

AREA 2

COST REPLACEMENT HEARING DEALER REBUTTAL EXHIBITS

FEBRUARY 3, 2021

PMMB AREA 2

FEBRUARY 3, 2021 COST REPLACEMENT HEARING

INDEX OF REBUTTAL EXHIBITS

**Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company**

Rebuttal Exhibit D1	Ronald W. Mong, CPA Curriculum Vitae
Rebuttal Exhibit D2	Processing, Packaging and Delivery Costs/Point
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Rebuttal Exhibit D3	Summary of Current Container Costs with Adjustments for Shrinkage and Loss and Update to Current Month
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Rebuttal Exhibit D7	Cost Increases (Decreases) for Labor, Insurance and Utility Costs
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Rebuttal Exhibit D10	Adjustments for Container Efficiencies Due to Container Size
Rebuttal Exhibit D11A	Calculation of Minimum Wholesale Price Gallon Reduced Fat Milk (2%)
Rebuttal Exhibit D11B	Calculation of Minimum Wholesale Price Half Pint Flavored Nonfat Milk (Skim)

REBUTTAL EXHIBIT D1

Ronald W. Mong, CPA
Curriculum Vitae

EDUCATION

Pennsylvania State University – B.S. Degree in Accounting, High Distinction (1977)

EMPLOYMENT

Herbein + Company, Inc., Reading, PA

2003 to present

Senior Manager – Dairy Consulting

- Cost benchmarking
- Milk shrinkage reduction projects
- Dairy accounting seminars
- Regulatory issues – PA Milk Marketing Board, Federal Milk Marketing Orders, other state regulatory agencies
- Mergers and acquisitions
- Specialized financial reporting for dairy businesses
- Software installation assistance
- Dairy cost accounting for basic and complex products

Wilcox Farms, Inc., Roy, WA

2001 – 2003

Director of Finance & Administration (CFO)

- Developed and implemented a Balanced Financial Scorecard
- Supervised and trained accounting, office, and information technology staff at multiple locations
- Negotiated innovative bank financing package that significantly lowered interest costs
- Successfully managed the financial, banking, and accounting aspects of a significant acquisition

Herbein Consulting, Inc., Reading, PA

1999 – 2001

Manager – Dairy Financial Consulting

- Performed a variety of financial consulting services to dairy processing plants of varying sizes, product lines, and locations
- Served as interim CFO for dairy companies during personnel transitions
- Developed content for the IDFA Dairy Cost Accounting workshops

Ronald W. Mong, CPA

Schneider's Dairy, Inc., Pittsburgh, PA

1996 – 1999

General Manager, Mong Dairy Division

- Profitably managed and grew an ice cream manufacturing and dairy distribution business
- Successfully managed transition from non-union to union workforce
- Effectively directed sales, purchasing, personnel, distribution, maintenance, and accounting functions

Mong Dairy, Inc., Seneca, PA

1990 – 1996

President

- Expanded market share and distribution area
- Increased product lines and installed new packaging line
- Effectively positioned company for sale

1979 – 1990

Vice President and Controller

- Selected, planned, and installed first computerized accounting system
- Successfully reorganized work to reduce office staff by 50%
- Increased sales with key accounts
- Developed and implemented financial reporting

Arthur Andersen & Co., Pittsburgh, PA

1977 – 1979

Senior Accountant

- Supervised audit and tax work for a variety of public and private clients

PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS

CPA – Commonwealth of Pennsylvania

Firm Member – Allinial Global

Member – American Institute of Certified Public Accountants (AICPA)

Member – Pennsylvania Institute of Certified Public Accountants (PICPA)

Board of Directors – Pennsylvania Association of Milk Dealers

Board of Directors, Secretary-Treasurer – National Ice Cream Mix Association

Board of Governors & Insurance Committee – Manufacturer's Association of Northwest Pennsylvania

Board of Directors – Oil City Area Chamber of Commerce

Board of Directors (charter) – MilkPEP

Chairman of the Board – Oil City Housing Authority

Submitted: January 20, 2021

Ronald W. Mong, CPA

PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS (Cont'd)

