMENTS (2007 – 2011)

Developed and presented the annual “Dairy Cost Accounting Workshop” for International Dairy Foods Association – annual two (2) day seminar May 2007, 2008, 2009, 2010, 2011. 2012, 2013, 2014, 2015 and 2016

Quality Chekd Dairy – Dairy Accounting Seminar, March 6 - 7, 2007

#### PUBLICATIONS

“Product Costing In A Volatile Environment,” which appeared in the *National Ice Cream Mix Association, Inc.* publication

“Milk Costing and Regulation - Is There a Conflict?” which appeared in the 2003 *International Association of Milk Control Agencies’* publication

“Benchmarking,” which appeared in the August 2004, *422 Business Advisor*

“Financing Agribusiness Growth”, which appeared in the *Pennsylvania CPA Journal*

“Processors Improve Profits With Benchmarking”, which appeared in the October 2011, *Dairy Foods Magazine*

Submitted: January 24, 2018

Submitted August 13, 2018

PADC EXHIBIT 4.2.B

**Carl D. Herbein, CPA**

**EXPERT REPORTS, DEPOSITION AND TESTIMONY**

**COURT AND OTHER TESTIMONY**

State of New Jersey Department of Agriculture – Expert testimony - Farmer premium establishment. (hearing held November 19, 2009, December 17, 2009 and January 28, 2010)

Sweetwater Valley Farm, Inc. v. Dairy Farmers of America, Inc. – June 15, 2010

Bross v. Bross – domestic matter. Testimony September 16, 2010.

Van Peenen Dairy, Inc. v. Tuscan/Lehigh Dairies, Inc. – contractual dispute, November 22, 2011

US Justice Department Report – Dean Foods / Suiza – merger analysis

State of Kentucky v. Trauth Dairy – damage calculation

State of Indiana v. Schenkel Dairy – damage calculation

Sweet Water Valley Farm v. Dairy Farmers of America – restraint of trade

Maine Milk Commission – Expert testimony – Dealer Margin Study (hearing held October 25, 2012)

Nicholas Meat Packing Co. v. Brigandi, Gleghorn and Associates – August 20, 2011 and July 2013.

Supports Coordination Organization Modeled Rate Review – payment rate dispute – July 15, 2013.

Allen S. Fisher, et. al. v. Dominion Transmission, Inc. – crop damage – loss calculation – October 2013.

DeVries Dairy v. White Eagle Cooperative Association – expert testimony – economic discrimination – October 2013.

Dar-View Farms v. Maryland Dairy Veterinarians – professional malpractice matter – March 2015

U.S. Department of Agriculture – California Hearing to consider establishing a California Milk Marketing order – October 2015

Balford Farms v. Travelers Insurance – business interruption insurance matter – January 2017

Select Milk Producers, Inc. v. Sorrento Lactalis Inc. – expert testimony – milk supply contracts – March 2017

**Carl D. Herbein, CPA**

**COMMONWEALTH OF PENNSYLVANIA MILK MARKETING BOARD APPEARANCES**

**2011**

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Area 1, 2, 3, 4, 5 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the level and duration of the Class I over-order premium. (hearing held June 1, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Area 1, 2, 3, 4, 5 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the announcement date for January 2012 minimum resale prices. (hearing held June 1, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Area 1, 2, 3, 4, 5 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning adjustments to wholesale discounts to account for changes in milk prices subsequent to the adoption of Official General Orders for each of the Milk Marketing Areas. (hearing held June 1, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 5. Expert witness appearing on behalf of the Area 5 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 5. Evidence will be limited to the following: annualized processing, packaging, and delivery costs; updated costs for containers, ingredients, and Class II products; updated labor, utility, and insurance costs based on comparisons between costs per point for the second quarters of calendar years 2010 and 2011; skim and butterfat contents of products, and cream processing costs; monthly adjustments to in-store handling costs; and a reasonable rate of return to milk dealers and stores. In accordance with OGO A-937, evidence and testimony will be considered regarding the heating fuel adjuster in Area 5. In accordance with OGO A-939, evidence and testimony will be considered regarding the diesel fuel cost adjuster in Area 5. (hearing held September 7, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 6. Expert witness appearing on behalf of the Area 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 6. Evidence will be limited to the following: annualized processing, packaging, and delivery costs; updated costs for containers, ingredients, and Class II products; updated labor, utility, and insurance costs based on comparisons between costs per point for the second quarters of calendar years 2010 and 2011; skim and butterfat contents of products regulated by the Board; adjustment for shrinkage, sales of bulk products, and cream processing costs; monthly adjustments to in-store handling costs; and a reasonable rate of return to milk dealers and stores. In accordance with OGO A-937, evidence and testimony will be considered regarding the heating fuel adjuster in Area 6. In accordance with OGO A-939, evidence and testimony will be considered regarding the diesel fuel cost adjuster in Area 6. (hearing held September 7, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1. Expert witness appearing on behalf of the Area 1 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 1. Evidence will be limited to the following: annualized processing, packaging, and delivery costs; updated costs for containers, ingredients, and Class II products; updated labor, utility, and insurance costs based on comparisons between costs per point for the second quarters of calendar years 2010 and 2011; skim and butterfat contents of products regulated by the Board; adjustment for shrinkage, sales of bulk products, and cream processing costs; monthly adjustments to in-store handling costs; and a reasonable rate of return to milk dealers and stores. In accordance with OGO A-937, evidence and testimony will be considered regarding the heating fuel adjuster in Area 6. In accordance with OGO A-939, evidence and testimony will be considered regarding the diesel fuel cost adjuster in Area 6. (hearing held October 5, 2011)

