

REVISED REBUTTAL TESTIMONY OF

RON MONG, CPA

Appearing on Behalf of the Area 5 Milk Dealers

Revised Rebuttal Testimony before Pennsylvania Milk Marketing Board

Cost Replacement Hearing Based on 2018 Annual Reports

NOVEMBER 6, 2019

Revised Rebuttal Testimony of Ron Mong, CPA

Area 5 – Cost Replacement Hearing

I am Ronald W. Mong, Senior Manager at Herbein + Company, Inc. and my address is 2763 Century Blvd., Reading, PA 19610. I wish to present Revised Rebuttal Testimony on behalf of the Area 5 Milk Dealers. I attach my Curriculum Vitae, as Revised Rebuttal Exhibit D1, which outlines my education, and experience in the dairy industry.

Study Conducted

On behalf of the Area 5 Milk Dealers, 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 2019 cost information as the new starting point for container updating. Once the cost replacement data is adopted, the April 2019 container costs will be updated monthly based upon cost information submitted by the cross-section dealers and reviewed by Board staff. This hearing will also include ingredient cost updating utilizing March 2018 cost information. Ingredient costs will then be updated on a quarterly basis for flavored milk, flavored reduced fat milk and flavored non-fat milk. These updates occur on January 1st, April 1st, July 1st, and October 1st of each year. All exhibits are prepared utilizing a weighted average based on the controlled sales in the area relative to its total sales of such products. 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 such that 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), Schneider's Dairy Inc., Turner Dairy Farms Inc., United Dairy Inc. (Martins Ferry, OH), United Dairy Inc. (Uniontown, PA) and Galliker Dairy Co. (Johnstown, PA). This is the same cross-section used in the last hearing. The cross-section companies process, package and deliver most of the controlled milk products in Area 5 (79.2%). This group of companies includes organizations that deliver to supermarkets, convenience stores, schools, institutions, and small retail outlets. In my opinion this cross-section of dealers is representative of the dealers selling controlled milk products in Area 5.

Revised Rebuttal Exhibits

Revised Rebuttal Exhibit D2 reflects the processing, packaging, and delivery cost per point for calendar year 2018. 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 2017, 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. Our calculation of the processing, packaging, and delivery costs agrees with the amounts that will be presented by Board Staff on Staff Revised Rebuttal Exhibit 2.

Revised Rebuttal Exhibit D2-A is prepared to reflect the effect of the cost replacement process by comparing the 2017 processing, packaging, and delivery costs in the current order with the 2018 processing, packaging, and delivery costs. Additionally, this exhibit reflects the 2019 cost increase adjustment from Exhibit D7 and removes the 2018 cost increase adjustment. Including the cost update

adjustments, the increase in the cross-section dealer costs from the prior cost replacement hearing is \$0.0178 per quart equivalent (point), or \$0.0712 per gallon.

Exhibit D2 shows the number of points (quart equivalents) that are associated with each cost center. For example, the bottling department points for 2018 are 186,056,048 for the cross-section dealers. For 2017 the bottling cost center points were 181,433,412, an increase of about 5 million points, or 2.6%. Two cross-section plants had increases in bottling points. Three plants had decreases in bottling volume.

Revised Rebuttal Exhibit D3 and D3-A have been updated to container costs utilized in the February 2019 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 these Cost Replacement Hearings. There are no controlled milk products sold in Area 5 in paper half gallons or in 10-ounce containers. The container sizes indicated with footnote (4) should continue to be updated monthly when minimum prices are announced using April 2019 as the new starting point.

Our container cost calculations agree with those calculated by Board Staff and will be presented in their Staff Revised Rebuttal Exhibit 3.

The Area 5 Milk Dealers request and recommend that the blending concept be continued for all containers that are represented by both plastic and paper except for the half pint container. The blending of containers, including blow-molded and purchased plastic containers should be continued for each container sold in this area. The wholesale and resale prices announced for controlled products sold in half pint containers should continue to be calculated utilizing the paper container cost. The minimum price of plastic half pints should continue to be calculated by adding the calculated

difference between the cost a plastic half pint and a paper half pint. The plastic – paper differential used in announcing October 2019 minimum prices was \$0.0464. This differential should continue to be adjusted monthly.

