

# **AREA 5**

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

**JANUARY 3, 2018**

**PMMB AREA 5**

**JANUARY 3, 2018 COST REPLACEMENT HEARING**

**INDEX OF REBUTTAL EXHIBITS**

**Dean Dairy Products Company, LLC (Sharpsville, PA), Meadow Brook Dairy Co., Schneider's Dairy Inc., Turner Dairy Farms Inc., United Dairy Inc. (Martins Ferry, OH), United Dairy Inc. (Uniontown, PA)**

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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: December 15, 2017

**Submitted August 13, 2018**

**PADC EXHIBIT 4.5.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: December 15, 2017

Submitted August 13, 2018

PADC EXHIBIT 4.5.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)

**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 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)

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)

Submitted: December 15, 2017

**Submitted August 13, 2018**

**PADC EXHIBIT 4.5.B**



**Carl D. Herbein, CPA**

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.

**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)

**Carl D. Herbein, CPA**

**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)

**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 5**

**JANUARY 3, 2018 COST REPLACEMENT HEARING**

**PROCESSING, PACKAGING AND DELIVERY COSTS/POINT  
(WEIGHTED AVERAGE BASED ON SALES IN AREA 5)**

**Dean Dairy Products Company, LLC (Sharpsville, PA), Meadow Brook Dairy Co., Schneider's Dairy, Inc.,  
Turner Dairy Farms, Inc., United Dairy, Inc. (Martins Ferry, OH), United Dairy, Inc. (Uniontown, PA)**

<u>Cost Center</u>	<u>Total 2016 Points in PMMB Area 5 (1)</u>	<u>Weighted Average 2016 Cost/Point (1)</u>
Receiving, lab and field work	185,185,971	\$ 0.0241
Standardization and pasteurization	201,024,048	0.0218
Bottling	206,317,169	0.0317
Cold room	230,917,449	0.0475
Delivery	218,549,933	0.1478
Selling	224,679,777	0.0304
		<u>\$ 0.3033</u>

(1) Reflects points (and related cost/point) for sales in PMMB Area 5 for the cross-section dealers.

**REBUTTAL EXHIBIT D2-A**

**PMMB AREA 5**

**JANUARY 3, 2018 COST REPLACEMENT HEARING**

**COST REPLACEMENT ADJUSTMENTS FOR PROCESSING, PACKAGING AND DELIVERY COSTS**

**Dean Dairy Products Company, LLC (Sharpsville, PA), Meadow Brook Dairy Co., Schneider's Dairy, Inc., Turner Dairy Farms, Inc., United Dairy, Inc. (Martins Ferry, OH), United Dairy, Inc. (Uniontown, PA)**

	<b>2016 Weighted Average Cost/Point</b>	<b>2015 Cost/Point Included in Existing Order (1)</b>	<b>Increase (Decrease)</b>
Receiving, lab and field work	\$0.0241	\$0.0091	\$0.0150
Standardization and pasteurization	0.0218	0.0227	(0.0009)
Bottling	0.0317	0.0408	(0.0091)
Cold room	0.0475	0.0461	0.0014
Delivery	0.1478	0.1431	0.0047
Selling	<u>0.0304</u>	<u>0.0341</u>	<u>(0.0037)</u>
Sub total	\$0.3033	\$0.2959	\$0.0074
Add:			
2017 Cost increase (decrease) adjustment - Exhibit D7			0.0091
Less:			
2016 Cost (increase) decrease adjustment (1)			<u>(0.0064)</u>
Net change			<u><u>\$0.0101</u></u>

(1) Per General Order No. A-954 (CRO 7).