and butterfat contents of products regulated by the Board; adjustment for shrinkage, sales of bulk products, and cream processing costs; monthly adjustments to in-store handling costs; and a reasonable rate of return to milk dealers and stores. In accordance with OGO A-937, evidence and testimony will be considered regarding the heating fuel adjuster in Area 6. In

**Carl D. Herbein, CPA**

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 2. Expert witness appearing on behalf of the Area 2 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 2. Evidence will be limited to the following: annualized processing, packaging, and delivery costs; updated costs for containers, ingredients, and Class II products; updated labor, utility, and insurance costs based on comparisons between costs per point for the second quarters of calendar years 2010 and 2011; skim accordance with OGO A-939, evidence and testimony will be considered regarding the diesel fuel cost adjuster in Area 6. (hearing held October 5, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 3. Expert witness appearing on behalf of the Area 3 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 3. Evidence will be limited to the following: annualized processing, packaging, and delivery costs; updated costs for containers, ingredients, and Class II products; updated labor, utility, and insurance costs based on comparisons between costs per point for the second quarters of calendar years 2010 and 2011; skim and butterfat contents of products regulated by the Board; adjustment for shrinkage, sales of bulk products, and cream processing costs; monthly adjustments to in-store handling costs; and a reasonable rate of return to milk dealers and stores.

In accordance with OGO A-937, evidence and testimony will be considered regarding the heating fuel adjuster in Area 6. In accordance with OGO A-939, evidence and testimony will be considered regarding the diesel fuel cost adjuster in Area 6. (hearing held November 9, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 4. Expert witness appearing on behalf of the Area 4 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 4. Evidence will be limited to the following: annualized processing, packaging, and delivery costs; updated costs for containers, ingredients, and Class II products; updated labor, utility, and insurance costs based on comparisons between costs per point for the second quarters of calendar years 2010 and 2011; skim and butterfat contents of products regulated by the Board; adjustment for shrinkage, sales of bulk products, and cream processing costs; monthly adjustments to in-store handling costs; and a reasonable rate of return to milk dealers and stores. In accordance with OGO A-937, evidence and testimony will be considered regarding the heating fuel adjuster in Area 6. In accordance with OGO A-939, evidence and testimony will be considered regarding the diesel fuel cost adjuster in Area 6. (hearing held November 9, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Area 1, 2, 3, 4, 5 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the level and duration of the Class I over-order premium to be effective January 1, 2012. (hearing held November 9, 2011)

**2012**

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 5. Expert witness appearing on behalf of the Area 5 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the multi-store discount provisions in Milk Marketing Area 5. (hearing held September 7, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 6. Expert witness appearing on behalf of the Area 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the multi-store discount provisions in Milk Marketing Area 6. (hearing held September 7, 2011)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Area 1, 2, 3, 4, 5 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning whether to remove the service contract initial fee and renewal fee from Official General Order A-875. (hearing held February 8, 2012)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 4, and 5. Expert witness appearing on behalf of the Areas 1, 2, 4, and 5 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 1, 2, 4 and 5.

