



Commonwealth of Pennsylvania
Milk Marketing Board
2301 North Cameron Street
Harrisburg, PA 17110-9408

717/787-4194
Fax 717/783-6492

WEB SITE: <http://www.mmb.pa.gov>

E-mail: ra-pmmb@pa.gov

Official General
Order No. A-954 (CRO 14)

Posted: December 6, 2023
Effective: January 1, 2024

**COST REPLACEMENT ORDER FOR THE
WESTERN MILK MARKETING AREA, AREA 5**

NOW, this 6th day of December 2023, the Commonwealth of Pennsylvania, Milk Marketing Board, issues this official general order pursuant to the authority conferred by the Milk Marketing Law, 31 P.S. §§ 700j-101 – 700j-1204. This order will become effective at 12:01 a.m. on January 1, 2024.

**SECTION A
INCORPORATION**

The attached Findings of Fact, Conclusions of Law, and Attachments are incorporated herein by reference as though fully set forth in this order.

**SECTION B
SCOPE**

(a) The costs adopted by the Board in this order shall replace the costs in the appropriate cost centers embodied in Official General Order A-954 (CRO 13) and will be incorporated into the wholesale and retail prices of Class I and II price-controlled packaged products sold in Milk Marketing Area No. 5, as defined in Section B of Official General Order A-954.

- (b) The rate of return to dealers is 3.5%.
- (c) The rate of return to retailers is 2.7%.

SECTION C
EFFECTIVENESS OF OFFICIAL GENERAL ORDER A-954

All parts of Official General Order A-954 not inconsistent with Section B (relating to scope) continue in effect.

PENNSYLVANIA MILK MARKETING BOARD

Robert N. Barley, Chairman

James A. Van Blarcom, Member

Kristi Kassimer Harper, Consumer Member

Date: December 6, 2023

IF YOU REQUIRE THIS INFORMATION IN AN ALTERNATE FORMAT, PLEASE CALL
717-787-4194 OR 1-800-654-5984 (PA RELAY SERVICE FOR TDD USERS).

FINDINGS OF FACT AND CONCLUSIONS OF LAW
COST REPLACEMENT HEARING FOR MILK MARKETING AREA NO. 5

I. FINDINGS OF FACT

1. On November 1, 2023, the Pennsylvania Milk Marketing Board (“Board”) convened a cost replacement hearing for Milk Marketing Area No. 5.

2. Notice of the hearing was published at 53 Pennsylvania Bulletin 6015 dated September 23, 2023. It was also mailed to those who have requested mailed notice of Board hearings via Board Bulletin No. 1632, dated September 12, 2023. The hearing notice enumerated the scope of evidence that the Board would receive.

3. The dealer cross-section used by both Board Staff and the Area 5 Milk Dealers (Dealers), the only parties to present dealer cost information, consisted of DFA Dairy Brands Fluid, LLC – Sharpsville; Galliker Dairy Company; Schneider's Dairy, Inc.; Turner Dairy Farms, Inc.; United Dairy, Inc.; and United Dairy – Fikes.

4. Gary Gojsovich, testifying on behalf of Board Staff as an expert in milk industry cost accounting and regulation, testified that the cross section was representative of the dealers doing business in Area 5. Alexandra Deimler, testifying on behalf of the Dealers as an expert in cost accounting and milk cost accounting, agreed that the cross section was representative of dealers doing business in Area 5. Based on the testimony of Mr. Gojsovich and Ms. Deimler, the Board finds that the dealer cross section used by both Board Staff and Dealers is representative of dealers doing business in Area 5.

5. Mr. Gojsovich testified that the cross-section dealers incurred a cost of \$0.3958 per point for processing, packaging, and delivering milk in 2022. Ms. Deimler agreed. The Board finds that the cross section dealers incurred a cost of \$0.3958 per point for processing, packaging, and delivery, and further finds that \$0.3958 is the processing, packaging, and delivery cost that should be used in this order.

6. Mr. Gojsovich testified to the following 2023 ingredient costs, based on year 2022 pounds: Standard Milk - \$0.0000/lb; Reduced Fat Milk - \$0.0001/lb; Low Fat Milk - \$0.0001/lb; Non-Fat Milk - \$0.0009/lb; Flavored Milk - \$0.0562/lb; Flavored Reduced Fat Milk - \$0.0516/lb; Flavored Non-Fat Milk - \$0.0411/lb; Buttermilk - \$0.0433/lb; Egg Nog - \$0.2522/lb. Ms. Deimler agreed. The Board finds that these ingredient costs should be used in this order.