Board of Directors – Venango County United Way

Chairman of Administrative Board – Calvary United Methodist Church

Distinguished Service Award – Oil City Jaycees

COURSES INSTRUCTED

International Dairy Foods Association (IDFA) Dairy Cost Accounting Workshop – May 16, 2006

International Dairy Foods Association (IDFA) Dairy Cost Accounting Workshop – May 16, 2007

Dairylea Cooperative – Dairy Accounting 101 & 102 – May 2008

International Dairy Foods Association (IDFA) Dairy Cost Accounting Workshop – May 14, 2008

International Dairy Foods Association (IDFA) Dairy Cost Accounting Workshop – May 13, 2009

International Dairy Foods Association (IDFA) Dairy Cost Accounting Workshop – May 11-12, 2010

Dean Foods – Northeast Marketing Area Federal Order 1 – July 20-21, 2010

International Dairy Foods Association (IDFA) NEW Dairy Cost Accounting Workshop – May 11, 2011

International Dairy Foods Association (IDFA) Dairy Accounting & Finance Workshop – May 15-16, 2012

Farmland Dairy – Dairy Accounting Workshop – August 21-22, 2012

Wawa – Dairy Accounting Workshop – November 7, 2012

HP Hood – Dairy Accounting Workshop – February 12-13, 2013

International Dairy Foods Association (IDFA) Dairy Accounting & Finance Workshop – May 14-15, 2013

Saputo Dairy – Dairy Accounting Workshop – April 15, 2014

International Dairy Foods Association (IDFA) Dairy Accounting & Finance Workshop – May 20-21, 2014

Webinar – Intro to Dairy Product Costing – September 10, 2014

Webinar – Applying Dairy Product Costing to Finished Products – September 17, 2014

Webinar – Advanced Milk Accounting Topics – September 24, 2014

International Dairy Foods Association (IDFA) Dairy Accounting & Finance Workshop – May 12-13, 2015

Rutter's – Dairy Accounting Workshop – November 4, 2015

Dean Foods – Dairy Accounting Workshop – April 27, 2016

International Dairy Foods Association (IDFA) Dairy Accounting & Finance Workshop –
November 16-17, 2016

Kemps LLC – Dairy Accounting Workshop – December 15, 2016

Byrne Dairy – Dairy Accounting Workshop – April 11-12, 2017

International Dairy Foods Association (IDFA) Dairy Accounting & Finance Workshop –
December 12-13, 2017

Dean Foods – Dairy Accounting Workshop – January 10, 2018

Webinar Series – California Federal Milk Marketing Order – September 13, 20, & 27, 2018

Dairy Institute of California - Milk Pricing & Cost Accounting Workshop – October 17-18, 2018,
October 24-25, 2018

Submitted: January 20, 2021

Ronald W. Mong, CPA

COURSES INSTRUCTED (Cont'd)

Readington Farms - Milk Pricing & Cost Accounting Workshop – January 14-15, 2019

Maryland & Virginia Milk Producers Cooperative - Milk Pricing & Cost Accounting Workshop –
January 31-February 1, 2019

Johanna Foods- Milk Pricing & Cost Accounting Workshop – July 29-30, 2019

Dairy Farmers of America- Milk Pricing & Cost Accounting Workshop – September 19-20, 2019

SmithFoods- Milk Pricing & Cost Accounting Workshop – June 23-26, 2020

SPECIFIC DAIRY RELATED EXPERIENCE

Considerable experience in implementing the prices and regulations of the Pennsylvania Milk Marketing Board; has presented sworn testimony in General Price Hearings.

Extensive experience in costing, pricing, and marketing of milk, cultured products, and ice cream.

Significant experience in production, distribution, and quality assurance of dairy products.

Management experience includes both union and non-union environments.

Great deal of experience in the installation and ongoing operation of the major computerized route accounting systems.

Served on the Charter of Board of Directors of the National Fluid Milk Promotion Board (MilkPEP), the group that developed the now-famous “milk mustache” ads.