Revised Rebuttal Exhibit D4 is prepared to present the ingredient costs per pound of finished product as of April 2019 for inclusion in the product formulas used in the monthly price announcements. Revised Rebuttal Exhibit D4-A reflects the ingredient costs presented on Revised Rebuttal D4 and shows the increase or decrease from the ingredient costs used in calculating the October 2019 minimum prices.

The ingredient costs are shown on D4 in cents per pound of finished product. The PMMB minimum price calculations multiply these ingredient costs per pound times the milk weight of each container size. For example, a quart of flavored milk weighs 2.0 pounds. The PMMB price formulas would calculate the ingredient costs of a quart of flavored milk by multiplying the quart weight of 2.0 times the ingredient cost of \$0.0383, which is \$0.0766 per quart.

Our ingredient cost calculations agree with those calculated by Board Staff and presented in their Staff Exhibit 4.

Revised Rebuttal Exhibit D5 updates the cost of milk shrinkage and the costs and revenues from bulk cream and bulk milk transactions. Milk shrinkage in a dairy plant is the cost of milk that is purchased from dairy farmers or dairy cooperatives, but which is lost in the manufacturing process.. The cross-section dairy plants have two types of bulk milk transactions. The first type of transaction is when raw milk not needed by the plant goes directly from the farm to another dairy plant. The plant buying the unneeded milk typically manufactures cheese or nonfat dry milk. The plant buying the milk can negotiate a price that is less than the price a fully-regulated fluid milk plant must pay for that milk, so depending on market circumstances, this transaction (a diversion) can result in losses.. The second

type of transaction is when milk is received, standardized, and pasteurized, and then shipped to a food manufacturing plant. The purchasing plant could make candy, baked goods, puddings, soups, or many other varieties of food products. These transactions are called transfers. In Exhibit D5 both types of transactions are combined on the bulk milk row. Bulk cream sales occur at fluid milk plants because the butterfat test of the incoming raw milk is about 3.8% butterfat, and the average butterfat test of the packaged products sold is closer to 2.0% butterfat.

The PMMB monthly price calculations correctly account for the costs of milk shrinkage and the costs and revenues for the sales of bulk cream and bulk milk.

The current order establishes a net cost of \$0.0001 per pound and the new net revenue, based on 2018 transactions is also \$0.0001 per pound. That means on the whole these three transactions resulted in no net change.

Our calculation of milk shrinkage costs and the costs and revenues of bulk milk and bulk cream transactions agree exactly with those calculated by Board Staff and will be presented in their Staff Revised Rebuttal Exhibit 5.

Revised Rebuttal Exhibit D6 reflects a comparison of the current order butterfat tests by product type and compares those tests with the 2018 actual butterfat tests. This exhibit also reflects the increase or decrease in butterfat content. Because the butterfat component of milk has a higher cost than the skim component, a decrease in butterfat content will result in a decrease in the cost of milk in the wholesale and resale prices. An increase in butterfat content will increase the cost of milk in finished products. I recommend that the Board replace the current butterfat by product with the 2018 tests reflected on this exhibit.

Our calculations of butterfat content by product type agree exactly with those calculated by Board Staff and presented in their Staff Exhibit 6.

Revised Rebuttal Exhibit D7 is prepared to calculate the cost increases and decreases incurred during the six (6) month period ending June 30, 2019 with the six (6) month period ending June 30, 2018 for three important cost categories in a dairy plant. These three costs are: labor and fringe benefits, utilities, and insurance. This adjustment allows for an updating of significant costs, which can change significantly from year to year. We calculated the weighted points for the first six (6) months of 2019 are 14.7% more than the weighted points for the first six (6) months of 2018. The three cost categories used in this calculation increased 11.0% during that same period.

Our calculation of the cost increases for labor, insurance and utility agree with those calculated by Board Staff and presented in their Staff Exhibit 7.

Revised Rebuttal Exhibit D8 has been updated to reflect the August 2019 diesel fuel costs, which were used in calculating the minimum prices for October 2019. Additionally, this exhibit reflects the calculation of the average diesel fuel cost for calendar year 2018, which becomes the new starting point for the monthly adjustments. I recommend that this adjustment be continued monthly. The average diesel fuel cost for 2018 for the cross-section dealers is \$0.0151 per point. This amount varies in each area based on distances traveled, delivery sizes, and fleet fuel efficiency.

Revised Rebuttal Exhibit D9 has been updated to reflect June 2019 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 2018, which becomes the new starting point for the monthly adjustments. I recommend that this adjustment be continued monthly.