Submitted: January 24, 2018

**Submitted August 13, 2018**

**PADC EXHIBIT 4.2.B**

**Carl D. Herbein, CPA**

**2013**

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 3 and 6. Expert witness appearing on behalf of the Area 3 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 3 and 6. (hearing held January 2, 2013)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Areas 1, 2, 3, 4, 5 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning wholesale milk discounts in Milk Marketing Area 1, 2, 3, 4, 5, and 6. (hearing held October 2, 2013)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, and 3. Expert witness appearing on behalf of the Areas 1, 2, and 3 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 1, 2, and 3. (hearing held January 8, 2014)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 4, 5, and 6. Expert witness appearing on behalf of the Areas 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 4, 5, and 6. (hearing held February 5, 2014)

**2014**

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Areas 1, 2, 3, 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the over price premium – Part II in Milk Marketing Areas 1, 2, 3, 4, 5, and 6. (hearing held June 4, 2014)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Areas 1, 2, 3, 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the small delivery costs in Milk Marketing Areas 1, 2, 3, 4, 5, and 6. (hearing held June 11, 2014)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 4, 5, and 6. Expert witness appearing on behalf of the Areas 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 4, 5, and 6. (hearing October 1, 2014)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, and 3. Expert witness appearing on behalf of the Areas 1, 2, and 3 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 1, 2, and 3. (hearing held December 3, 2014)

**2015**

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Areas 1, 2, 3, 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the over price premium – Part II in Milk Marketing Areas 1, 2, 3, 4, 5, and 6. (hearing held February 25 - 27, 2015) continuance from June 2014

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 5, and 6. Expert witness appearing on behalf of the Areas 1, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 1, 5, and 6. (hearing held December 2, 2015)

**2016**

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 2, 3, and 4. Expert witness appearing on behalf of the Areas 2, 3, and 4 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 2, 3, and 4. (hearing held January 6, 2016)

**Carl D. Herbein, CPA**

**2017**

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Area 4. Expert witness appearing on behalf of the Area 4 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Area 4. (hearing completed January 4, 2017)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 5, and 6. Expert witness appearing on behalf of the Areas 1, 2, 3, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 1, 2, 3, 5, and 6. (hearing completed July 5, 2017)



**REBUTTAL EXHIBIT D2**

**PMMB AREA 2**

**COST REPLACEMENT HEARING**

**PROCESSING, PACKAGING AND DELIVERY COSTS/POINT  
(WEIGHTED AVERAGE BASED ON SALES IN AREA 2)**

**Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy),  
Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA)**

| <b>Cost Center</b>                 | <b>Total 2016 Points in<br/>PMMB Area 2 (1)</b> | <b>Weighted<br/>Average 2016<br/>Cost/Point (1)</b> |
|------------------------------------|---|---|
| Receiving, lab and field work      | 65,948,884                                      | \$ 0.0104   |
| Standardization and pasteurization | 93,310,607                                      | 0.0208  |
| Bottling                           | 88,518,803                                      | 0.0318  |
| Cold room                          | 92,587,973                                      | 0.0311  |
| Delivery                           | 64,314,042                                      | 0.0804  |
| Selling                            | 65,720,108                                      | 0.0167  |
|                                    |   | <u>\$ 0.1912</u>                                    |

(1) Reflects points (and related cost/point) for sales in PMMB Area 2 for the cross-section dealers.

PMMB AREA 2

COST REPLACEMENT HEARING

GENERAL PRICE ADJUSTMENTS FOR PROCESSING, PACKAGING AND DELIVERY COSTS

Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy),  
Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA)

|   | 2016 Weighted<br>Average<br>Cost/Point | 2015 Cost/Point<br>Included in<br>Existing Order<br>(1) | Increase<br>(Decrease)   |
|---|--|---|--------------------------|
| Receiving, lab and field work                         | \$0.0104                               | \$0.0092  | \$0.0012                 |
| Standardization and pasteurization                    | 0.0208                                 | 0.0147  | 0.0061                   |
| Bottling  | 0.0318                                 | 0.0352  | (0.0034)                 |
| Cold room   | 0.0311                                 | 0.0321  | (0.0010)                 |
| Delivery  | 0.0804                                 | 0.0841  | (0.0037)                 |
| Selling   | <u>0.0167</u>                          | <u>0.0185</u>   | <u>(0.0018)</u>          |
| Sub total   | \$0.1912                               | \$0.1938  | (\$0.0026)               |
| Add:  |  |   |                          |
| 2017 Cost increase (decrease) adjustment - Exhibit D7 |  |   | 0.0040                   |
| Less:   |  |   |                          |
| 2016 Cost (increase) decrease adjustment (1)          |  |   | <u>(0.0043)</u>          |
| Net change  |  |   | <u><u>(\$0.0029)</u></u> |