7. Mr. Gojsovich presented evidence regarding the cost update for labor, insurance, and utility costs of \$0.0106 per point between the first halves of 2023 and 2022. Ms. Deimler agreed. We find that \$0.0106 should be used in this order.

8. Mr. Gojsovich and Ms. Deimler recommended that the diesel fuel cost adjustment continue. The Board finds that the adjustment should continue, based on the methodology

presented by Mr. Gojsovich in Staff Surrebuttal Exhibit 8 and attached to this order as Attachment 1.

9. Mr. Gojsovich and Ms. Deimler recommended that the heating fuel cost adjustment continue. The Board finds that the adjustment should continue, based on the methodology presented by Mr. Gojsovich in Staff Surrebuttal Exhibit 9 and attached to this order as Attachment 2.

10. Mr. Gojsovich testified that the cross section dealers incurred a cost of \$0.0033 per pound attributable to shrinkage and sales of bulk products during 2022. Ms. Deimler agreed. The Board finds that the cost of shrinkage and sales of bulk products to be used in this order should be \$0.0033 per pound.

11. Based on the container costs evidence presented by Mr. Gojsovich, which Ms. Deimler also recommended the Board adopt, the Board finds that the following base container costs should be adopted for this order: Gallon - \$0.2550; Half Gallon - \$0.1933; Quart - \$0.1800; Pint - \$0.1800; Half Pint (paper) - \$0.0363; Half Pint (plastic) - \$0.0864; 12 Ounce - \$0.1766; 10 Ounce - \$0.0544; 4 Ounce - \$0.0354; Bulk Per Quart - \$0.1026. Both Mr. Gojsovich and Ms. Deimler testified that container costs should continue to be updated monthly; the Board agrees and finds that container costs should continue to be updated monthly, based on the base weighted costs and weighted units testified to by Mr. Gojsovich and as listed above. The Board also finds that the weighted shrinkage factor should continue to be applied to container costs.

The Board further finds that minimum resale prices for products sold in half pint containers should be calculated using the paper container cost for products sold in paper containers and by applying a plastic add-on to the paper container cost for products sold in rigid plastic containers. Based on the testimony of Mr. Gojsovich and Ms. Deimler, we find the plastic add-on is \$0.0501 and that the add-on should be adjusted monthly based on the monthly container cost surveys.

12. Mr. Gojsovich testified that the container efficiency adjustment should be updated. Ms. Deimler agreed.

Based on 2022 container sales and 2022 costs per point for the bottling, cold room, and delivery cost centers, Mr. Gojsovich calculated the following container efficiency adjustments:

Gallon	\$ (0.1217)
Half Gallon	\$ (0.0867)
Quart	\$ 0.1131
Pint	\$ 0.1039
12 ounce	\$ 0.0746
Half Pint (Plastic and Paper)	\$ 0.0231
4 ounce	\$ 0.0363
Bulk (per quart)	\$ 0.1316

The Board finds that the container efficiency adjustments should be updated as presented by Mr. Gojsovich.

13. No party presented evidence regarding Class II products. Since there was no proposal by any party to change Class II pricing, the Board finds that the current Class II pricing methodology shall continue.

14. Ms. Deimler recommended that the dealer rate of return remain at 3.5%. She testified that the rate of return serves as an important factor in the ability of Pennsylvania's fluid milk processors to maintain and invest in their operations. Ms. Deimler also testified that maintaining the current rate of return is important for consistency and stability when the fresh fluid milk industry continues to face a difficult business environment.

Based on Ms. Deimler's credible and uncontradicted testimony the Board finds that the dealer rate of return should remain at 3.5%.

15. No evidence was presented at this hearing regarding retail prices. Since no evidence was presented, the Board finds that the current retail rate of return of 2.7% should remain in place and further finds that the monthly CPI adjustment to current in-store handling costs remain in effect.

16. Mr. Gojsovich testified that the cost replacement process would result in the minimum retail price of a gallon of 2% milk increasing \$0.11. He testified that the majority of that increase was attributable to the increase in processing costs from 2021 to 2022.