Our calculation of the cost increases for the diesel fuel adjustment and the heating fuels adjustment ed by Board Staff and presented in their Staff Exhibits 8 & 9.

Container Efficiency Adjustment

An important part of the calculation of PMMB's minimum resale prices is the container efficiency adjustment. These adjustments are in place to allocate the fluid milk processors' costs appropriately to the various sizes of containers sold. The impact of the container efficiency adjustment is to deduct costs from the two larger packages, gallons and half gallons, and to add costs to the smaller containers. Our calculation of updated container efficiency adjustments is shown at Exhibit D10.

The container efficiency adjustment was implemented to be revenue neutral, meaning the container efficiency adjustment did not add costs and did not generate new revenue. The adjustments as originally calculated added a dollar of costs to the smaller containers for every dollar deducted from the larger containers. When correctly calculated the container efficiency adjustments will not be a revenue-generation tool, but instead will serve as a cost allocation tool. The plusses should equal the minuses so that the total of plusses and minuses foots to zero.

The container efficiency adjustment has two components:

- 1) Bottling costs allocation – based on filling speeds at each processing plant
- 2) Cold room and delivery costs allocation – based on number of units packed in a plastic milk case.

Bottling Cost Center

The bottling cost center costs shown on Exhibit D2 are \$0.0476 per point. This is an average of all sizes packaged at all the cross-section plants. Our calculation starts with this average cost. The goal of the calculation, which we achieved, is to adjust the average bottling cost center costs for the individual container sizes so that in total the average cost per point remained \$0.0476.

Cold Room and Delivery Cost Centers

The cold room cost center costs shown on Exhibit D2 are \$0.0481 per point and delivery cost center costs per point are \$0.1629 per point. An allocation of the costs in these in two cost centers is needed because dairy h container packages are not sold individually but in plastic milk cases. The dairy employees handle these cases and not the individual units. Each plastic case holds a different number of points for each container size.

We calculated the number of milk cases each plant used to handle the containers it sold in 2018. We allocated the total cold room and delivery costs to each size based on the number of milk cases used for that size. As we did in the bottling cost center allocation, we made certain we only allocated the actual costs at that plant. No additional costs were added or deducted. The cold room and delivery costs pluses and minuses were equal. The adjustments were revenue neutral.

Exhibit D10

Exhibit D11 shows the results of our container efficiency update calculations. The actual quantity of each size container is shown in the first column. These quantities are multiplied by our calculated container efficiency adjustments to determine the impact on cross-section dealer revenue. For example, the updated adjustments would allocate \$1,607,267 out of the gallon package and add \$1,180,910 to the paper half pint. The net effect of the plusses and minuses is revenue to the dealers of \$2,675. This isn't zero because we are only calculating the container efficiency adjustments to four decimal places, but in the world of accounting this kind of small difference due to rounding is reasonable.

I recommend that the container efficiency adjustments be updated in this cost replacement hearing. In addition, I recommend that adjusting these important factors becomes part of every year's cost replacement hearing so that revenue neutrality can be maintained from year-to-year.

Summary

Revised Rebuttal Exhibit D11-A and D11-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 October 2019. These exhibits also cross-reference the exhibits that support the individual line items.

Class II Controlled Products

The annual cost replacement process could include an updating of Class II product costs. Class II controlled products include half & half, light cream, sour cream, and heavy cream. We are not presenting any recommendation to change the method used for Class II pricing. We ask that the Board continue with the existing methodology. The Area 5 milk dealers have considered and will continue to review other approaches but do not see a need 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%. Milk dealers in Area 5 and across the Commonwealth are facing a serious battle for profitability as fluid milk demand continues to decline year-over-year.

I reviewed the Statements of Operations for the year ended 12/31/2018 for the six cross-section dealers. These are submitted by the dealers on Exhibit B of the PMMB-60 Milk Dealer's Financial Statement. The 2018 weighted average rate of return for the Area 5 cross-section dealers was -1.0%. This is well below the statutory range of 2.5% to 3.5%. Two of the plants had operating losses in 2018. The rate of return at the most profitable plant in the cross-section was below 2.5%. The Board may be wondering how the rate of return can be that low if the statutory rate of return is set at 3.5%. There are many reasons, including the fact that cost replacement lags the period when the operating costs were incurred. Given this dismal profit and loss situation, it is essential that the Board continue the 3.5% rate of return.