(1) Per General Order No. A-953 (CRO 8)

**REBUTTAL EXHIBIT D3**

**PMMB AREA 2**

**COST REPLACEMENT HEARING**

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

**Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy),  
Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA)**

| <u>Container Size</u>    | <u>March 2017 Container Cost (1)</u> | <u>Adjust from March 2017 to December 2017 - Current (2)</u> | <u>Subtotal</u> | <u>Calculated Shrinkage and Loss (4)</u> | <u>Shrinkage Cost</u> | <u>Total Container Cost</u> |
|--------------------------|--------------------------------------|--|-----------------|--|-----------------------|-----------------------------|
| Gallon (5)               | \$ 0.1769                            | \$ 0.0083  | \$ 0.1852       | 1.63%                                    | \$ 0.0030             | \$ 0.1882                   |
| 1/2 gallon - plastic     | 0.1335                               |  |                 |  |                       |                             |
| 1/2 gallon - paper       | (3)                                  |  |                 |  |                       |                             |
| 1/2 gallon - blended (5) | <u>0.1335</u>                        | 0.0029   | 0.1364          | 1.22%                                    | 0.0017                | 0.1381                      |
| Quart - plastic          | 0.1160                               |  |                 |  |                       |                             |
| Quart - paper            | (3)                                  |  |                 |  |                       |                             |
| Quart - blended (5)      | <u>0.1160</u>                        | 0.0053   | 0.1213          | 1.57%                                    | 0.0019                | 0.1232                      |
| Pint - plastic           | 0.0886                               |  |                 |  |                       |                             |
| Pint - paper (3)         | 0.0404                               |  |                 |  |                       |                             |
| Pint - blended (5)       | <u>0.0855</u>                        | 0.0040   | 0.0895          | 1.62%                                    | 0.0014                | 0.0909                      |
| Twelve ounce             | (3)                                  |  |                 |  |                       |                             |
| Ten ounce                | (3)                                  |  |                 |  |                       |                             |
| 1/2 pint - plastic (5)   | 0.0692                               | 0.0010   | 0.0702          | 0.92%                                    | 0.0006                | 0.0708                      |
| 1/2 pint - paper (5)     | 0.0249                               | 0.0067   | 0.0316          | 0.85%                                    | 0.0003                | 0.0319                      |
| Four ounce - paper       | 0.0268                               |  | 0.0268          | 1.53%                                    | 0.0004                | 0.0272                      |
| Dispenser                | 0.0543                               |  | 0.0543          | 1.30%                                    | 0.0007                | 0.0550                      |

- (1) For containers not purchased in March 2017 the most recent invoice was used.
- (2) December 2017 container costs were used by the PMMB to establish minimum resale prices for January 2018.
- (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 General Price hearing.
- (5) Current container costs would replace these costs monthly when the PMMB minimum resale prices are announced.

**REBUTTAL EXHIBIT D3-A**

**PMMB AREA 2**

**COST REPLACEMENT HEARING**

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

**Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy),  
Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA)**

| <u>Container Size</u>  | <u>Adjusted<br/>Container<br/>Costs from<br/>Exhibit D3</u> | <u>Container<br/>Costs in<br/>Current Prices<br/>(1)</u> | <u>Difference</u> |
|------------------------|---|--|-------------------|
| Gallon (2)             | \$ 0.1882   | \$ 0.1874  | \$ 0.0008         |
| Half Gallon (2)        | 0.1381  | 0.1395   | (0.0014)          |
| Quart (2)              | 0.1232  | 0.1142   | 0.0090            |
| Pint (2)               | 0.0909  | 0.0858   | 0.0051            |
| 1/2 pint - plastic (2) | 0.0708  | 0.0734   | (0.0026)          |
| 1/2 pint - paper (2)   | 0.0319  | 0.0301   | 0.0018            |
| Four ounce - paper     | 0.0272  | 0.0266   | 0.0006            |
| Dispenser (per quart)  | 0.0550  | 0.0481   | 0.0069            |

(1) Per General Order No. A-953 (CRO 8) as updated.