**PMMB AREA 5**

**JANUARY 3, 2018 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, PA), Meadow Brook Dairy Co., Schneider’s Dairy, Inc., Turner Dairy Farms, Inc., United Dairy, Inc. (Martins Ferry, OH), United Dairy, Inc. (Uniontown, PA)**

<u>Container Size</u>	<u>March 2017 Container Cost (1)</u>	<u>Adjust from March 2017 to November 2017 - Current (2)</u>	<u>Calculated Shrinkage and Loss (3)</u>	<u>Total Container Cost</u>
Gallon (5)	\$ 0.1547	\$ 0.1641	1.90%	\$ 0.1672
1/2 gallon - plastic	0.1114			
1/2 gallon - paper	(5)			
1/2 gallon - blended (4)	<u>0.1114</u>	0.1165	1.67%	0.1184
Quart - plastic	0.1141			
Quart - paper	<u>0.1371</u>			
Quart - blended (4)	<u>0.1203</u>	0.1264	1.57%	0.1284
Pint - plastic	0.0970			
Pint - paper	<u>0.0488</u>			
Pint - blended (4)	<u>0.0960</u>	0.0994	1.62%	0.1010
Twelve ounce - plastic	0.1123	0.1123		0.1123
Ten ounce - paper (5)	-			
1/2 pint - plastic (4)	0.0705	0.0752	0.92%	0.0759
1/2 pint - paper (4)	0.0286	0.0279	0.85%	0.0281
Four ounce - paper	0.0290	0.0290	1.53%	0.0294
Dispenser	0.0518	0.0518	1.30%	0.0525

- (1) For containers not purchased in March 2017 the most recent invoice was used.
- (2) November 2017 container costs were used by the PMMB to establish minimum resale prices for December 2017.
- (3) 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.
- (4) Current container costs would replace these costs on a monthly basis when the PMMB minimum resale prices are announced.
- (5) Container not packaged in this Area.

**REBUTTAL EXHIBIT D3-A**

**PMMB AREA 5**

**JANUARY 3, 2018 COST REPLACEMENT HEARING**

**ADJUSTED CONTAINER COSTS COMPARED TO CURRENT MONTH  
CONTAINER COSTS – OCTOBER 2014**

**Dean Dairy Products Company, LLC (Sharpsville, PA), Meadow Brook Dairy Co., Schneider's Dairy, Inc.,  
Turner Dairy Farms, Inc., United Dairy, Inc. (Martins Ferry, OH), United Dairy, Inc. (Uniontown, PA)**

<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)	\$ 0.1672	\$ 0.1716	\$ (0.0044)
Half Gallon (2)	0.1184	0.1344	(0.0160)
Quart (2)	0.1284	0.1302	(0.0018)
Pint (2)	0.1010	0.0961	0.0049
1/2 pint - plastic (2)	0.0759	0.0613	0.0146
1/2 pint - paper (2)	0.0281	0.0286	(0.0005)
Four ounce - paper	0.0294	0.0288	0.0006
Dispenser (per quart)	0.0525	0.0739	(0.0214)

(2) Per General Order No. A-954 (CRO 7) as updated.

(3) These container costs to be updated on a monthly basis.

(4) Difference between plastic 1/2 pint and paper 1/2 pint is \$0.0478. PMMB resale price schedules show the 1/2 pint paper price. \$0.0478 is the plastic add-on.

**REBUTTAL EXHIBIT D4**

**PMMB AREA 5**

**JANUARY 3, 2018 COST REPLACEMENT HEARING**

**SUMMARY OF CURRENT INGREDIENT COSTS  
(WEIGHTED AVERAGE BASED ON ACTUAL SALES IN AREA 5)**

**Dean Dairy Products Company, LLC (Sharpsville, PA), Meadow Brook Dairy Co., Schneider's Dairy, Inc.,  
Turner Dairy Farms, Inc., United Dairy, Inc. (Martins Ferry, OH), United Dairy, Inc. (Uniontown, PA)**

	March 2017 Ingredient Cost Per Pound (1)
Standard	\$.0000
Reduced fat (2%) milk	.0001
Low fat (1%) milk	.0001
Nonfat (skim) milk	.0010
Flavored milk	.0372
Flavored reduced fat milk	.0320
Flavored nonfat milk	.0357
Buttermilk	.0215
Eggnog	.1315