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.

AREA 5

COST REPLACEMENT HEARING DEALER REVISED REBUTTAL EXHIBITS

NOVEMBER 6, 2019

PMMB AREA 5

NOVEMBER 6, 2019 COST REPLACEMENT HEARING

INDEX OF REVISED REBUTTAL EXHIBITS

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

Revised Rebuttal Exhibit D1	Ronald W. Mong, CPA Curriculum Vitae
Revised Rebuttal Exhibit D2	Processing, Packaging and Delivery Costs/Point
Revised Rebuttal Exhibit D2-A	Cost Replacement Adjustments for Processing, Packaging and Delivery Costs
Revised Rebuttal Exhibit D3	Summary of Current Container Costs with Adjustments for Shrinkage and Loss and Update to Current Month
Revised Rebuttal Exhibit D3-A	Adjusted Container Costs Compared to Current Month Container Costs
Revised Rebuttal Exhibit D4	Summary of Current Ingredient Costs
Revised Rebuttal Exhibit D4-A	Cost Replacement Adjustments for Ingredients
Revised Rebuttal Exhibit D5	Weighted Cost of Shrinkage and Weighted Costs and Revenues from Bulk Cream and Bulk Milk
Revised Rebuttal Exhibit D6	Butterfat Content of Price Controlled Products
Revised Rebuttal Exhibit D7	Cost Increases (Decreases) for Labor, Insurance and Utility Costs
Revised Rebuttal Exhibit D8	Changes in Diesel Fuel Costs
Revised Rebuttal Exhibit D9	Changes in Heating Fuel Costs (Natural Gas)
Revised Rebuttal Exhibit D10	Adjustments for Container Efficiencies Due to Container Size
Revised Rebuttal Exhibit D11-A	Calculation of Minimum Wholesale Price Gallon Reduced Fat Milk (2%)
Revised Rebuttal Exhibit D11-B	Calculation of Minimum Wholesale Price Half Pint Flavored Nonfat Milk (Skim)

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

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 – NOVEMBER 66, 2006

International Dairy Foods Association (IDFA) Dairy Cost Accounting Workshop – NOVEMBER 66, 2007

Dairylea Cooperative – Dairy Accounting 101 & 102 – May 2008

International Dairy Foods Association (IDFA) Dairy Cost Accounting Workshop – NOVEMBER 64, 2008

International Dairy Foods Association (IDFA) Dairy Cost Accounting Workshop – NOVEMBER 63, 2009

International Dairy Foods Association (IDFA) Dairy Cost Accounting Workshop – NOVEMBER 61-12, 2010

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

International Dairy Foods Association (IDFA) NEW Dairy Cost Accounting Workshop – NOVEMBER 61, 2011

International Dairy Foods Association (IDFA) Dairy Accounting & Finance Workshop – NOVEMBER 65-16, 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 – NOVEMBER 64-15, 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 – NOVEMBER 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

Ronald W. Mong, CPA

COURSES INSTRUCTED (Cont'd)

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)
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

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)

REVISED REBUTTAL EXHIBIT D2

PMMB AREA 5

NOVEMBER 6, 2019 COST REPLACEMENT HEARING

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

Dean Dairy Products Company, LLC (Sharpsville, PA), Galliker 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 2018 Points in PMMB Area 5 (1)</u>	<u>Weighted Average 2017 Cost/Point (1)</u>
Receiving, lab and field work	164,909,532	\$ 0.0156
Standardization and pasteurization	177,976,100	0.0272
Bottling	186,056,048	0.0476
Cold room	208,100,123	0.0481
Delivery	205,070,165	0.1629
Selling	180,823,887	0.0346
		<u>\$ 0.3360</u>

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

REVISED REBUTTAL EXHIBIT D2-A

PMMB AREA 5

NOVEMBER 6, 2019 COST REPLACEMENT HEARING

COST REPLACEMENT ADJUSTMENTS FOR PROCESSING, PACKAGING AND DELIVERY COSTS

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

	2018 Weighted Average Cost/Point	2017 Cost/Point Included in Existing Order (1)	Increase (Decrease)
	<u> </u>	<u> </u>	<u> </u>
Receiving, lab and field work	\$0.0156	\$0.0264	(\$0.0108)
Standardization and pasteurization	0.0272	0.0238	0.0034
Bottling	0.0476	0.0406	0.0070
Cold room	0.0481	0.0482	(0.0001)
Delivery	0.1629	0.1549	0.0080
Selling	<u>0.0346</u>	<u>0.0302</u>	<u>0.0044</u>
Sub total	\$0.3360	\$0.3241	\$0.0119
Add:			
2019 Cost increase (decrease) adjustment - Exhibit D7			(0.0077)
Less:			
2018 Cost (increase) decrease adjustment (1)			<u>(0.0064)</u>
Net change			<u><u>(\$0.0022)</u></u>

(1) Per General Order No. A-954 (CRO 9).