II. CONCLUSIONS OF LAW

1. The April 19, 2023, cost replacement hearing for Milk Marketing Area No. 5 was held pursuant to authority granted to the Board in section 801 of the Milk Marketing Law (Law), 31 P.S. § 700j-801.

2. The record of the Area 3 hearing held on November 1, 2023, was incorporated by reference into the record of this hearing.

3. The hearing was held following adequate notice, and all interested persons were given a reasonable opportunity to be heard.

4. The cross-section used to establish dealer costs met the requirement of representativeness of section 801 of the Law.

5. In establishing the attached order, the Board has considered the entire record and has concluded that the adoption of this order is supported by a preponderance of the evidence and is reasonable and appropriate under section 801 of the Law, subject to any revisions or amendments the Board may make in the manner set forth in the Law.

PENNSYLVANIA MILK MARKETING BOARD

Robert N. Barley, Chairman

James A. Van Blarcom, Member

Kristi Kassimer Harper, Consumer Member

Date: December 6, 2023

IF YOU REQUIRE THIS INFORMATION IN AN ALTERNATE FORMAT, PLEASE CALL (717) 787-4194 OR 1-800-654-5984 (PA RELAY SERVICE FOR TDD USERS).

PENNSYLVANIA MILK MARKETING BOARD
MILK MARKETING AREA 5

Diesel Fuel Costs Adjustment

Update of Diesel Fuel Costs from YEAR 2022 to AUGUST 2023

1. Weighted Diesel Fuel Costs - YEAR 2022	\$	4,194,347
2. Average On-Highway Diesel Price per Gallon - YEAR 2022 (1)	\$	5.354
3. On-Highway Diesel Price per Gallon - AUGUST 2023 (1)	\$	4.516
4. Percent Change In Diesel Fuel Price per Gallon ((Line 3 - Line 2) ÷ Line 2)		-15.65%
5. Presumed Diesel Fuel Costs - AUGUST 2023 ((Line 1 X Line 4) + Line 1)	\$	<u>3,537,932</u>
6. Change in Diesel Fuel Costs from YEAR 2022 to AUGUST 2023 (Line 5 - Line 1)	\$	(656,415)
7. Weighted Delivery Points - YEAR 2022		<u>168,821,330</u>
8. Change in Diesel Fuel Costs per Delivery Point (Line 6 ÷ Line 7)	\$	<u>(0.0039)</u>

Footnote:

1. Source: 'Weekly Retail On-Highway Diesel Prices' per Energy Information Administration website.
web address = https://www.eia.gov/dnav/pet/pet_pri_gnd_dcus_r1y_w.htm

PENNSYLVANIA MILK MARKETING BOARD
MILK MARKETING AREA 5

Heating Fuel Costs Adjustment

Update of Heating Fuel Costs from YEAR 2022 to JUNE 2023

1. Weighted Heating Fuel Costs - YEAR 2022	\$	307,927
2. Pennsylvania Average Natural Gas Price - Industrial - YEAR 2022 (1)	\$	11.35
3. Pennsylvania Average Natural Gas Price - Industrial - JUNE 2023 (1)	\$	8.54
4. Percent Change In Natural Gas Price ((Line 3 - Line 2) ÷ Line 2)		-24.76%
5. Presumed Heating Fuel Costs - JUNE 2023 ((Line 1 X Line 4) + Line 1)	\$	<u>231,684</u>
6. Change in Heating Fuel Costs from YEAR 2022 to JUNE 2023 (Line 5 - Line 1)	\$	(76,243)
7. Weighted Standardization & Pasteurization (S&P) Points - YEAR 2022		<u>154,063,041</u>
8. Change in Heating Fuel Costs per S&P Point (Line 6 ÷ Line 7)	\$	<u>(0.0005)</u>

Footnote:

1. Source: Pennsylvania Natural Gas Industrial Price per Energy Information Administration website.
web address = https://www.eia.gov/dnav/ng/ng_pri_sum_dcu_SPA_m.htm

PENNSYLVANIA MILK MARKETING BOARD
MILK MARKETING AREA 5

MILK COSTS BEFORE PACKAGING
OCTOBER 2023 MILK PRICES

Class I	
Skim Rate	\$ 13.36
Butterfat Rate	\$ 3.0901

Product Description	Product Pounds	A	B	C	D	E	F	G	H	I	J	K
				(B ÷ A)	(A - B)	(B X BF Rate)	(D X Skim Rate)	(E + F)	(G ÷ A)	(EX. 4)	(EX. 5)	(H + I + J)
		Butterfat	Skim	Butterfat	Skim	Total	Cost per	Ingredient	Bulk Sale	Total		
Pounds	Percentage	Pounds	Pounds	Value	Value	Value	Pound	Cost	(Profit)/Loss	Cost per Pound		

