PENNSYLVANIA MILK MARKETING BOARD STAFF REBUTTAL TESTIMONY

WHOLESALE DISCOUNT HEARING

October 2, 2013

Good morning. My name is David DeSantis. I am the Chief of Enforcement & Accounting for the Pennsylvania Milk Marketing Board. The Bulletin announcing this hearing simply states that the purpose of the hearing is to receive testimony and exhibits concerning establishing an additional level of wholesale discount. The underlying reason for this hearing, in my opinion, is to address an emerging issue in our discounted wholesale prices. This issue is evidenced in the fact that major retailers such as Aldi, Bottom Dollar, Supervalu Stores and others have, for some time now, been sourcing their milk from outside the state. By purchasing their milk from beyond our borders, these retailers are avoiding the Board's minimum price. These significant trends in buying patterns of retailers who source outside Pennsylvania are indicative of an issue with our minimum wholesale price that may be addressed at this hearing. In order to buy milk outside the state, the price difference between the regulated domestic price and the unregulated out-of-state price must be sufficient to cover the cost of transportation and logistics of moving milk into Pennsylvania.

To address this issue we have studied the underlying dealer costs adopted by the Board in our most recent Cost Replacement Hearings. The most direct analysis was to study the dock price for our cross-section dealers. To do this we simply looked at all the costs borne by the dealers except delivery. This made sense since the retailers that have taken their business outside the state obviously have robust transportation capabilities if they are moving what we believe are significant quantities of milk into the state.

Staff Exhibits 1 – 6. Staff Exhibits 1 – 6 provide cost center cost details for the cross-section dealers. It is similar to cost center information that is regularly presented at Cost Replacement hearings. In fact it is the 2011 information that was used at last year's Cost Replacement hearings except that items which are updated monthly have been updated accordingly. The biggest difference is that no delivery costs are listed since we are proposing a different level of dock discount. We are using the same cross-sections used in the Cost Replacement hearings. The weighted costs in Staff Exhibit 1 are specific to the Area 1 cross-section of Lehigh, Hood, Wawa, and Balford Farms. The same can be said for Exhibits 2 through 6 for the five other Milk Marketing Areas.

Staff Exhibit 7. Staff Exhibit 7 summarizes all other costs found in our pricing spreadsheet in each of the six milk marketing areas.

Line A – The milk cost on line A is the cost of milk for a gallon of 2% adjusted for the area-specific milk values for the month of August 2013.
Line B – The line B container cost is the announced gallon plastic cost for each area.
Line C – The small container adjustment is the adjustment that accounts for the efficiency of filling and handling large container relative to smaller containers. The line C adjustments are in each of the base Orders.
Line D – The line D costs account for updates of labor, insurance and utilities found in the latest Cost Replacement Orders.
Line E – The latest energy updates published with the August prices are on line E for each area.
Line F – Line F provides the gallon processing costs from Exhibits 3 – 8, Line G.
Line G – Line G is the sum of lines A through F.
Line H – Line H is the current profit rate.
Line I – Line I is the profit based on the rate and costs on lines H and G.
Line J – Line J is the cost and profit without delivery costs.
Line K – Line K is the announced 2% gallon price for August.
Line L – Line L compares the dock cost with profit on Line J to the current undiscounted wholesale price on Line K.
Line M – Line M simply divides Line L by 4 to arrive at a cents per quart type of discount. Board Staff very strongly endorses the cents per quart method of discounting. With percentage discounts, as milk prices rise, the total discount granted will increase. The discounted prices under this discount proposal are simply too close to dealer costs to permit the amount of discount to fluctuate with the milk price and other costs on a monthly basis.
Line N – Staff has expressed the discount in terms of a percentage so the Board can better evaluate the effect of this discount proposal as compared to current discounts in each of the Milk Marketing Areas.