REVISED REBUTTAL EXHIBIT D3

PMMB AREA 5

NOVEMBER 6, 2019 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), Galliker 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>April 2019 Container Cost (1)</u>	<u>Adjust from April 2019 to September 2019 Current (2)</u>	<u>Subtotal</u>	<u>Calculated Shrinkage and Loss (3)</u>	<u>Shrinkage Cost</u>	<u>Total Container Cost</u>
Gallon	\$ 0.1979	\$ (0.0003)	\$ 0.1976	1.82%	\$ 0.0036	\$ 0.2012
1/2 gallon - plastic	0.1444					
1/2 gallon - paper	(5)					
1/2 gallon - blended (4)	<u>0.1444</u>	(0.0025)	0.1419	1.75%	0.0025	0.1444
Quart - plastic	0.1383					
Quart - paper	<u>0.1474</u>					
Quart - blended (4)	<u>0.1405</u>	0.0005	0.1410	1.57%	0.0022	0.1432
Pint - plastic	0.1204					
Pint - paper	<u>0.0615</u>					
Pint - blended (4)	<u>0.1200</u>	(0.0010)	0.1190	1.62%	0.0019	0.1209
Twelve ounce - plastic	0.1206		0.1206			0.1206
Ten ounce - paper	(5)		-			-
1/2 pint - plastic (4)	0.0735	(0.0005)	0.0730	0.92%	0.0007	0.0737
1/2 pint - paper (4)	0.0273	(0.0002)	0.0271	0.85%	0.0002	0.0273
Four ounce - paper	0.0276		0.0276	1.53%	0.0005	0.0281
Dispenser	0.0911		0.0911	1.30%	0.0012	0.0923

- (1) For containers not purchased in April 2019 the most recent invoice was used.
- (2) September 2019 container costs were used by the PMMB to establish minimum resale prices for October 2019.
- (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 monthly when the PMMB minimum resale prices are announced.
- (5) Container not packaged in this Area.

REVISED REBUTTAL EXHIBIT D3-A

PMMB AREA 5

NOVEMBER 6, 2019 COST REPLACEMENT HEARING

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

Dean Dairy Products Company, LLC (Sharpsville, PA), Galliker 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)	\$ 0.2012	\$ 0.1838	\$ 0.0174
Half Gallon (2)	0.1444	0.1360	0.0084
Quart (2)	0.1432	0.1387	0.0045
Pint (2)	0.1209	0.1156	0.0053
Twelve ounce	0.1206	0.1186	0.0020
1/2 pint - plastic (2)	0.0737	0.0751	(0.0014)
1/2 pint - paper (2)	0.0273	0.0265	0.0008
Four ounce - paper	0.0281	0.0288	(0.0007)
Dispenser (per quart)	0.0923	0.0740	0.0183

(1) Per General Order No. A-954 (CRO 9) as updated.

(2) These container costs to be updated monthly.

(3) Difference between plastic ½ pint and paper ½ pint is \$0.0464. PMMB resale price schedules show the ½ pint paper price. \$0.0464 is the plastic add-on.

REVISED REBUTTAL EXHIBIT D4

PMMB AREA 5

NOVEMBER 6, 2019 COST REPLACEMENT HEARING

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

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

	April 2019 Ingredient Cost Per Pound <u>(1)</u>
Standard	\$.0000
Reduced fat (2%) milk	.0001
Low fat (1%) milk	.0001
Nonfat (skim) milk	.0009
Flavored milk	.0383
Flavored reduced fat milk	.0323
Flavored nonfat milk	.0396
Buttermilk	.0192
Eggnog	.1708

(1) For ingredients not purchased in April 2019 the most recent invoice was used.