EXPERT WITNESS TESTIMONY

Pennsylvania Milk Marketing Board – Expert Testimony – Over Price Premium Adjustment Hearing (hearing held February 2, 2005)

Pennsylvania Milk Marketing Board – Expert Testimony – Area 5 and Area 6 Cost Replacement Hearings (hearings held on March 11, 2019)

Pennsylvania Milk Marketing Board – Expert Testimony – Area 2 and Area 4 Cost Replacement Hearings (hearings held on April 3 and May 1, 2019)

Pennsylvania Milk Marketing Board – Expert Testimony – Area 1 and Area 3 Cost Replacement Hearings (hearings held on May 1, 2019)

Pennsylvania Milk Marketing Board – Expert Testimony – Area 3, Area 5, and Area 6 Cost Replacement Hearings (hearings held on November 6, 2019)

Pennsylvania Milk Marketing Board – Expert Testimony – Area 1, Area 2, and Area 4 Cost Replacement Hearings (hearings held on December 4, 2019)

Pennsylvania Milk Marketing Board – Expert Testimony – Over Price Premium Calculation Hearing (hearings held on August 5, 2020)

Pennsylvania Milk Marketing Board – Expert Testimony – Cooperative Procurement Costs (hearings held on October 5, 2020)

Submitted: January 20, 2021

PMMB AREA 2

FEBRUARY 3, 2021 COST REPLACEMENT HEARING

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

Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company

<u>Cost Center</u>	<u>Total 2019 Points in PMMB Area 2 (1)</u>	<u>Weighted Average 2019 Cost/Point (1)</u>
Receiving, lab and field work	66,569,451	\$ 0.0147
Standardization and pasteurization	92,950,267	0.0198
Bottling	86,924,345	0.0452
Cold room	99,874,719	0.0407
Delivery	74,258,730	0.1261
Selling	74,553,428	0.0199
		<u>\$ 0.2664</u>

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

PMMB AREA 2

FEBRUARY 3, 2021 COST REPLACEMENT HEARING

COST REPLACEMENT ADJUSTMENTS FOR PROCESSING, PACKAGING AND DELIVERY COSTS

Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
 DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
 Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
 Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company

	2019 Weighted Average Cost/Point	2018 Cost/Point Included in Existing Order (1)	Increase (Decrease)
Receiving, lab and field work	\$0.0147	\$0.0161	(\$0.0014)
Standardization and pasteurization	0.0198	0.0169	0.0029
Bottling	0.0452	0.0421	0.0031
Cold room	0.0407	0.0399	0.0008
Delivery	0.1261	0.1237	0.0024
Selling	0.0199	0.0228	(0.0029)
Sub total	\$0.2664	\$0.2615	\$0.0049
Add:			
2020 Cost increase (decrease) adjustment - Exhibit D7			0.0055
Less:			
2019 Cost (increase) decrease adjustment (1)			(0.0014)
Net change			<u>\$0.0090</u>

PMMB AREA 2
 FEBRUARY 3, 2021 COST REPLACEMENT HEARING

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

Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
 DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
 Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
 Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company

Container Size	April 2020 Container Cost (1)	Adjust from April 2020 to December 2020 - Current (2)	Subtotal	Calculated Shrinkage and Loss (4)	Shrinkage Cost	Total Container Cost
Gallon (5)	\$ 0.1948	\$ (0.0089)	\$0.1859	1.62%	\$ 0.0030	\$ 0.1889
1/2 gallon - plastic	0.1537					
1/2 gallon - paper	(3)					
1/2 gallon - blended (5)	<u>0.1537</u>	(0.0124)	0.1413	1.22%	0.0017	0.1430
Quart - plastic	0.1178					
Quart - paper	<u>0.0871</u>					
Quart - blended (5)	<u>0.1172</u>	0.0139	0.1311	1.57%	0.0021	0.1332
Pint - plastic	0.0902					
Pint - paper	<u>0.0366</u>					
Pint - blended (5)	<u>0.0890</u>	0.0062	0.0952	1.62%	0.0015	0.0967
Twelve ounce	(3)					
Ten ounce	(3)					
1/2 pint - plastic (5)	0.0855	(0.0091)	0.0764	0.92%	0.0007	0.0771
1/2 pint - paper (5)	0.0201	0.0066	0.0267	0.85%	0.0002	0.0269
Four ounce - paper	0.0262		0.0262	1.53%	0.0004	0.0266
Dispenser	0.0544		0.0544	1.30%	0.0007	0.0551