These discounts should be granted to only the very largest customers who provide an economy of scale to a dairy's volume that has a material impact on the efficiency of the company. We are proposing that only customers purchasing at least 100,000 quarts per week from any one company be eligible for this discount. We would also recommend that the discount only apply to gallons and half gallons of price-controlled packaged products to maximize plant efficiencies. Further, in order to maximize the efficiency of the dairies loading the trailers, we suggest that the discount can only be earned when the majority of the trailer contains price-controlled packaged products. Therefore we recommend that the pickups have at least 12,000 quarts per load. We continue to support the restrictions in the current base orders that insure that trucking companies used for this discount are either owned by the purchasers or are independent and are in no way part of or controlled by the selling dealer.

We do not oppose the dealers' proposed discounts, in fact we support them, but we believe that the high volume discount we are proposing is also needed.

Area 4 has had a 23% dock discount for *2,000* quart pick-ups for twenty years – since 1993. OGO A-876. The Dealers have never asked to lower it because of any detrimental impact. Our proposal for Area 4 is a discount of 25% for pick-ups that average *12,000* quarts and add up to at least 100,000 quarts per week – just 2% more than the discount that has been offered for 20 years for much smaller pick-ups. The Dealers presented the testimony of John Pierce at the May 2013 over-order premium hearing that in his opinion a *three percent increase* in the Area 4 dock discount – along with the reduction in the over-order premium – "would make a difference." 5/22/2013 Tr. 361. We are actually recommending a little less than that – a two percent increase. We believe that the comparable discounts we have proposed for the other areas will likewise be beneficial.

In its Order following the May 2013 over-order premium hearing, the Board stated, "The Board is concerned that a combination of factors has conspired to begin to adversely impact in-state sales by in-state dealers. Reduced in-state sales by in-state dealers has a negative impact on all segments of Pennsylvania's dairy industry. We emphasize that we do not believe the mandated premiums are the only factor; in fact, we intend to examine all facets of Pennsylvania milk pricing." OGO A-982. We agree with Mr. Pierce's testimony at that hearing: "I see dock discounts as the right place for the likely next step to address these large volume sophisticated customers." 5/22/2013 Tr. 362. The Dealers' proposed discounts are directed toward small volume purchases. We support their proposed discounts. But they are not targeted to the needs or expectations of those large volume sophisticated customers. We believe our proposed discounts "would make a difference" – a positive difference – in keeping or recapturing large volume customers.

Comments on Unfunded Pension Liability. We are aware that there is, and pretty much has always been, an obligation to fund pensions that was not always fully funded. It would appear from the dealer's exhibits that they are attempting to fund that unfunded obligation through an increase in the wholesale price (or a decrease in the amount of discount granted.) Logically, since there is no corresponding increase in the out-of-store price, it would appear that the dealer's unfunded obligation would be funded by the retailers.

Since the Board is asked specifically to fund the unfunded obligation through the discounted wholesale price, one wonders what would happen if a dealer didn't use the funds for that purpose. If instead the dealer used the additional revenue for operating expenses, we would recognize those operational costs in next year's financial statements and would still have the unfunded obligation. I know of no mechanism in the law or regulations that would permit the Board to require dealers to put aside funds for any purpose such as this.

PMMB Regulation Section 149.43 lists the costs that are reported to Board Staff and used for setting rates. Section 149.43(b)(8) lists *Employee Pension Plan* and states that this item *"Includes contributions made to pension plans by the employer for the benefit of the employees. If the contributions are divided between the employer and the employee, only that portion paid by the employer should be included in this account."* It appears that we are now asked to include amounts that are not yet paid.

This is unlike any other normal expense we normally account for. We can see that wages have been paid, fuel has been purchased, or that the decreasing value of capitol assets have been accounted for through depreciation. With this type of "expense" not even the total can be known with certainty. Union negotiations, other employers entering or exiting the plan, or a host of other factors may all have an effect on what a dealer actually, eventually puts aside or pays into a pension fund.

Board Staff has reviewed supporting documentation provided by Herbein + Company for 13 of the 20 cross-section dealers used in cost replacement hearings. Staff concludes that the calculations and estimates of the amount of the unfunded pension liability for these dealers are based on documentation and reports we found to be reasonable. Although the ultimate expense that will result from this liability is, for the most part, unknowable it is very apparent that the liability is material, and it may be considered a condition affecting the milk industry (not a cost) pursuant to Section 801 of the Milk Marketing Law, for purposes of this hearing. As these dealers pay into their pension plans, those costs will be incorporated into our pricing structure for packaged milk.