Class I	Standard Milk	64,025,702	2,088,167	3.2615%	61,937,535	\$ 6,452,645	\$ 8,274,855	\$ 14,727,500	\$ 0.2300	\$ -	\$ 0.0033	\$ 0.2333
	Reduced Fat (2%) Milk	94,984,008	1,802,890	1.8981%	93,181,118	\$ 5,571,110	\$ 12,448,997	\$ 18,020,107	\$ 0.1897	\$ 0.0001	\$ 0.0033	\$ 0.1931
	Low Fat (1%) Milk	29,042,693	259,950	0.8951%	28,782,743	\$ 803,271	\$ 3,845,374	\$ 4,648,645	\$ 0.1601	\$ 0.0001	\$ 0.0033	\$ 0.1635
	Non Fat (Skim) Milk	18,305,117	21,666	0.1184%	18,283,451	\$ 66,950	\$ 2,442,669	\$ 2,509,619	\$ 0.1371	\$ 0.0009	\$ 0.0033	\$ 0.1413
	Flavored Milk	16,305,225	564,959	3.4649%	15,740,266	\$ 1,745,780	\$ 2,102,900	\$ 3,848,680	\$ 0.2360	\$ 0.0562	\$ 0.0033	\$ 0.2955
	Flavored Reduced Fat Milk	18,087,999	186,826	1.0329%	17,901,173	\$ 577,311	\$ 2,391,597	\$ 2,968,908	\$ 0.1641	\$ 0.0516	\$ 0.0033	\$ 0.2190
	Flavored NONFAT Milk	11,713,190	27,807	0.2374%	11,685,383	\$ 85,926	\$ 1,561,167	\$ 1,647,093	\$ 0.1406	\$ 0.0411	\$ 0.0033	\$ 0.1850
	Buttermilk	1,539,693	25,383	1.6486%	1,514,310	\$ 78,436	\$ 202,312	\$ 280,748	\$ 0.1823	\$ 0.0433	\$ 0.0033	\$ 0.2289
	Egg Nog	584,468	39,924	6.8308%	544,544	\$ 123,369	\$ 72,751	\$ 196,120	\$ 0.3356	\$ 0.2522	\$ 0.0033	\$ 0.5911