(2) These container costs to be updated monthly.

(3) Difference between plastic ½ pint and paper ½ pint is \$0.0389. PMMB resale price schedules show the ½ pint paper price. \$0.0389 is the plastic add-on.

**REBUTTAL EXHIBIT D4**

**PMMB AREA 2**

**COST REPLACEMENT HEARING**

**SUMMARY OF CURRENT INGREDIENT COSTS  
(WEIGHTED AVERAGE BASED ON ACTUAL SALES IN AREA 2)**

**Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy),  
Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA)**

|                           | March 2017<br>Ingredient<br>Cost Per Pound<br>(1) |
|---------------------------|---|
| Standard                  | \$.0000   |
| Reduced fat (2%) milk     | .0002   |
| Low fat (1%) milk         | .0001   |
| Nonfat (skim) milk        | .0002   |
| Flavored milk             | .0450   |
| Flavored reduced fat milk | .0283   |
| Flavored nonfat milk      | .0291   |
| Buttermilk (2)            | .0326   |
| Eggnog                    | .1475   |

(1) For ingredients not purchased in March 2017 the most recent invoice was used.

(2) Buttermilk is not manufactured by any of the Area 2 cross-section dealers. Cost is from current order.

**REBUTTAL EXHIBIT D4-A**

**PMMB AREA 2**

**COST REPLACEMENT HEARING**

**GENERAL PRICE ADJUSTMENTS FOR INGREDIENTS**

**Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy),  
Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA)**

|                               | <b>March 2017<br/>Weighted<br/>Average<br/>Cost/Pound</b> | <b>Cost/Pound<br/>included in<br/>Existing<br/>Order (1)</b> | <b>Increase<br/>(Decrease)</b> |
|-------------------------------|---|--|--------------------------------|
| Standard milk                 | \$0.0000  | \$0.0000   | \$0.0000                       |
| Reduced fat milk (2%)         | 0.0002  | 0.0002   | 0.0000                         |
| Lowfat milk (1%)              | 0.0001  | 0.0002   | (0.0001)                       |
| Nonfat milk (skim)            | 0.0002  | 0.0002   | 0.0000                         |
| Flavored milk (2)             | 0.0450  | 0.0473   | (0.0023)                       |
| Flavored reduced fat milk (2) | 0.0283  | 0.0345   | (0.0062)                       |
| Flavored nonfat milk (2)      | 0.0291  | 0.0319   | (0.0028)                       |
| Buttermilk (3)                | 0.0326  | 0.0326   | 0.0000                         |
| Eggnog                        | 0.1475  | 0.2440   | (0.0965)                       |

- (1) Per General Order OGO A-953 (CRO 8) as updated for flavored milks on January 1, 2018.
- (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.
- (3) Buttermilk is not manufactured by any of the Area 2 cross-section dealers. Cost is from current order.

PMMB AREA 2

COST REPLACEMENT HEARING

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

Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy),  
Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA)

| <u>PMMB Area 2</u>   | <u>Costs</u>      | <u>Revenues</u>   | <u>Weighted Net<br/>Cost (Revenue)</u> | <u>Weighted<br/>Pounds (1)</u> | <u>Weighted Cost<br/>(Revenue) Per<br/>Pound</u> |
|--|-------------------|-------------------|--|--------------------------------|--|
| Shrinkage  | \$ 252,858        |                   | \$ 252,858                             |                                |  |
| Bulk milk revenue minus milk costs                           |                   | 92,792            |  |                                |  |
| Bulk milk cost center costs & freight                        | 74,939            |                   |  |                                |  |
| Net bulk milk cost (revenue)                                 |                   |                   | (17,853)                               |                                |  |
| Bulk cream revenue minus milk costs                          |                   | 624,199           |  |                                |  |
| Bulk cream cost center costs                                 | 105,024           |                   |  |                                |  |
| Net bulk cream cost (revenue)                                |                   |                   | (519,175)                              |                                |  |
| Total  | <u>\$ 432,821</u> | <u>\$ 716,991</u> |  |                                |  |
| Net cost (net revenue) - calendar year 2016                  |                   |                   | \$ (284,170)                           | 126,748,001                    | \$ (0.0022)                                      |
| Net cost (net revenue) in current order - calendar year 2015 |                   |                   | <u>\$ (537,028)</u>                    | 121,280,162                    | <u>\$ (0.0044)</u>                               |
| Net change - cost increase (cost reduction)                  |                   |                   | <u>\$ 252,858</u>                      |                                | <u>\$ 0.0022</u>                                 |

