

REVISED REBUTTAL TESTIMONY OF

RON MONG, CPA

Appearing on Behalf of the Area 5 Milk Dealers

Rebuttal Testimony before Pennsylvania Milk Marketing Board

Cost Replacement Hearing Based on 2017 Annual Reports

March 11, 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 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 March 2018 cost information as the new starting point for container updating. These March 2018 container costs are 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 are 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. All exhibits have been adjusted for inter-plant transfers. An inter-plant transfer is a transaction where a product is manufactured in one plant and transferred to an affiliate plant that then sells the product to the ultimate consumer. These exhibits have been prepared reflecting the sales to the ultimate consumer in the applicable area. This weighting and averaging method has been consistently applied from year to year.

Cross-Section

The Area 5 cross-section of dealers utilized includes Dean Dairy Products Company, LLC (Sharpsville, PA), 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). Galliker has been added to the cross-section and Meadow Brook Dairy Co., Erie, PA, which has stopped processing fluid milk has been excluded from the cross-section. The cross section companies process, package and deliver most of the controlled milk products in Area 5. 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.

Rebuttal Exhibits

Rebuttal Exhibit D2 reflects the processing, packaging, and delivery cost per point for calendar year 2017. 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 2016, 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 amount presented by Board Staff on Staff Exhibit 2.

Rebuttal Exhibit D2-A is prepared to reflect the effect of the cost replacement process by comparing the 2016 processing, packaging, and delivery costs in the current order with the 2017 processing, packaging, and delivery costs. Additionally, this exhibit reflects the 2018 cost increase adjustment from Exhibit D7 and removes the 2017 cost increase adjustment. Including the cost update adjustments, the increase in the cross-section dealer costs from the prior cost replacement hearing is \$0.0181 per quart equivalent (point), or \$0.0724 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 2017 are 181,433,412 for the cross-section dealers. For 2016 the bottling cost center points were 206,317,169, a decrease of about 25 million points, or 12%. About 15,600,000 points of the decrease was caused by the removal of Meadow Brook and the addition of Galliker to the cross-section. The remaining points decrease of about 9,400,000 was due to less volume being packaged at the cross-section plants. All Area 5 cross-section dealers except one had a decrease in the quantity of products processed, packaged and delivered in 2017 compared to 2016.

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 March 2018 as the new starting point.

Our container cost calculations agree with those calculated by Board Staff and presented in their Staff 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 February 2019 minimum prices was \$0.0483. This differential should continue to be adjusted monthly.

Rebuttal Exhibit D4 is prepared to present the ingredient costs per pound of finished product as of March 2018 for inclusion in the product formulas used in the monthly price announcements. Rebuttal Exhibit D4-A reflects the ingredient costs presented on Rebuttal D4 and shows the increase or decrease from the ingredient costs used in calculating the February 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 \$0.0377, which is \$0.0754 per quart.

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

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 not accounted for in any finished products. 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. This transaction is called a diversion. 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 revenue of (\$0.0016) per pound and the new net revenue, based on 2017 transactions is \$0.0001 per pound. There has been a new net change of \$0.0017 per pound. 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 presented in their Staff Exhibit 5.

Rebuttal Exhibit D6 reflects a comparison of the current order butterfat tests by product type and compares those tests with the 2017 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 2016 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.

Rebuttal Exhibit D7 is prepared to calculate the cost increases and decreases incurred during the six (6) month period ending June 30, 2018 with the six (6) month period ending June 30, 2017 for three important

expense categories in a dairy plant. These three expenses 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. This year the cost increase (decrease) analysis was calculated with utilizing the first six (6) months of 2018 and comparing that with the first six (6) months for 2017. We calculated the weighted points for the first six (6) months of 2018 are 0.9% less than the weighted points for the first six (6) months of 2017. The three expense categories used in this calculation increased 1.8% during that same period.

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

Rebuttal Exhibit D8 has been updated to reflect the December 2018 diesel fuel costs, which were used in calculating the minimum prices for February 2019. Additionally, this exhibit reflects the calculation of the average diesel fuel cost for calendar year 2017, which becomes the new starting point for the monthly adjustments. I recommend that this adjustment be continued monthly. The average diesel fuel cost for 2017 for the cross-section dealers is \$0.0128 per point. This is significantly less than the amount we will see in the Area 6 cost replacement hearing. The lower diesel fuel costs in Area 5 compared to Area 6 are due to the shorter distances needed to deliver milk and the somewhat flatter terrain in Western Pennsylvania compared to Central Pennsylvania.

Rebuttal Exhibit D9 has been updated to reflect October 2018 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 2017, 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.

Rebuttal Exhibit D10-A and D10-B are prepared to reflect the wholesale minimum price for a gallon of reduced fat milk and a half pint of flavored non-fat milk for February 2019. These exhibits also cross-reference the exhibits that support the individual line items.

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 D11.