PENNSYLVANIA MILK MARKETING BOARD
MILK MARKETING AREA 5

WHOLESALE PRICE BUILDUP
OCTOBER 2023 MILK PRICES

	A EX. 6	B EX. 3	C EXS. 7, 8 & 9 ⁽¹⁾	D EX. 10	E EX. 2	F (A+B+C+D+E)	G	H (F + G)	I	J	K (H + I + J)	L	M (K - L)	
Container Size	Milk Cost	Container Cost	Cost Update & Energy Add-On Adjustments	Container Efficiency Adjustment	Processing Cost	Average Delivered Cost	Dealer Profit 3.50%	Price with Profit	Less: Average Delivery	Plus: High Cost Delivery	Proposed Wholesale Price	Current Wholesale Price	Increase (Decrease)	
EGGNOG	GALLON	\$ 4.7288	\$ 0.2581	\$ 0.0124	\$ (0.1217)	\$ 1.5832	\$ 6.4608	\$ 0.2343	\$ 6.6951	\$ (0.5220)	\$ 0.9748	\$ 7.1479	\$ 6.2886	\$ 0.8593
	1/2 GALLON	\$ 2.3644	\$ 0.1889	\$ 0.0062	\$ (0.0867)	\$ 0.7916	\$ 3.2644	\$ 0.1184	\$ 3.3828	\$ (0.2610)	\$ 0.4874	\$ 3.6092	\$ 3.1899	\$ 0.4193
	QUART	\$ 1.1822	\$ 0.1828	\$ 0.0031	\$ 0.1131	\$ 0.3958	\$ 1.8770	\$ 0.0681	\$ 1.9451	\$ (0.1305)	\$ 0.2437	\$ 2.0583	\$ 1.8805	\$ 0.1778
	PINT	\$ 0.5911	\$ 0.1619	\$ 0.0016	\$ 0.1039	\$ 0.1979	\$ 1.0564	\$ 0.0383	\$ 1.0947	\$ (0.0653)	\$ 0.1219	\$ 1.1513	\$ 1.0383	\$ 0.1130
	12 OUNCE	\$ 0.4433	\$ 0.1766	\$ 0.0012	\$ 0.0746	\$ 0.1484	\$ 0.8440	\$ 0.0306	\$ 0.8746	\$ (0.0489)	\$ 0.0914	\$ 0.9171	\$ 0.7916	\$ 0.1255
	10 OUNCE	\$ 0.3694	\$ 0.0544	\$ 0.0010	\$ -	\$ 0.1237	\$ 0.5485	\$ 0.0199	\$ 0.5684	\$ (0.0435)	\$ 0.0812	\$ 0.6061	\$ 0.5388	\$ 0.0673
	1/2 PINT	\$ 0.2956	\$ 0.0425	\$ 0.0008	\$ 0.0231	\$ 0.0990	\$ 0.4610	\$ 0.0167	\$ 0.4777	\$ (0.0326)	\$ 0.0609	\$ 0.5060	\$ 0.4487	\$ 0.0573
	4 OUNCE	\$ 0.1478	\$ 0.0359	\$ 0.0004	\$ 0.0363	\$ 0.0495	\$ 0.2699	\$ 0.0098	\$ 0.2797	\$ (0.0163)	\$ 0.0305	\$ 0.2939	\$ 0.2630	\$ 0.0309
	Bulk per Quart	\$ 1.1822	\$ 0.1039	\$ 0.0031	\$ 0.1316	\$ 0.3958	\$ 1.8166	\$ 0.0659	\$ 1.8825	\$ (0.1305)	\$ 0.2437	\$ 1.9957	\$ 1.8778	\$ 0.1179

Footnote:

1, per O.G.O. A-972, also includes an adjustment for the 'Discount Effect' in the amount of -\$0.0031 per quart equivalent.

**PENNSYLVANIA MILK MARKETING BOARD
MILK MARKETING AREA 5**

RETAIL PRICE BUILDUP OCTOBER 2023 PRICES

**PENNSYLVANIA MILK MARKETING BOARD
MILK MARKETING AREA 5**

RETAIL PRICE BUILDUP OCTOBER 2023 PRICES

PENNSYLVANIA MILK MARKETING BOARD
MILK MARKETING AREA 5

RETAIL PRICE BUILDUP
OCTOBER 2023 PRICES

	A EX. 11	B	C	D	E (A+B+C+D)	F	G (E - F)
Container Size	Proposed Wholesale Price	12.0% Deepest Discount	In-Store Handling	2.7% Store Profit	Proposed Retail Price	Current Retail Price	Increase (Decrease)
EGG NOG	GALLON	\$ 7.1479	\$ (0.8577)	\$ 0.6875	\$ 0.1936	\$ 7.17	\$ 6.39 \$ 0.78
	1/2 GALLON	\$ 3.6092	\$ (0.4331)	\$ 0.4521	\$ 0.1007	\$ 3.73	\$ 3.35 \$ 0.38
	QUART	\$ 2.0583	\$ (0.2470)	\$ 0.2583	\$ 0.0574	\$ 2.13	\$ 1.97 \$ 0.16
	PINT	\$ 1.1513	\$ (0.1382)	\$ 0.2098	\$ 0.0339	\$ 1.26	\$ 1.15 \$ 0.11
	12 OUNCE	\$ 0.9171	\$ (0.1101)	\$ 0.1574	\$ 0.0268	\$ 0.99	\$ 0.88 \$ 0.11
	10 OUNCE	\$ 0.6061	\$ (0.0727)	\$ 0.1311	\$ 0.0184	\$ 0.68	\$ 0.62 \$ 0.06
	1/2 PINT	\$ 0.5060	\$ (0.0607)	\$ 0.1546	\$ 0.0166	\$ 0.62	\$ 0.56 \$ 0.06
	4 OUNCE	\$ 0.2939	\$ (0.0353)	\$ 0.0773	\$ 0.0093	\$ 0.35	\$ 0.32 \$ 0.03
	Bulk per Quart	\$ 1.9957	\$ (0.2395)	\$ 0.2583	\$ 0.0559	\$ 2.07	\$ 1.96 \$ 0.11