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

**PMMB AREA 2**

**COST REPLACEMENT HEARING**

**BUTTERFAT CONTENT OF PRICE CONTROLLED PRODUCTS**

**Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy),  
Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA)**

|                           | <b>2016 Weighted<br/>Average<br/>Butterfat Test</b> | <b>Butterfat<br/>Test included<br/>in Existing<br/>Order (1)</b> | <b>Increase<br/>(Decrease)</b> |
|---------------------------|---|--|--------------------------------|
| Standard milk             | 3.2637%   | 3.2651%  | -0.0014%                       |
| Reduced fat milk (2%)     | 1.9729%   | 1.9624%  | 0.0105%                        |
| Lowfat milk (1%)          | 0.9812%   | 0.9730%  | 0.0082%                        |
| Nonfat milk (skim)        | 0.0664%   | 0.0727%  | -0.0063%                       |
| Flavored milk             | 3.2686%   | 3.2722%  | -0.0036%                       |
| Flavored reduced fat milk | 0.9490%   | 0.8850%  | 0.0640%                        |
| Flavored nonfat milk      | 0.0498%   | 0.0626%  | -0.0128%                       |
| Buttermilk (2)            | 1.5735%   | 1.5735%  | 0.0000%                        |
| Eggnog                    | 7.4120%   | 8.0730%  | -0.6610%                       |

(1) Per General Order No. A-953 (CRO 8)

(2) Buttermilk is not manufactured by any of the Area 2 cross-section dealers. Butterfat test is from current order.



**PMMB AREA 2**

**COST REPLACEMENT HEARING**

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

**Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy),  
Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA)**

| <b>Type of Expense</b>    | <b>Weighted Expenses for the Six Months Ended June 30 (1)</b> |              | <b>Weighted Points for the Six Months Ended June 30 (1)</b> |             | <b>Cost Per Point</b> |             | <b>Increase (Decrease) Per Point</b> |
|---------------------------|---|--------------|---|-------------|-----------------------|-------------|--------------------------------------|
|                           | <b>2017</b>   | <b>2016</b>  | <b>2017</b>   | <b>2016</b> | <b>2017</b>           | <b>2016</b> |                                      |
| Labor and fringe benefits | \$ 5,007,845  | \$ 4,702,211 | 41,528,402  | 40,599,226  | \$ 0.1206             | \$ 0.1158   | \$0.0048                             |
| Utilities                 | 268,542   | 302,280      | 41,528,402  | 40,599,226  | 0.0065                | 0.0074      | (0.0009)                             |
| Insurance                 | 47,101  | 41,876       | 41,528,402  | 40,599,226  | 0.0011                | 0.0010      | 0.0001                               |
|                           |   |              |   |             |                       |             | <u>\$0.0040</u>                      |

(1) Weighted based on sales in PMMB Area 2.

**PMMB AREA 2**

**COST REPLACEMENT HEARING**

**CHANGES IN DIESEL FUEL COSTS**

**Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy),  
Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA)**

|   |                        |
|---|------------------------|
| Diesel fuel costs – calendar year 2016 (1)                  | \$367,011              |
| Delivery points – calendar year 2016 (1)                    | <u>64,314,042</u>      |
| Diesel fuel cost per point delivered                        | <u><u>\$0.0057</u></u> |
| <br>  |                        |
| Average diesel price – calendar year 2016 (2)               | \$2.437                |
| Average diesel price – November 2017 (2) (3)                | <u>\$3.031</u>         |
| Increase (decrease) from year 2016 to month November 2017   | 24.37%                 |
| <br>  |                        |
| Increase (decrease) in diesel fuel cost per point delivered | <u><u>\$0.0014</u></u> |

- (1) Costs of cross-section dealers weighted by sales in Area 2.
- (2) On-highway diesel prices per gallon for the Central Atlantic Region as published by the U.S. Energy Information Administration.
- (3) November 2017 diesel fuel costs were used by the PMMB in establishing minimum prices for January 2018.