REVISED REBUTTAL EXHIBIT D4-A

PMMB AREA 5

NOVEMBER 6, 2019 COST REPLACEMENT HEARING

COST REPLACEMENT ADJUSTMENTS FOR INGREDIENTS

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

	<u>March 2018 Weighted Average Cost/Pound</u>	<u>Cost/Pound included in Existing Order (1)</u>	<u>Increase (Decrease)</u>
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)	0.0009	0.0007	0.0002
Flavored milk (2)	0.0383	0.0366	0.0017
Flavored reduced fat milk (2)	0.0323	0.0306	0.0017
Flavored nonfat milk (2)	0.0396	0.0330	0.0066
Buttermilk	0.0192	0.0218	(0.0026)
Eggnog	0.1708	0.1435	0.0273

(1) Per General Order OGO A-954 (CRO 9) as updated for flavored milks on October 1, 2019.

(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

NOVEMBER 6, 2019 COST REPLACEMENT HEARING

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

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

PMMB Area 5	Costs	Revenues	Weighted Net Cost (Revenue)	Weighted Pounds	Weighted Cost (Revenue) Per Pound
Shrinkage	\$ 1,393,644		\$ 1,393,644		
Bulk milk revenue minus milk costs		403,908			
Bulk milk cost center costs & freight	579,747				
Net bulk milk cost (revenue)			175,839		
Bulk cream revenue minus milk costs		1,973,342			
Bulk cream cost center costs	433,865				
Net bulk cream cost (revenue)			(1,539,477)		
Total	<u>\$ 2,407,256</u>	<u>\$ 2,377,250</u>			
Net cost (net revenue) - calendar year 2018			\$ 30,006	317,391,244	\$ 0.0001
Net cost (net revenue) in current order - calendar year 2017			\$ 26,802	307,485,075	0.0001
Net change - cost increase (cost reduction)			\$ 3,204		\$ -

REVISED REBUTTAL EXHIBIT D6

PMMB AREA 5

NOVEMBER 6, 2019 COST REPLACEMENT HEARING

BUTTERFAT CONTENT OF PRICE CONTROLLED PRODUCTS

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

	<u>2018 Weighted Average Butterfat Test</u>	<u>Butterfat Test included in Existing Order (1)</u>	<u>Increase (Decrease)</u>
Standard milk	3.2534%	3.2526%	0.0008%
Reduced fat milk (2%)	1.9210%	1.9298%	-0.0088%
Lowfat milk (1%)	0.9506%	0.9560%	-0.0054%
Nonfat milk (skim)	0.1052%	0.1041%	0.0011%
Flavored milk	3.3750%	3.4121%	-0.0371%
Flavored reduced fat milk	1.0089%	1.0063%	0.0026%
Flavored nonfat milk	0.2051%	0.2200%	-0.0149%
Buttermilk	1.8071%	2.0444%	-0.2373%
Eggnog	6.5955%	6.5372%	0.0583%

(1) Per General Order No. A-954 (CRO 9)

REVISED REBUTTAL EXHIBIT D7

PMMB AREA 5

NOVEMBER 6, 2019 COST REPLACEMENT HEARING

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

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

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
	2019	2018	2019	2018	2019	2018	
Labor and fringe benefits	\$ 21,301,250	\$ 19,113,465	100,672,482	87,738,172	\$ 0.2116	\$ 0.2178	(\$0.0062)
Utilities	1,268,281	1,243,825	100,672,482	87,738,172	0.0126	0.0142	(0.0016)
Insurance	715,682	614,171	100,672,482	87,738,172	0.0071	0.0070	0.0001
					<u>\$0.2313</u>	<u>\$0.2390</u>	<u>(\$0.0077)</u>

(1) Weighted based on sales in PMMB Area 5

REVISED REBUTTAL EXHIBIT D8

PMMB AREA 5

NOVEMBER 6, 2019 COST REPLACEMENT HEARING

CHANGES IN DIESEL FUEL COSTS

Dean Dairy Products Company, LLC (Sharpsville, PA), Galliker 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 2018 (1)	\$3,102,181
Delivery points – calendar year 2018 (1)	<u>205,070,165</u>
Diesel fuel cost per point delivered	<u>\$0.0151</u>
Average diesel price – calendar year 2018 (2)	\$3.361
Average diesel price – August 2019 (2) (3)	<u>\$3.208</u>
Increase (decrease) from year 2018 to month August 2019	-4.55%
Increase (decrease) in diesel fuel cost per point delivered	<u>(\$0.0007)</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) August 2019 diesel fuel costs were used by the PMMB in establishing minimum prices for October 2019