Conclusion. Staff recommends that the Board adopt the discounts calculated in Staff Exhibit 7. We have also provided proposed Order language in Staff Exhibit 8. Exhibit 9 is a comparison of the current dock discounts, the dealers' proposal, and the PMMB Staff proposal.

Board Staff Surrebuttal Testimony of David DeSantis

These are comments in response to the Dealers' rebuttal submission.

Unfunded pension liability. As I have said, Board Staff agrees that unfunded pension liability can be considered a condition affecting the dairy industry for purposes of this hearing, and that the calculations and estimates of that liability done by Herbein + Company are based on reasonable documentation and reports. However, the Dealers have not provided a convincing rationale in their rebuttal for amortizing that entire liability over only five years. Even a plan in the "red zone" has 10 years to emerge from critical status, as Mr. Firely's testimony states.

The Dealers are concerned that when the unfunded pension liability becomes a cost – when contributions to the plan are made to cover it – it will be 12 to 18 months before the Dealers can begin to recoup that expense. Staff suggests that if this is a concern, that pension expense could be incorporated into the cost update adjustment currently used for labor, utilities, and insurance, or into the monthly updates similar to the container update.

Rate of return. The Dealers' rebuttal exhibit D8 adds a smaller cross section of "dealers with mostly PMMB price controlled sales" to try to buttress the significance of the calculation that the cross-section dealers have a 1.1% overall rate of return. The Board has a mandate to provide dealers with a specified rate of return "on aggregate milk sales ... based on net sales of price-controlled products" according to Section 801 of the Milk Marketing Law. The Board fulfills that mandate through its cost replacement hearings. The Board has always established prices based on each product in each container of milk in the marketplace. The Board, in cooperation with the milk dealers, eliminated the separation of controlled and non-controlled on the financial reports in order to avoid the kind of analysis the Dealers are now making. To suggest that milk dealers have low aggregate margins due to the price of milk after including every reasonably conceivable cost into the price and then adding the maximum profit allowed by law in all but one of the Milk Marketing Areas is inconsistent and unsubstantiated.

Trailer availability. In response to the Dealers' concerns about the potential for disruption to scheduling and infrastructure issues, we are adding a requirement to our proposal. To qualify for the discount, a trailer to be used for the pick-up must be provided at the location where the milk will be picked up at least twenty-four hours prior to the pick-up. This will allow for loading on a more flexible schedule. Considering the volume of milk involved – at least 12,000 quarts per pick-up – this is a reasonable requirement. The trailers could be owned by the dealer or a related entity and leased to the store or to the trucking company at fair market rental. Fair market trailer rental could be determined at cost replacement hearings.

Discount summaries. We have updated Board Staff Exhibit 9 to reflect the Dealers' increase of their proposed Area 3 discount to 20.5 percent. We have also added Exhibit 10, which is a summary of current discounts (other than school discounts), for the Board's convenience, in response to the Dealers' indication that their lay witnesses would testify about the differences between store and licensee discounts. It also shows the Dealers' proposed multi-store discount for Area 4.

PENNSYLVANIA MILK MARKETING BOARD
CALCULATION OF DOCK PICK-UP COST PER POINT
2011 BASE DATA WITHOUT DELIVERY (DOCK) AREA 1

	Cost Center	Weighted Cost	Weighted Points	Cost Per Point
A	Receiving, Lab & Fieldwork	$ 1,946,580	172,505,615	$ 0.0113
B	Standardization & Pasteurization	$ 2,937,479	197,068,073	$ 0.0149
C	Bottling	$ 6,176,508	171,234,423	$ 0.0361
D	Cold Room	$ 10,547,349	205,966,570	$ 0.0512
E	Selling	$ 5,115,927	228,645,144	$ 0.0224

F **Total Cost Center Costs Except for Delivery** $ 0.1359

G **Total Cost Per Gallon** (Line F X 4) $ 0.5436

Cross-section Includes: Balford Farms, Lehigh Valley Dairy (Lansdale), HP Hood (Hatfield) + Wawa Dairy