**PMMB AREA 2**

**COST REPLACEMENT HEARING**

**CHANGES IN HEATING FUEL COSTS (NATURAL GAS)**

**Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy),  
Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA)**

|  |                        |
|--|------------------------|
| Heating fuel costs – calendar year 2016 (1)                      | \$74,404               |
| Standardization & pasteurization points – calendar year 2016 (1) | <u>93,310,607</u>      |
| Heating fuel cost per point pasteurized                          | <u><u>\$0.0008</u></u> |
| Average heating fuel costs – calendar year 2016 (2)              | \$7.70                 |
| Average heating fuel costs – September 2017 (2) (3)              | <u>9.09</u>            |
| Increase (decrease) from year 2016 to month September 2017       | 18.05%                 |
| Increase (decrease) in heating fuel cost per point pasteurized   | <u><u>\$0.0001</u></u> |

- (1) Costs of cross-section dealers weighted by sales in Area 2.
- (2) Industrial natural gas prices for Pennsylvania in dollars per thousand cubic feet as published by the U.S. Energy Information Administration.
- (3) September 2017 natural gas costs were used by the PMMB in establishing minimum prices for January 2018.

**REBUTTAL EXHIBIT D10-A**

**PMMB AREA 2**

**COST REPLACEMENT HEARING**

**CALCULATION OF WHOLESALE MINIMUM PRICE  
GALLON REDUCED FAT MILK (2%) FOR JANUARY 2018**

**Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy),  
Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA)**

|   | <u>Reference</u> | <u>Proposed<br/>Order</u>    | <u>Current<br/>Order (2)</u> | <u>Change</u>            |
|---|------------------|------------------------------|------------------------------|--------------------------|
| Butterfat test                            | D6               | 1.9729%                      | 1.9624%                      | 0.0105%                  |
| Butterfat price as announced by PMMB      | (1)              | \$ 2.4949 per lb.            | \$ 2.4949 per lb.            |                          |
| Extended butterfat value                  |                  | \$ 0.0492 per lb.            | \$ 0.0490 per lb.            |                          |
| Skim price as announced by PMMB           | (1)              | \$ 11.60 per cwt.            | \$ 11.60 per cwt.            |                          |
| Extended skim value                       |                  | \$ 0.1137 per lb.            | \$ 0.1137 per lb.            |                          |
| Total milk value at announced prices      |                  | <u>\$ 0.1629</u> per lb.     | <u>\$ 0.1627</u> per lb.     | <u>\$ 0.0002</u>         |
| Ingredient cost                           | D3               | 0.0002                       | 0.0002                       |                          |
| Cost of shrinkage / bulk milk & cream     | D5               | (0.0022)                     | (0.0025)                     |                          |
| Total milk cost per pound                 |                  | <u>\$ 0.1609</u> per lb.     | <u>\$ 0.1604</u> per lb.     | <u>\$ 0.0005</u>         |
| Pounds per gallon (conversion)            |                  | <u>8.62</u>                  | <u>8.62</u>                  |                          |
| Total milk cost per gallon                |                  | <u>\$ 1.3870</u>             | <u>\$ 1.3826</u>             | <u>\$ 0.0044</u>         |
| Container cost (adjusted for shrinkage)   | D3               | 0.1882 each                  | 0.1874 each                  | 0.0008                   |
| Cost center costs                         | D2               | 0.7648                       | 0.7752                       | (0.0104)                 |
| 1st half 2016 to 1st half 2017 adjustment | D7               | 0.0160                       | 0.0172                       | (0.0012)                 |
| Container efficiency adjustment           | (2)              | (0.0794)                     | (0.0794)                     | -                        |
| Percentage discount adjustment            | (3)              | 0.0180                       | 0.0180                       | -                        |
| Diesel fuel adjustment                    | D8               | 0.0056                       | 0.0008                       | 0.0048                   |
| Heating fuels adjustment                  | D9               | 0.0004                       | (0.0004)                     | 0.0008                   |
|   |                  | <u>\$ 2.3006</u> each        | <u>\$ 2.3014</u> each        | <u>\$(0.0008)</u>        |
| Dealer profit at 3.5%                     | (2)              | 0.0834                       | 0.0835                       | \$(0.0001)               |
| Subtotal                                  |                  | <u>\$ 2.3840</u> each        | <u>\$ 2.3849</u> each        | <u>\$(0.0009)</u>        |
| Less: average delivery cost               | (2)              | (0.3356)                     | (0.3356)                     |                          |
| Add: high cost delivery                   | (2)              | 0.9364                       | 0.9364                       |                          |
| <b>Wholesale minimum price</b>            |                  | <u><u>\$ 2.9848</u></u> each | <u><u>\$ 2.9857</u></u> each | <u><u>\$(0.0009)</u></u> |

- (1) As announced for January 2018 by PMMB on December 14, 2017.
- (2) Per OGO A-953 (CRO 8) as updated.
- (3) Per OGO A-972 "Price Adjustments to Account for Interaction of Milk Prices and Wholesale Percentage Discounts."