- (1) For containers not purchased in April 2020 the most recent invoice was used.
- (2) October 2020 container costs were used by the PMMB to establish minimum resale prices for December 2020.
- (3) Container not packaged in this Area.
- (4) Calculated based on actual container loss from a state-wide cross section of processing dealers for controlled containers used during the period January – March 2009. This state-wide cross section is composed of every processing dealer that participates in a cost replacement hearing.
- (5) Current container costs would replace these costs monthly when the PMMB minimum resale prices are announced.

PMMB AREA 2

FEBRUARY 3, 2021 COST REPLACEMENT HEARING

ADJUSTED CONTAINER COSTS COMPARED TO CURRENT MONTH (DECEMBER 2020)
CONTAINER COSTS

Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company

<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)	\$ 0.1889	\$ 0.1864	\$ 0.0025
Half Gallon (2)	0.1430	0.1355	0.0075
Quart (2)	0.1332	0.1345	(0.0013)
Pint (2)	0.0967	0.0967	-
1/2 pint - plastic (2)	0.0771	0.0761	0.0010
1/2 pint - paper (2)	0.0269	0.0279	(0.0010)
Four ounce - paper	0.0266	0.0275	(0.0009)
Dispenser (per quart)	0.0551	0.0569	(0.0018)

(1) Per General Order No. A-953 (CRO 11) as updated.

(2) These container costs to be updated monthly.

PMMB AREA 2

FEBRUARY 3, 2021 COST REPLACEMENT HEARING

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

Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company

	April 2020 Ingredient Cost Per Pound (1)
	<hr/>
Standard	\$.0000
Reduced fat (2%) milk	.0001
Lowfat (1%) milk	.0001
Nonfat (skim) milk	.0003
Flavored milk	.0357
Flavored reduced fat milk	.0314
Flavored nonfat milk	.0241
Buttermilk	(2)
Eggnog	.2297

(1) For ingredients not purchased in April 2020 the most recent invoice was used.

(2) Buttermilk is not processed and packaged by any of the Area 2 cross-section dealers.

PMMB AREA 2

FEBRUARY 3, 2021 COST REPLACEMENT HEARING

COST REPLACEMENT ADJUSTMENTS FOR INGREDIENTS

Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
 DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
 Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
 Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company

	April 2020 Weighted Average Cost/Pound	Cost/Pound included in Existing Order (1)	Increase (Decrease)
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)	0.0003	0.0003	0.0000
Flavored milk (2)	0.0357	0.0362	(0.0005)
Flavored reduced fat milk (2)	0.0314	0.0365	(0.0051)
Flavored nonfat milk (2)	0.0241	0.0279	(0.0038)
Buttermilk	(3)	(3)	
Eggnog	0.2297	0.1554	0.0743

- (1) Per General Order OGO A-953 (CRO 11) as updated for flavored milks on December 1, 2020.
- (2) Ingredient costs to be updated on a quarterly basis for flavored milk, flavored reduced fat milk and flavored nonfat milk. Updates should be effective on January 1, April 1, July 1 and October 1.
- (3) Buttermilk is not processed and packaged by any of the Area 2 cross-section dealers.

PMMB AREA 2
FEBRUARY 3, 2021 COST REPLACEMENT HEARING
WEIGHTED COST OF SHRINKAGE AND WEIGHTED COSTS AND REVENUES FROM BULK CREAM AND BULK MILK

**Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company**

<u>PMMB Area 2</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	\$ 660,417		\$ 660,417		
Bulk milk revenue minus milk costs		79,258			
Bulk milk cost center costs & freight	43,835				
Net bulk milk cost (revenue)			(35,423)		
Bulk cream revenue minus milk costs		411,668			
Bulk cream cost center costs	106,355				
Net bulk cream cost (revenue)			(305,313)		
Total	<u>\$ 810,607</u>	<u>\$ 490,926</u>			
Net cost (net revenue) - calendar year 2019			\$ 319,681	128,100,182	\$ 0.0025
Net cost (net revenue) in current order - calendar year 2018			<u>\$ (153,069)</u>	127,460,270	<u>\$ (0.0012)</u>
Net change - cost increase (cost reduction)			<u>\$ 472,750</u>		<u>\$ 0.0037</u>

PMMB AREA 2

FEBRUARY 3, 2021 COST REPLACEMENT HEARING

BUTTERFAT CONTENT OF PRICE CONTROLLED PRODUCTS

Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
 DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
 Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
 Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company

	2019 Weighted Average Butterfat Test	Butterfat Test included in Existing Order (1)	Increase (Decrease)
Standard milk	3.2670%	3.2691%	-0.0021%
Reduced fat milk (2%)	1.9868%	1.9817%	0.0051%
Lowfat milk (1%)	0.9807%	0.9761%	0.0046%
Nonfat milk (skim)	0.0745%	0.0659%	0.0086%
Flavored milk	3.2456%	3.2612%	-0.0156%
Flavored reduced fat milk	0.9678%	0.9738%	-0.0060%
Flavored nonfat milk	0.0495%	0.0765%	-0.0270%
Buttermilk	(2)	(2)	
Eggnog	7.1689%	7.2043%	-0.0354%

(1) Per General Order No. A-953 (CRO 11)

(2) Buttermilk is not processed and packaged by any of the Area 2 cross-section dealers.

PMMB AREA 2

FEBRUARY 3, 2021 COST REPLACEMENT HEARING

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

Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company

Type of Expense	Weighted Expenses for the Six Months Ended June 30 (1)		Weighted Points for the Six Months Ended June 30 (1)		Cost Per Point		Increase (Decrease) Per Point
	2020	2019	2020	2019	2020	2019	
Labor and fringe benefits	\$7,239,800	\$7,115,119	48,026,696	48,422,238	\$ 0.1507	\$ 0.1469	\$0.0038
Utilities	\$330,595	\$297,253	48,026,696	48,422,238	0.0069	0.0061	0.0008
Insurance	\$163,645	\$119,591	48,026,696	48,422,238	0.0034	0.0025	0.0009
					<u>\$0.1610</u>	<u>\$0.1555</u>	<u>\$0.0055</u>

(1) Weighted based on sales in PMMB Area 2

PMMB AREA 2

FEBRUARY 3, 2021 COST REPLACEMENT HEARING

CHANGES IN DIESEL FUEL COSTS

Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
 DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
 Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
 Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company

Diesel fuel costs – calendar year 2019 (1)	\$743,505
Delivery points – calendar year 2019 (1)	<u>74,258,730</u>
Diesel fuel cost per point delivered	<u><u>\$0.0100</u></u>
Average diesel price – calendar year 2019 (2)	\$3.267
Average diesel price – October 2020 (2) (3)	<u>\$2.651</u>
Increase (decrease) from year 2019 to month October 2020	-18.86%
Increase (decrease) in diesel fuel cost per point delivered	<u><u>(\$0.0019)</u></u>

- (1) Costs of cross-section dealers weighted by sales in Area 2.
- (2) On-highway diesel prices per gallon for the Central Atlantic Region as published by the U.S. Energy Information Administration.
- (3) October 2020 diesel fuel costs were used by the PMMB in establishing minimum prices for December 2020.

PMMB AREA 2

FEBRUARY 3, 2021 COST REPLACEMENT HEARING

CHANGES IN HEATING FUEL COSTS (NATURAL GAS)

Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
 DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
 Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
 Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company

Heating fuel costs – calendar year 2019 (1)	\$69,643
Standardization & pasteurization points – calendar year 2019 (1)	92,950,267
	<hr/>
Heating fuel cost per point pasteurized	<u>\$0.0007</u>
Average heating fuel costs – calendar year 2019 (2)	\$8.21
Average heating fuel costs – August 2020 (2) (3)	<u>7.95</u>
Increase (decrease) from year 2019 to month August 2020	-3.17%
Increase (decrease) in heating fuel cost per point pasteurized	<u>\$0.0000</u>

- (1) Costs of cross-section dealers weighted by sales in Area 2.
- (2) Industrial natural gas prices for Pennsylvania in dollars per thousand cubic feet as published by the U.S. Energy Information Administration.
- (3) August 2020 natural gas costs were used by the PMMB in establishing minimum prices for December 2020.