PENNSYLVANIA MILK MARKETING BOARD
CALCULATION OF DOCK PICK-UP COST PER POINT
2011 BASE DATA WITHOUT DELIVERY (DOCK) AREA 2

	Cost Center	Weighted Cost	Weighted Points	Cost Per Point
A	Receiving, Lab & Fieldwork	$ 611,476	75,323,348	$ 0.0081
B	Standardization & Pasteurization	$ 1,366,219	106,461,835	$ 0.0128
C	Bottling	$ 3,270,468	101,944,033	$ 0.0321
D	Cold Room	$ 3,352,293	107,036,177	$ 0.0313
E	Selling	$ 1,646,592	77,014,294	$ 0.0214

F	**Total Cost Center Costs Except for Delivery**	**$ 0.1057**
G	**Total Cost Per Gallon** (Line F X 4)	**$ 0.4228**

Cross-Section Includes: Clover Farms, Lehigh Valley Dairy (Schuylkill Haven), HP Hood (Hatfield), Dean Dairy (Lebanon) + Turkey Hill

PENNSYLVANIA MILK MARKETING BOARD

CALCULATION OF DOCK PICK-UP COST PER POINT

2011 BASE DATA WITHOUT DELIVERY (DOCK) AREA 3

	Cost Center	Weighted Cost	Weighted Points	Cost Per Point
A	Receiving, Lab & Fieldwork	$ 1,369,311	115,026,402	$ 0.0119
B	Standardization & Pasteurization	$ 2,592,106	161,026,527	$ 0.0161
C	Bottling	$ 5,319,623	160,977,240	$ 0.0330
D	Cold Room	$ 6,082,049	172,226,856	$ 0.0353
E	Selling	$ 3,195,035	131,194,644	$ 0.0244

F	**Total Cost Center Costs Except for Delivery**	**$ 0.1207**
G	**Total Cost Per Gallon** (Line F X 4)	**$ 0.4828**

Cross-Section Includes: Clover Farms, Guer's Dairy, Lehigh Valley Dairy (Schuylkill Haven), Pocono Mountain Dairy, Dean Dairy (Lebanon), Turkey Hill + Schneider Valley Farms

PENNSYLVANIA MILK MARKETING BOARD
CALCULATION OF DOCK PICK-UP COST PER POINT
2011 BASE DATA WITHOUT DELIVERY (DOCK) AREA 4

	Cost Center	Weighted Cost	Weighted Points	Cost Per Point
A	Receiving, Lab & Fieldwork	$ 1,660,901	159,349,638	$ 0.0104
B	Standardization & Pasteurization	$ 3,178,172	320,520,362	$ 0.0099
C	Bottling	$ 9,718,014	289,737,847	$ 0.0335
D	Cold Room	$ 10,972,203	301,819,713	$ 0.0364
E	Selling	$ 4,741,154	164,500,002	$ 0.0288

F **Total Cost Center Costs Except for Delivery** **$ 0.1190**

G **Total Cost Per Gallon** (Line F X 4) **$ 0.4760**

Cross-Section Includes: Galliker Dairy, Harrisburg Dairy, Lehigh Vallley Dairy (Schuylkill Haven), HP Hood (Hatfield), Rutter's Dairy, Dean Dairy (Lebanon) + Turkey Hill

PENNSYLVANIA MILK MARKETING BOARD

CALCULATION OF DOCK PICK-UP COST PER POINT

2011 BASE DATA WITHOUT DELIVERY (DOCK) AREA 5

	Cost Center	Weighted Cost	Weighted Points	Cost Per Point
A	Receiving, Lab & Fieldwork	$ 2,292,396	223,333,775	$ 0.0103
B	Standardization & Pasteurization	$ 4,906,494	250,573,664	$ 0.0196
C	Bottling	$ 9,212,144	246,834,526	$ 0.0373
D	Cold Room	$ 12,014,912	283,809,097	$ 0.0423
E	Selling	$ 8,693,765	276,924,619	$ 0.0314
F	**Total Cost Center Costs Except for Delivery**			**$ 0.1409**
G	**Total Cost Per Gallon** (Line F X 4)			**$ 0.5636**