REVISED REBUTTAL EXHIBIT D9

PMMB AREA 5

NOVEMBER 6, 2019 COST REPLACEMENT HEARING

CHANGES IN HEATING FUEL COSTS (NATURAL GAS)

Dean Dairy Products Company, LLC (Sharpsville, PA), Galliker 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 2018 (1)	\$273,481
Standardization & pasteurization points – calendar year 2018 (1)	<u>177,976,100</u>
Heating fuel cost per point pasteurized	<u>\$0.0015</u>
Average heating fuel costs – calendar year 2018 (2)	\$8.68
Average heating fuel costs – June 2019 (2) (3)	<u>8.35</u>
Increase (decrease) from year 2018 to month June 2019	-3.80%
Increase (decrease) in heating fuel cost per point pasteurized	<u><u>(\$0.0001)</u></u>

- (1) Costs of cross-section dealers weighted by sales in Area 5.
- (2) Industrial natural gas prices for Pennsylvania in dollars per thousand cubic feet as published by the U.S. Energy Information Administration.
- (3) June 2019 natural gas costs were used by the PMMB in establishing minimum prices for October 2019.

REVISED REBUTTAL EXHIBIT D10

PMMB AREA 5

NOVEMBER 6, 2019 COST REPLACEMENT HEARING

ADJUSTMENTS FOR CONTAINER EFFICIENCIES
DUE TO CONTAINER SIZE

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

Container Size	Container Quantities Sold by Cross-Section Dealers in 2018 in Area 5	Proposed		Container	
		Container Efficiency Adjustments	Impact on Cross-Section Dealer Revenue	Efficiency Adjustments in Current Order (1)	Impact on Cross-Section Dealer Revenue
Gallon	19,576,942	\$ (0.0821)	\$ (1,607,267)	\$ (0.0684)	\$ (1,339,063)
Half Gallon	18,245,920	(0.0573)	(1,045,491)	(0.0548)	(999,876)
Quart	4,439,270	0.0813	360,913	0.0809	359,137
Pint	8,465,894	0.0912	772,090	0.0843	713,675
12 oz.	33,916	0.0603	2,045	0.0562	1,906
Half Pint - Plastic	2,996,554	0.0190	56,935	0.0158	47,346
Half Pint - Paper	62,153,132	0.0190	1,180,910	0.0158	982,019
4 oz.	5,158,586	0.0327	168,686	0.0288	148,567
Dispenser (per quart)	1,060,095	0.1074	113,854	0.0994	105,373
Net impact on cross-section dealer revenues			\$ 2,675		\$ 19,084

(1) Per OGO A-954 (CRO 9) as updated.