**PMMB AREA 2
FEBRUARY 3, 2021 COST REPLACEMENT HEARING**

**ADJUSTMENTS FOR CONTAINER EFFICIENCIES
DUE TO CONTAINER SIZE**

**Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company**

<u>Container Size</u>	<u>Container Quantities Sold by Cross-Section Dealers in 2019 in Area 2</u>	<u>Proposed Container Efficiency Adjustments</u>	<u>Impact on Cross-Section Dealer Revenue</u>	<u>Container Efficiency Adjustments in Current Order (1)</u>	<u>Impact on Cross-Section Dealer Revenue</u>
Gallon	7,039,051	\$ (0.0828)	\$ (582,833)	\$ (0.0740)	\$ (520,890)
Half Gallon	7,540,057	(0.0251)	(189,255)	(0.0221)	(166,635)
Quart	2,791,043	0.0363	101,315	0.0337	94,058
Pint	1,849,645	0.0381	70,471	0.0372	68,807
Half Pint - Plastic	1,256,740	0.0395	49,641	0.0206	25,889
Half Pint - Paper	17,533,026	0.0214	375,207	0.0206	361,180
4 oz.	749,790	0.0336	25,193	0.0310	23,243
Dispenser (per quart)	1,505,580	0.1000	<u>150,558</u>	0.0970	<u>146,041</u>
Net impact on cross-section dealer revenues			<u>\$ 297</u>		<u>\$ 31,693</u>

(1) Per OGO A-953 (CRO 11) as updated.

PMMB AREA 2
FEBRUARY 3, 2021 COST REPLACEMENT HEARING
CALCULATION OF WHOLESALE MINIMUM PRICE
GALLON REDUCED FAT MILK (2%) FOR OCTOBER 2019

Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company

	<u>Reference</u>	<u>Proposed Order</u>	<u>Current Order (2)</u>	<u>Change</u>
Butterfat test	D6	1.9868%	1.9817%	0.0051%
Butterfat price as announced by PMMB	(1)	\$ 1.6202 per lb.	\$ 1.6202 per lb.	
Extended butterfat value		\$ 0.0322 per lb.	\$ 0.0321 per lb.	
Skim price as announced by PMMB	(1)	\$ 19.34 per cwt.	\$ 19.34 per cwt.	
Extended skim value		\$ 0.1896 per lb.	\$ 0.1896 per lb.	
Total milk value at announced prices		<u>\$ 0.2217 per lb.</u>	<u>\$ 0.2217 per lb.</u>	<u>\$ -</u>
Ingredient cost	D4	0.0001	0.0001	
Cost of shrinkage / bulk milk & cream	D5	0.0025	(0.0012)	
Total milk cost per pound		<u>\$ 0.2243 per lb.</u>	<u>\$ 0.2206 per lb.</u>	<u>\$ 0.0037</u>
Pounds per gallon (conversion)		8.62	8.62	
Total milk cost per gallon		<u>\$ 1.9335</u>	<u>\$ 1.9016</u>	<u>\$ 0.0319</u>
Container cost (adjusted for shrinkage)	D3	0.1889 each	0.1864 each	0.0025
Cost center costs	D2	1.0656	1.0460	0.0196
1st half 2020 to 1st half 2019 adjustmen	D7	0.0220	0.0056	0.0164
Container efficiency adjustment	D10	(0.0828)	(0.0740)	(0.0088)
Percentage discount adjustment	(3)	0.0408	0.0408	-
Diesel fuel adjustment	D8	(0.0076)	(0.0096)	0.0020
Heating fuels adjustment	D9		(0.0004)	0.0004
		<u>\$ 3.1604 each</u>	<u>\$ 3.0964 each</u>	<u>\$ 0.0640</u>
Dealer profit at 3.5%	(2)	0.1146	0.1123	\$ 0.0023
Subtotal		<u>\$ 3.2750 each</u>	<u>\$ 3.2087 each</u>	<u>\$ 0.0663</u>
Less: average delivery cost	(2)	(0.3356)	(0.3356)	
Add: high cost delivery	(2)	0.9364	0.9364	
Wholesale minimum price		<u>\$ 3.8758 each</u>	<u>\$ 3.8095 each</u>	<u>\$ 0.0663</u>