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

**REBUTTAL EXHIBIT D4-A**

**PMMB AREA 5**

**JANUARY 3, 2018 COST REPLACEMENT HEARING**

**COST REPLACEMENT ADJUSTMENTS FOR INGREDIENTS**

**Dean Dairy Products Company, LLC (Sharpsville, PA), Meadow Brook Dairy Co., Schneider's Dairy, Inc., Turner Dairy Farms, Inc., United Dairy, Inc. (Martins Ferry, OH), United Dairy, Inc. (Uniontown, PA)**

	<b>March 2017 Weighted Average Cost/Pound</b>	<b>Cost/Pound included in Existing Order (1)</b>	<b>Increase (Decrease)</b>
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)	0.0010	0.0010	0.0000
Flavored milk (2)	0.0372	0.0357	0.0015
Flavored reduced fat milk (2)	0.0320	0.0273	0.0047
Flavored nonfat milk (2)	0.0357	0.0316	0.0041
Buttermilk	0.0215	0.0216	(0.0001)
Eggnog	0.1315	0.1810	(0.0495)

(1) Per General Order OGO A-954 (CRO 7) as updated for flavored milks on October 1, 2017.

(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.



PMMB AREA 5

JANUARY 3, 2018 COST REPLACEMENT HEARING

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

Dean Dairy Products Company, LLC (Sharpsville, PA), Meadow Brook Dairy Co., Schneider's Dairy, Inc.,  
Turner Dairy Farms, Inc., United Dairy, Inc. (Martins Ferry, OH), United Dairy, Inc. (Uniontown, PA)

<u>PMMB Area 5</u>	<u>Costs</u>	<u>Revenues</u>	<u>Weighted Net Cost (Revenue)</u>	<u>Weighted Pounds (1)</u>	<u>Weighted Cost (Revenue) Per Pound</u>
Shrinkage	\$ 1,134,332		\$ 1,134,332		
Bulk milk revenue minus milk costs		666,264			
Bulk milk cost center costs & freight	492,759				
Net bulk milk cost (revenue)			(173,505)		
Bulk cream revenue minus milk costs		2,155,046			
Bulk cream cost center costs	598,844				
Net bulk cream cost (revenue)			(1,556,202)		
Total	<u>\$ 2,225,935</u>	<u>\$ 2,821,310</u>			
Net cost (net revenue) - calendar year 2016			\$ (595,375)	372,048,415	\$ (0.0016)
Net cost (net revenue) in current order - calendar year 2015			<u>\$ (1,519,860)</u>	372,048,415	<u>(0.0041)</u>
Net change - cost increase (cost reduction)			<u>\$ 924,485</u>		<u>\$ 0.0025</u>

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

**REBUTTAL EXHIBIT D6****PMMB AREA 5****JANUARY 3, 2018 COST REPLACEMENT HEARING****BUTTERFAT CONTENT OF PRICE CONTROLLED PRODUCTS**

**Dean Dairy Products Company, LLC (Sharpsville, PA), Meadow Brook Dairy Co., Schneider's Dairy, Inc., Turner Dairy Farms, Inc., United Dairy, Inc. (Martins Ferry, OH), United Dairy, Inc. (Uniontown, PA)**

	<u>2016 Weighted Average Butterfat Test</u>	<u>Butterfat Test included in Existing Order (1)</u>	<u>Increase (Decrease)</u>
Standard milk	3.2667%	3.2731%	-0.0064%
Reduced fat milk (2%)	1.9393%	1.9409%	-0.0016%
Lowfat milk (1%)	0.9642%	0.9589%	0.0053%
Nonfat milk (skim)	0.0961%	0.0979%	-0.0018%
Flavored milk	3.4208%	3.4030%	0.0178%
Flavored reduced fat milk	1.0196%	1.0433%	-0.0237%
Flavored nonfat milk	0.2505%	0.2099%	0.0406%
Buttermilk	2.0521%	2.1865%	-0.1344%
Eggnog	6.6523%	6.3203%	0.3320%