**REVISED REBUTTAL EXHIBIT D11-A
PMMB AREA 5**

NOVEMBER 6, 2019 COST REPLACEMENT HEARING

**CALCULATION OF WHOLESALE MINIMUM PRICE
GALLON REDUCED FAT MILK (2%) FOR OCTOBER 2019**

**Dean Dairy Products Company, LLC (Sharpsville, PA), Galliker 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	1.9210%	1.9298%	-0.0088%
Butterfat price as announced by PMMB	(1)	\$ 2.5747 per lb.	\$ 2.5747 per lb.	
Extended butterfat value		\$ 0.0495 per lb.	\$ 0.0497 per lb.	
Skim price as announced by PMMB	(1)	\$ 13.06 per cwt.	\$ 13.06 per cwt.	
Extended skim value		\$ 0.1281 per lb.	\$ 0.1281 per lb.	
Total milk value at announced prices		<u>\$ 0.1776 per lb.</u>	<u>\$ 0.1778 per lb.</u>	<u>\$(0.0002)</u>
Ingredient cost	D4	0.0001	0.0001	
Cost of shrinkage / bulk milk & cream	D5	0.0001	0.0001	
Total milk cost per pound		<u>\$ 0.1778 per lb.</u>	<u>\$ 0.1780 per lb.</u>	<u>\$(0.0002)</u>
Pounds per gallon (conversion)		<u>8.62</u>	<u>8.62</u>	
Total milk cost per gallon		<u>\$ 1.5326</u>	<u>\$ 1.5344</u>	<u>\$(0.0018)</u>
Container cost (adjusted for shrinkage)	D3	0.2012 each	0.1838 each	0.0174
Cost center costs	D2	1.3440	1.2964	0.0476
1st half 2019 to 1st half 2018 adjustment	D7	(0.0308)	0.0256	(0.0564)
Container efficiency adjustment	D10	(0.0821)	(0.0684)	(0.0137)
Percentage discount adjustment	(3)	0.0244	0.0244	-
Diesel fuel adjustment	D8	(0.0028)	0.0068	(0.0096)
Heating fuels adjustment	D9	(0.0004)	(0.0004)	-
		<u>\$ 2.9861 each</u>	<u>\$ 3.0026 each</u>	<u>\$(0.0165)</u>
Dealer profit at 3.5%	(2)	0.1083	0.1089	\$(0.0006)
Subtotal		<u>\$ 3.0944 each</u>	<u>\$ 3.1115 each</u>	<u>\$(0.0171)</u>
Less: average delivery cost	(2)	(0.5220)	(0.5220)	
Add: high cost delivery	(2)	0.9748	0.9748	
Wholesale minimum price		<u><u>\$ 3.5472 each</u></u>	<u><u>\$ 3.5643 each</u></u>	<u><u>\$(0.0171)</u></u>

(1) As announced for October 2019 by PMMB on September 19, 2019

(2) Per OGO A-954 (CRO 9) as updated.

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

REVISED REBUTTAL EXHIBIT D11-B

PMMB AREA 5

NOVEMBER 6, 2019 COST REPLACEMENT HEARING

**CALCULATION OF WHOLESALE MINIMUM PRICE
HALF PINT FLAVORED NONFAT MILK (SKIM) FOR OCTOBER 2019**

**Dean Dairy Products Company, LLC (Sharpsville, PA), Galliker 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	0.2051%	0.2200%	-0.0149%
Butterfat price as announced by PMMB	(1)	\$ 2.5747 per lb.	\$ 2.5747 per lb.	
Extended butterfat value		\$ 0.0053 per lb.	\$ 0.0057 per lb.	
Skim price as announced by PMMB	(1)	\$ 13.06 per cwt.	\$ 13.06 per cwt.	
Extended skim value		\$ 0.1303 per lb.	\$ 0.1303 per lb.	
Total milk value at announced prices		<u>\$ 0.1356 per lb.</u>	<u>\$ 0.1360 per lb.</u>	<u>\$(0.0004)</u>
Ingredient cost	D2	0.0396	0.0330	
Cost of shrinkage / bulk milk & cream	D7	0.0001	0.0001	
Total milk cost per pound		<u>\$ 0.1753 per lb.</u>	<u>\$ 0.1691 per lb.</u>	<u>\$ 0.0062</u>
Pounds per gallon (conversion)		0.50	0.50	
Total milk cost per half pint		<u>\$ 0.0877</u>	<u>\$ 0.0846</u>	<u>\$ 0.0031</u>
Container cost (adjusted for shrinkage)	D8	0.0273 each	0.0265 each	0.0008
Cost center costs	D3	0.0840	0.0810	0.0030
1st half 2019 to 1st half 2018 adjustment	D4	(0.0019)	0.0016	(0.0035)
Container efficiency adjustment	D10	0.0190	0.0158	0.0032
Percentage discount adjustment	(3)	0.0015	0.0015	-
Diesel fuel adjustment	D5	(0.0002)	0.0004	(0.0006)
Heating fuels adjustment	D6	-	-	-
		<u>\$ 0.2174 each</u>	<u>\$ 0.2114 each</u>	<u>\$ 0.0060</u>
Dealer profit at 3.5%	(2)	0.0079	0.0077	\$ 0.0002
Subtotal		<u>\$ 0.2253 each</u>	<u>\$ 0.2191 each</u>	<u>\$ 0.0062</u>
Less: average delivery cost	(2)	(0.0326)	(0.0326)	
Add: high cost delivery	(2)	0.0609	0.0609	
Wholesale minimum price		<u><u>\$ 0.2536 each</u></u>	<u><u>\$ 0.2474 each</u></u>	<u><u>\$ 0.0062</u></u>

(1) As announced for October 2019 by PMMB on September 19, 2019.

(2) Per OGO A-954 (CRO 9) as updated.

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