(1) As announced for December 2020 by PMMB on November 19, 2020.

(2) Per OGO A-953 (CRO 11) as updated.

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

**PMMB AREA 2
FEBRUARY 3, 2021 COST REPLACEMENT HEARING**

**CALCULATION OF WHOLESALE MINIMUM PRICE
HALF PINT FLAVORED NONFAT MILK (SKIM) FOR OCTOBER 2019
Clover Farms Dairy Co., DFA Dairy Brands Fluid, LLC - Lebanon,
DFA Dairy Brands Fluid, LLC - Schuylkill, Milk Industry Management Corp. T/A Balford Farms,
Monroe County Milk Producers Coop Assoc. dba Pocono Mountain Dairies,
Turkey Hill LP dba Turkey Hill Dairy, Valley Farms Dairy LLC, Wawa Beverage Company**

	<u>Reference</u>	<u>Proposed Order</u>	<u>Current Order (2)</u>	<u>Change</u>
Butterfat test	D6	0.0495%	0.0765%	-0.0270%
Butterfat price as announced by PMMB	█ (1)	\$ 1.6202 per lb.	\$ 1.6202 per lb.	
Extended butterfat value		\$ 0.0008 per lb.	\$ 0.0012 per lb.	
Skim price as announced by PMMB	█ (1)	\$ 19.34 per cwt.	\$ 19.34 per cwt.	
Extended skim value		\$ 0.1933 per lb.	\$ 0.1933 per lb.	
Total milk value at announced prices		<u>\$ 0.1941 per lb.</u>	<u>\$ 0.1945 per lb.</u>	<u>\$(0.0004)</u>
Ingredient cost	D4	0.0241	0.0279	
Cost of shrinkage / bulk milk & cream	D5	0.0025	(0.0012)	
Total milk cost per pound		<u>\$ 0.2207 per lb.</u>	<u>\$ 0.2212 per lb.</u>	<u>\$(0.0005)</u>
Pounds per gallon (conversion)		0.50	0.50	
Total milk cost per half pint		<u>\$ 0.1104</u>	<u>\$ 0.1106</u>	<u>\$(0.0002)</u>
Container cost (adjusted for shrinkage)	D3	0.0269 each	0.0279 each	(0.0010)
Cost center costs	D2	0.0664	0.0654	0.0010
1st half 2020 to 1st half 2019 adjustment	D7	0.0014	0.0004	0.0010
Container efficiency adjustment	D10	0.0226	0.0206	0.0020
Percentage discount adjustment	█ (3)	0.0026	0.0026	-
Diesel fuel adjustment	D8	(0.0005)	(0.0007)	0.0002
Heating fuels adjustment	D9	-	-	-
		<u>\$ 0.2298 each</u>	<u>\$ 0.2268 each</u>	<u>\$ 0.0030</u>
Dealer profit at 3.5%	█ (2)	0.0083	0.0082	\$ 0.0001
Subtotal		<u>\$ 0.2381 each</u>	<u>\$ 0.2350 each</u>	<u>\$ 0.0031</u>
Less: average delivery cost	█ (2)	(0.0210)	(0.0210)	
Add: high cost delivery	█ (2)	0.0585	0.0585	
Wholesale minimum price		<u>\$ 0.2756 each</u>	<u>\$ 0.2725 each</u>	<u>\$ 0.0031</u>

(1) As announced for December 2020 by PMMB on November 19, 2020.

(2) Per OGO A-953 (CRO 11) as updated.

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