**REBUTTAL EXHIBIT D10-B**

**PMMB AREA 2**

**COST REPLACEMENT HEARING**

**CALCULATION OF WHOLESALE MINIMUM PRICE  
HALF PINT FLAVORED NONFAT MILK (SKIM) FOR JANUARY 2018**

**Clover Farms Dairy Company, Dean Dairy Holdings, Inc. (d/b/a Swiss Premium Dairy),  
Turkey Hill LP, Tuscan/Lehigh Valley Dairies, Inc. (Schuylkill Haven, PA)**

|   | <u>Reference</u> | <u>Proposed<br/>Order</u>    | <u>Current<br/>Order (2)</u> | <u>Change</u>             |
|---|------------------|------------------------------|------------------------------|---------------------------|
| Butterfat test                            | D6               | 0.0498%                      | 0.0502%                      | -0.0004%                  |
| Butterfat price as announced by PMMB      | (1)              | \$ 2.4949 per lb.            | \$ 2.4949 per lb.            |                           |
| Extended butterfat value                  |                  | \$ 0.0012 per lb.            | \$ 0.0013 per lb.            |                           |
| Skim price as announced by PMMB           | (1)              | \$ 11.60 per cwt.            | \$ 11.60 per cwt.            |                           |
| Extended skim value                       |                  | \$ 0.1159 per lb.            | \$ 0.1159 per lb.            |                           |
| Total milk value at announced prices      |                  | <u>\$ 0.1172 per lb.</u>     | <u>\$ 0.1172 per lb.</u>     | <u>\$ -</u>               |
| Ingredient cost                           | D4               | 0.0291                       | 0.0323                       |                           |
| Cost of shrinkage / bulk milk & cream     | D5               | <u>(0.0022)</u>              | <u>(0.0025)</u>              |                           |
| Total milk cost per pound                 |                  | <u>\$ 0.1441 per lb.</u>     | <u>\$ 0.1470 per lb.</u>     | <u>\$ (0.0029)</u>        |
| Pounds per gallon (conversion)            |                  | <u>0.50</u>                  | <u>0.50</u>                  |                           |
| Total milk cost per half pint             |                  | <u>\$ 0.0721</u>             | <u>\$ 0.0735</u>             | <u>\$ (0.0014)</u>        |
| Container cost (adjusted for shrinkage)   | D3               | 0.0319 each                  | 0.0301 each                  | 0.0018                    |
| Cost center costs                         | D2               | 0.0478                       | 0.0485                       | (0.0007)                  |
| 1st half 2016 to 1st half 2017 adjustment | D7               | 0.0010                       | 0.0011                       | (0.0001)                  |
| Container efficiency adjustment           | (2)              | 0.0233                       | 0.0233                       | -                         |
| Percentage discount adjustment            | (3)              | 0.0011                       | 0.0011                       | -                         |
| Diesel fuel adjustment                    | D8               | 0.0004                       | 0.0001                       | 0.0003                    |
| Heating fuels adjustment                  | D9               |                              |                              | -                         |
|   |                  | <u>\$ 0.1776 each</u>        | <u>\$ 0.1777 each</u>        | <u>\$ (0.0001)</u>        |
| Dealer profit at 3.4%                     | (2)              | <u>0.0064</u>                | <u>0.0064</u>                | <u>\$ -</u>               |
| Subtotal                                  |                  | <u>\$ 0.1840 each</u>        | <u>\$ 0.1841 each</u>        | <u>\$ (0.0001)</u>        |
| Less: average delivery cost               | (2)              | (0.0210)                     | (0.0210)                     |                           |
| Add: high cost delivery                   | (2)              | <u>0.0585</u>                | <u>0.0585</u>                |                           |
| <b>Wholesale minimum price</b>            |                  | <u><b>\$ 0.2215 each</b></u> | <u><b>\$ 0.2216 each</b></u> | <u><b>\$ (0.0001)</b></u> |

(1) As announced for January 2018 by PMMB on December 14, 2017.

(2) Per OGO A-953 (CRO 8) as updated.

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