Cross Section Includes: Dean Dairies (Sharpsville + Erie), United Dairies (Uniontown + Martins Ferry, OH), Schneider's Dairy + Turner Dairy

PENNSYLVANIA MILK MARKETING BOARD
CALCULATION OF DOCK PICK-UP COST PER POINT
2011 BASE DATA WITHOUT DELIVERY (DOCK) AREA 6

	Cost Center	Weighted Cost	Weighted Points	Cost Per Point
A	Receiving, Lab & Fieldwork	$ 782,947	73,584,149	$ 0.0106
B	Standardization & Pasteurization	$ 1,489,514	90,208,833	$ 0.0165
C	Bottling	$ 4,257,902	86,442,025	$ 0.0493
D	Cold Room	$ 3,145,809	99,173,579	$ 0.0317
E	Selling	$ 2,005,430	95,118,462	$ 0.0211

F **Total Cost Center Costs Except for Delivery** **$ 0.1292**

G **Total Cost Per Gallon** (Line F X 4) **$ 0.5168**

Cross-Section Includes: Dean Dairies (Sharpsville + Erie), Galliker Dairy, Schneider Valley Farms

PENNSYLVANIA MILK MARKETING BOARD
CALCULATION OF DOCK PICK-UP COST PER POINT
Dock - All Cross-Section Dealers
September 2013 Reduced Fat Milk Prices

			Area 1	Area 2	Area 3	Area 4	Area 5	Area 6
	A	Milk Cost	$ 1.9205	$ 1.9248	$ 1.8930	$ 1.9292	$ 1.8740	$ 1.8878
	B	Container Cost	$ 0.1964	$ 0.1814	$ 0.1942	$ 0.1887	$ 0.1722	$ 0.2015
	C	Small Container Adjustment	$ (0.0720)	$ (0.0794)	$ (0.0812)	$ (0.0842)	$ (0.1067)	$ (0.0936)
	D	Cost Updates	$ (0.0200)	$ 0.0280	$ 0.0280	$ 0.0024	$ (0.0196)	$ 0.0524
	E	Energy Cost Fluctuation	$ (0.0032)	$ (0.0048)	$ (0.0044)	$ (0.0020)	$ (0.0028)	$ (0.0008)
Ex 1 - 6, Line G	F	Processing & Packaging	$ 0.5436	$ 0.4228	$ 0.4828	$ 0.4760	$ 0.5636	$ 0.5168
Sum A - F	G	Cost Before Profit	$ 2.5653	$ 2.4728	$ 2.5124	$ 2.5101	$ 2.4807	$ 2.5641
	H	Current Profit Rate	3.4%	3.5%	3.5%	3.5%	3.5%	3.5%
G/(1-H)-G	I	Profit	$ 0.0903	$ 0.0897	$ 0.0911	$ 0.0910	$ 0.0900	$ 0.0930
G + I	J	Cost With Profit	$ 2.6556	$ 2.5625	$ 2.6035	$ 2.6011	$ 2.5707	$ 2.6571
	K	September Wholesale Price	$ 3.6568	$ 3.4314	$ 3.4702	$ 3.4843	$ 3.5063	$ 3.6047
K - J	L	Justifiable Discount Per Gallon	$ 1.0012	$ 0.8689	$ 0.8667	$ 0.8832	$ 0.9356	$ 0.9476
L ÷ 4	**M**	**Cents per Quart Discount**	**$ 0.25**	**$ 0.22**	**$ 0.22**	**$ 0.22**	**$ 0.23**	**$ 0.24**
1-(J ÷ K)	N	Discount Expressed as a Percentage	27%	25%	25%	25%	27%	26%

Cross-Section Includes All Dealers Used in Cost-Replacement Hearings

PMMB PROPOSED DOCK DISCOUNT

1. A person making a wholesale sale of Class I price-controlled packaged products may reduce the prices set forth in Schedule I of the base order for the applicable milk marketing area for gallons and half-gallons by [_____ percent] [______ cents per quart] when:

(a) The customer purchases from the seller an average of at least 100,000 quarts of Class I or II price-controlled packaged products per delivery week;

(b) The weekly average of all of the customer's purchases from the seller is at least 12,000 quarts of Class I or II price-controlled packaged products per pick-up; and

(c) The customer takes possession of the product at the plant where it was processed and packaged.