(1) Per General Order No. A-954 (CRO 7)

**PMMB AREA 5**

**JANUARY 3, 2018 COST REPLACEMENT HEARING**

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

**Dean Dairy Products Company, LLC (Sharpsville, PA), Meadow Brook Dairy Co., Schneider's Dairy, Inc.,  
Turner Dairy Farms, Inc., United Dairy, Inc. (Martins Ferry, OH), United Dairy, Inc. (Uniontown, 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	\$ 19,975,062	\$ 19,819,465	101,371,964	101,945,256	\$ 0.1970	\$ 0.1944	\$0.0026
Utilities	1,220,515	1,182,095	101,371,964	101,945,256	0.0120	0.0116	0.0004
Insurance	811,826	192,298	101,371,964	101,945,256	0.0080	0.0019	0.0061
							<u>\$0.0091</u>

(1) Weighted based on sales in PMMB Area 5

**PMMB AREA 5**

**JANUARY 3, 2018 COST REPLACEMENT HEARING**

**CHANGES IN DIESEL FUEL COSTS**

**Dean Dairy Products Company, LLC (Sharpsville, PA), Meadow Brook Dairy Co., Schneider's Dairy, Inc., Turner Dairy Farms, Inc., United Dairy, Inc. (Martins Ferry, OH), United Dairy, Inc. (Uniontown, PA)**

Diesel fuel costs – calendar year 2016 (1)	\$2,283,077
Delivery points – calendar year 2016 (1)	<u>218,549,933</u>
Diesel fuel cost per point delivered	<u><u>\$0.0104</u></u>
Average diesel price – calendar year 2016 (2)	\$2.437
Average diesel price – October 2017 (2) (3)	<u>\$2.928</u>
Increase (decrease) from year 2016 to month October 2017	20.15%
Increase (decrease) in diesel fuel cost per point delivered	<u><u>\$0.0021</u></u>

- (1) Costs of cross-section dealers weighted by sales in Area 5.
- (2) On-highway diesel prices per gallon for the Central Atlantic Region as published by the U.S. Energy Information Administration.
- (3) October 2017 diesel fuel costs were used by the PMMB in establishing minimum prices for December 2017.

**PMMB AREA 5**

**JANUARY 3, 2018 COST REPLACEMENT HEARING**

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

**Dean Dairy Products Company, LLC (Sharpsville, PA), Meadow Brook Dairy Co., Schneider's Dairy, Inc., Turner Dairy Farms, Inc., United Dairy, Inc. (Martins Ferry, OH), United Dairy, Inc. (Uniontown, PA)**

Heating fuel costs – calendar year 2016 (1)	\$263,704
Standardization & pasteurization points – calendar year 2016 (1)	<u>201,024,048</u>
Heating fuel cost per point pasteurized	<u><u>\$0.0013</u></u>
Average heating fuel costs – calendar year 2016 (2)	\$7.70
Average heating fuel costs – August 2017 (2) (3)	<u>9.32</u>
Increase (decrease) from year 2016 to month August 2017	21.04%
Increase (decrease) in heating fuel cost per point pasteurized	<u><u>\$0.0003</u></u>

- (1) Costs of cross-section dealers weighted by sales in Area 5.
- (2) Industrial natural gas prices for Pennsylvania in dollars per thousand cubic feet as published by the U.S. Energy Information Administration.
- (3) August 2017 natural gas costs were used by the PMMB in establishing minimum prices for December 2017.