2. These price reductions may be made only if:

(a) The seller does not pay consideration of any type to the purchaser for services rendered; and

(b) The seller does not provide to the purchaser, directly or indirectly, any labor or other personal service in connection with the transportation for resale of the products purchased. The purchaser must take possession using either (1) equipment owned or leased and personnel employed by the purchaser, or (2) a trucking company that is independent from the seller. In determining whether a trucking company is independent from the seller, the Board will consider the totality of the relationship between the seller and the trucking company, including whether the seller owns any interest in the trucking company and, if so, the extent of such interest; shares common directors, officers, management personnel or employees with the trucking company; uses equipment or facilities in common with the trucking company; shares common accounting, purchasing, accounts receivable or billing operations with the trucking company; or has common financing or credit arrangements with the trucking company. However, the seller (or a related entity) may lease trailers to the purchaser or trucking company at fair market rental.

3. The definition of "customer" for purposes of this dock pick-up discount shall be any "store" within the meaning of the Pennsylvania Milk Marketing Law. Multiple stores wholly owned by the same person or persons may be considered one customer. The definition of "weekly average" is the total number of quarts of Class I or II price-controlled packaged products, net of returns of defective products, purchased by the customer for resale in the original package, divided by the total number of actual dock pick-ups of price-controlled packaged products made during the delivery week. The "delivery week" shall be from 12:01 a.m. on Monday to 12:00 midnight on the following Sunday.

4. If the seller applies this discount to any product, no other discount may be applied to that product.

5. The parties to these transactions, including any independent trucking company, may be required under section 310 of the Pennsylvania Milk Marketing Law to provide records and information for enforcement purposes.

6. Discounts on products included in the delivery other than Class I gallons and half gallons may be given pursuant to the applicable Official General Orders. The volume of all the price-controlled packaged products in the delivery may be used to calculate the level of discount that may be applied to those products.

7. The volume requirements are for purchases from one dealer. If the dealer has multiple plants, the customer's purchases from all the dealer's plants may be combined to meet the volume requirements.

PMMB WHOLESALE DISCOUNT HEARING – COMPARISON OF PROPOSALS

AREA	Current Dock Discounts	PAMD Proposal	PMMB proposal Average 100,000 qts / week and 12,000 qts / pick-up
1	18% 4,000 qts *	21% 4,000 qts 18% 1,700 qts	27% or **25¢ / qt**
2	20% 2,500 qts * 18% 800 qts *	21% 4,000 qts 20% 2,500 qts 18% 800 qts	25% or **22¢ / qt**
3	none	20.5% 2,000 qts	25% or **22¢ / qt**
4	23% 2,000 qts * 20% 1,000 qts *	no change	25% or **22¢ / qt**
5	none	18% 4,000 qts 15 % 1,700 qts	27% or **23¢ / qt**
6	none	18% 2,000 qts 15 % 1,000 qts	26% or **24¢ / qt**

PAMD dock discounts — Take possession at plant where manufactured, branch owned or controlled by manufacturing dealer, or a location of a non-processing dealer. Order at least 2 business days before pick-up.

PMMB dock discounts — Take possession at plant where manufactured.

* Area 1: OGO A-890 effective 12/1/1995. Area 2: OGO A-882 effective 6/1/1994. Area 4: OGO A-876 effective 7/1/1993.