**REBUTTAL EXHIBIT D10-A**

**PMMB AREA 5**

**JANUARY 3, 2018 COST REPLACEMENT HEARING**

**CALCULATION OF WHOLESALE MINIMUM PRICE  
GALLON REDUCED FAT MILK (2%) FOR DECEMBER 2017**

**Dean Dairy Products Company, LLC (Sharpsville, PA), Meadow Brook Dairy Co., Schneider's Dairy, Inc.,  
Turner Dairy Farms, Inc., United Dairy, Inc. (Martins Ferry, OH), United Dairy, Inc. (Uniontown, PA)**

	<u>Reference</u>	<u>Proposed Order</u>	<u>Current Order (2)</u>	<u>Change</u>
Butterfat test	D6	1.9393%	1.9409%	-0.0016%
Butterfat price as announced by PMMB	(1)	\$ 2.6236 per lb.	\$ 2.6236 per lb.	
Extended butterfat value		\$ 0.0509 per lb.	\$ 0.0509 per lb.	
Skim price as announced by PMMB	(1)	\$ 12.58 per cwt.	\$ 12.58 per cwt.	
Extended skim value		\$ 0.1234 per lb.	\$ 0.1234 per lb.	
Total milk value at announced prices		<u>\$ 0.1742 per lb.</u>	<u>\$ 0.1743 per lb.</u>	<u>\$ (0.0001)</u>
Ingredient cost	D4	0.0001	0.0001	
Cost of shrinkage / bulk milk & cream	D5	(0.0016)	(0.0041)	
Total milk cost per pound		<u>\$ 0.1727 per lb.</u>	<u>\$ 0.1703 per lb.</u>	<u>\$ 0.0024</u>
Pounds per gallon (conversion)		<u>8.62</u>	<u>8.62</u>	
Total milk cost per gallon		<u>\$ 1.4887</u>	<u>\$ 1.4680</u>	<u>\$ 0.0207</u>
Container cost (adjusted for shrinkage)	D3	0.1672 each	0.1716 each	(0.0044)
Cost center costs	D2	1.2132	1.1836	0.0296
1st half 2017 to 1st half 2016 adjustment	D7	0.0364	0.0256	0.0108
Container efficiency adjustment	(2)	(0.1067)	(0.1067)	-
Percentage discount adjustment	(3)	0.0060	0.0060	-
Diesel fuel adjustment	D8	0.0084	-	0.0084
Heating fuels adjustment	D9	0.0012	(0.0004)	0.0016
		<u>\$ 2.8144 each</u>	<u>\$ 2.7477 each</u>	<u>\$ 0.0667</u>
Dealer profit at 3.5%	(2)	0.1021	0.0997	\$ 0.0024
Subtotal		<u>\$ 2.9165 each</u>	<u>\$ 2.8474 each</u>	<u>\$ 0.0691</u>
Less: average delivery cost	(2)	(0.5220)	(0.5220)	
Add: high cost delivery	(2)	0.9748	0.9748	
<b>Wholesale minimum price</b>		<u><u>\$ 3.3693 each</u></u>	<u><u>\$ 3.3002 each</u></u>	<u><u>\$ 0.0691</u></u>

(1) As announced for December 2017 by PMMB on November 16, 2017

(2) Per OGO A-954 (CRO 7) as updated.

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

Submitted: December 15, 2017

Submitted August 13, 2018

PADC EXHIBIT 4.5.B

**REBUTTAL EXHIBIT D10-B**

**PMMB AREA 5**

**JANUARY 3, 2018 COST REPLACEMENT HEARING**

**CALCULATION OF WHOLESALE MINIMUM PRICE  
HALF PINT FLAVORED NONFAT MILK (SKIM) FOR DECEMBER 2017**

**Dean Dairy Products Company, LLC (Sharpsville, PA), Meadow Brook Dairy Co., Schneider’s Dairy, Inc.,  
Turner Dairy Farms, Inc., United Dairy, Inc. (Martins Ferry, OH), United Dairy, Inc. (Uniontown, PA)**

	<u>Reference</u>	<u>Proposed Order</u>	<u>Current Order (2)</u>	<u>Change</u>
Butterfat test	D2-B	0.2505%	0.2099%	0.0406%
Butterfat price as announced by PMMB	(1)	\$ 2.6236 per lb.	\$ 2.6236 per lb.	
Extended butterfat value		\$ 0.0066 per lb.	\$ 0.0055 per lb.	
Skim price as announced by PMMB	(1)	\$ 12.58 per cwt.	\$ 12.58 per cwt.	
Extended skim value		\$ 0.1255 per lb.	\$ 0.1255 per lb.	
Total milk value at announced prices		<u>\$ 0.1321 per lb.</u>	<u>\$ 0.1310 per lb.</u>	<u>\$ 0.0011</u>
Ingredient cost	D2	0.0357	0.0316	
Cost of shrinkage / bulk milk & cream	D7	(0.0016)	(0.0041)	
Total milk cost per pound		<u>\$ 0.1662 per lb.</u>	<u>\$ 0.1585 per lb.</u>	<u>\$ 0.0077</u>
Pounds per gallon (conversion)		<u>0.50</u>	<u>0.50</u>	
Total milk cost per half pint		<u>\$ 0.0831</u>	<u>\$ 0.0793</u>	<u>\$ 0.0038</u>
Container cost (adjusted for shrinkage)	D8	0.0281 each	0.0286 each	(0.0005)
Cost center costs	D3	0.0758	0.0740	0.0018
1st half 2017 to 1st half 2016 adjustment	D4	0.0023	0.0016	0.0007
Container efficiency adjustment	(2)	0.0367	0.0367	-
Percentage discount adjustment	(3)	0.0004	0.0004	-
Diesel fuel adjustment	D5	0.0005	-	0.0005
Heating fuels adjustment	D6	0.0001	-	0.0001
		<u>\$ 0.2270 each</u>	<u>\$ 0.2206 each</u>	<u>\$ 0.0064</u>
Dealer profit at 3.5%	(2)	<u>0.0082</u>	<u>0.0080</u>	<u>\$ 0.0002</u>
Subtotal		<u>\$ 0.2352 each</u>	<u>\$ 0.2286 each</u>	<u>\$ 0.0066</u>
Less: average delivery cost	(2)	(0.0326)	(0.0326)	
Add: high cost delivery	(2)	<u>0.0609</u>	<u>0.0609</u>	
<b>Wholesale minimum price</b>		<u><b>\$ 0.2635 each</b></u>	<u><b>\$ 0.2569 each</b></u>	<u><b>\$ 0.0066</b></u>

(1) As announced for December 2017 by PMMB on November 16, 2017.

(2) Per OGO A-954 (CRO 7) as updated.

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

REBUTTAL TESTIMONY OF

CARL D. HERBEIN, CPA

Appearing on Behalf of the Area 5 Milk Dealer Association

Rebuttal Testimony before Pennsylvania Milk Marketing Board

Cost Replacement Hearing Based on Annual Reports Filed in 2017

January 3, 2018



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

### **Area 5 – 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 5 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 5 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 5 cross-section of dealers utilized includes Dean Dairy Products Company, LLC (Sharpsville, PA), Meadow Brook Dairy Co., Schneider's Dairy Inc., Turner Dairy Farms Inc., United Dairy Inc. (Martins Ferry, OH), United Dairy Inc. (Uniontown, PA). These companies process, package and deliver the majority of fluid milk products in Area 5 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 5 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 5 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.

It is my understanding that the rather insignificant differences between PMMB Staff's initial submission and my rebuttal exhibits will be reconciled with the filing of the surrebuttal exhibits by PMMB Staff, and I will be happy to address any remaining differences on the stand at the hearing if necessary.

### **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 increase 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 206,317,169 for the cross-section dealers and this compares with 2015's bottling department points of 211,868,528. This comparison reflects a 2.6% decrease 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 5. 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 5 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 \$0.0478 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 (.0041) per pound and the new net revenue, based on 2016 is (.0016) per pound. Thus, there has been a new net change of (.0025) 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 .0056% less 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 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 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 December 2017. 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 5 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 5 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.