CURRENT DISCOUNTS

Area	Limited Service	Licensee to Licensee	Dock Pick Up	Multi-Store
1	4% – 400 qt 7% – 700 qt 13% – 1200 qt	15% if buyer takes possession of 2500 qt at single location 19% if buyer takes possession of 2500 qt at plant where processed and packaged.	18% if buyer takes possession of 4,000 qt at plant where processed and packaged	4% – 400 qt 7% – 700 qt 13% – 1200 qt Additional 1% for 10,000 qt/week or 2% for 100,000 qt/ week
2	3.5% – 200 qt 6.5% – 500 qt 9.5% – 700 qt 11.5% – 1000 qt	23% if buyer takes possession on a single drop basis	18% if buyer purchases 800 qt 20% if buyer purchases 2500 qt	3.5% – 200 qt 6.5% – 500 qt 9.5% – 700 qt 11.5% – 1000 qt Additional 2% for 100,000 qt/ week
3	4% – 200 qt 9% – 400 qt 13% – 600 qt	22% if buyer takes possession on a single drop basis	none	4% – 200 qt 9% – 400 qt 13% – 600 qt Additional 2% to stores that receive primary discount
4	\$0.0223/qt – 200 qt \$0.0764/qt – 500 qt \$0.1010/qt – 1000 qt	If buyer takes possession on single drop basis: 20% if 1000 qt, 23% if 2000 qt	20% if buyer purchases 1000 qt 23% if buyer purchases 2000 qt	**DEALER PROPOSAL:** **\$.1010/qt – 1,000 qt average for each store** **Additional 1% for 200,000 qt/week**
5	4% – 400 qt 7% – 700 qt 10% – 1400 qt	15% if buyer takes possession at single location 19% if buyer takes possession at plant where packaged & processed	none	4% – 400 qt 7% – 700 qt 10% – 1400 qt Additional 2% for 30,000 qt/week
6	10.5% – 1000 qt	If buyer takes possession at location owned or rented by subdealer: 15% if less than 1000 qt, 22% if 1000 qt	No dock discount in Area 6 <u>Area 6 wholesale discount</u> 4% - 200 qt / 7.5% - 500 qt	7.5% – 200 qt (full service) 10.5% – 1000 qt Additional 2% for 25,000 qt (full or limited service)

Limited Service Discounts are based on weekly average delivery to individual stops. **Licensee to Licensee Discounts** are known as Dealer and Subdealer Discounts in Areas 1 and 2. **Multi-Store Discounts** are limited service deliveries only unless specified otherwise. In Area 1 each store in the group must meet the weekly average delivery requirement. In Area 2 the individual stop must meet the weekly average delivery requirement. In Area 3 the group must have a weekly total volume of more than 25,000 quarts. In Area 5 the group must have a weekly total volume greater than 30,000 quarts for the 4% and 7% discounts and 100,000 quarts for the 10% discount. Primary discounts in Area 5 are based on the weekly average delivery to all stores in the group that have at least a 200 quart weekly average. In Area 6 the 7.5% discount is available if primary supplier's weekly average delivery to those stores is at least 500 quarts and store does not receive more than 3 deliveries during the week. **Area 6 Wholesale Discount** is based on weekly average delivery to individual stops, with a maximum of three deliveries per week, and is available for full service or limited service deliveries.

PENNSYLVANIA MILK MARKETING BOARD
LIST OF WITNESSES

The following individual is expected to testify at the Wholesale Discount Hearing on October 2, 2013 on behalf of the Milk Marketing Board Staff. Copies of his curriculum vitae will be available at the hearing.

David DeSantis, Chief of Enforcement and Accounting, will testify as an expert on milk industry cost accounting and regulation of the milk market in Pennsylvania, which includes determining wholesale and retail milk prices, and industry costs including processing, packaging, delivering, and selling milk. His testimony will address the subjects included in his presubmitted testimony, but it is not necessarily limited to the presubmitted testimony.

Date: September 25, 2013

Respectfully submitted,

Andrew L. Saylor

Andrew L. Saylor
Staff Attorney
Pennsylvania Milk Marketing Board

WHOLESALE DISCOUNT HEARING – ALL MILK MARKETING AREAS – OCTOBER 2, 2013
CERTIFICATE OF SERVICE

I hereby certify that on this date, September 25, 2013, I have served true and correct copies of the foregoing by email on behalf of the Milk Marketing Board Staff to the following (all of whom will accept service by email):

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Respectfully submitted,

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