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 adjustments currently used in the monthly PMMB price calculations have not been updated for more than ten years. During those years there have been significant changes in four important areas:

- 1) The number of containers of each size sold in the Area 5 has changed. We have observed changes in both the mix of container sizes sold and the total volume of milk packaged at cross-section dealers. In 2007 when the current container efficiency adjustments were calculated the cross-section dealers sold about 35 million gallon containers. Gallons represented about 65% of the volume of milk sold. In 2017 the cross-section sold only about 20 million gallon containers. In 2017 gallon container sales were only 55% of milk sold in Area 5. Half pint sales in 2007 were about 83 million units, or 10% of Area 5 milk sales. In 2017 Area 5 cross-section dealers sold about 69 million half pints. Half pint sales in 2017 accounted for 12% of the Area 5 sales volume. Other than quarts and pints all container sizes had significant declines in the last ten years. Without reflecting these changes, the current container efficiency adjustments are inaccurate,
- 2) The current container efficiency adjustments are based on an estimate to determine the quantity of each container, which does not do a good job of approximating actual sales. In this hearing our

Exhibits and Staff Exhibits are based on actual container sales in Area 5. Ten years ago, the container quantities sold were estimated based on each cross-section dealer's weighted average sales in Area 5. The weighted average method tended to significantly understate the quantities of some container sizes and overstate other sizes. To ensure the most accurate allocation of costs, it is necessary to utilize the actual sales figures.

- 3) The speeds of the machines filling containers at some of the cross-section dealers has changed.. As a result, the amount of time it takes at each plant to package the products has changed. The amount of time it takes to package each container size is the key factor in allocating the bottling cost center costs.
- 4) The cost center costs of the processors filling those containers have changed. In 2007 the cross-section dealers packaged 269 million points at an average cost of \$0.040 per point. In 2017 the cross-section packaged 181 million points at an average cost of \$0.041 per point. Although the average bottling costs have increased slightly, each dealer in the cross section has had significant changes in their bottling cost center costs. All of them increased except one plant. As each plant's bottling costs changed, the allocation between large containers and small containers changed as well.

The current container efficiency adjustment currently used 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.

Our proposed container adjustment has these same two components but incorporates additional adjustments as I will explain..

Our Container Efficiency Study

Our study of the current container efficiency adjustments revealed that the current method does not correctly allocate costs across the various container sizes. In some PMMB Areas this caused overall minimum prices to be too high, and in other areas the minimum prices were too low. The current container efficiency adjustments stopped being revenue neutral because cross-section sales quantities changed and because costs

center costs changed. There were also shifts of volume between processors with different cost structures and filling machine speeds.

Every cross section dealer was visited by either me or another accountant from the Herbein dairy group at my direction. At each plant we observed the actual speed at which each container size was packaged. For example, at Plant "A" the half pint machine was operating at 320 units per minute. We also observed the number of employees operating each filling line. Some packaging lines filling plastic containers require two employees, other fillers only need one employee. At one plant one operator was able to run two machines simultaneously. We observed and recorded how many units each plant put in a plastic milk case. For example, a standard milk case holds four gallons, nine half gallons, and sixteen quarts. The container efficiency adjustment allocates the cold room and delivery costs by the milk case rather than the individual units. The number of units per case was needed to correctly compute the number of milk cases used for each container size.

We worked with PMMB Staff to obtain actual sales of cross section dealers by Area. It was critically important to have actual container sales by Area to accurately compute updated container efficiency adjustments. The old method for allocating containers sales by area used a percentage method - for example, if a Plant "B" sold 50% of its controlled products in Area 5 and 50% in Area 6, and sold a total of 10 million half pints in a year, the old method determined that 5 million half pints were sold in Area 5 and 5 million half pints were sold in Area 6. When actual sales quantities were reported we could find out that in fact, 7 million half pints were sold in Area 5 and only 3 million in Area 6.

The current container efficiency adjustments were inaccurate because they were based on outdated container sales quantities, calculated by an incorrect method, and ten-year old costs.

Bottling Cost Center

The bottling cost center costs shown on Exhibit D2 are \$0.0406 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 \$0.0406. Our next step in the updated container efficiency adjustment divided the bottling cost center costs into two categories: labor and fringe benefits and all other costs.

We calculated the number of minutes that each plant used to package the quantity of containers sold in Area 5 by that plant. We calculated the minutes two ways: once with the number of filler operators included, and once with just the machine speeds without regard to the number of operators. We used the number of minutes with the number of filler operators included to allocate that plant's bottling labor and fringe benefits. We used the number of minutes with just the machine speeds to allocate all the non-labor costs: repairs and maintenance, depreciation, supplies, utilities, equipment rental, etc. For each plant we made certain that we only allocated the actual costs for that plant. We made certain that the minuses from the large containers equaled the add-ons to the small containers to ensure revenue neutrality.

The concept of using the number of filler operators for the labor cost allocation was not used ten years ago when the current container efficiency adjustments were calculated. Some of the half gallon, quart, and pint containers sold in Area 5 back then were in paper containers. Those paper carton filling machines only had one operator. Today most of the half gallons, quarts, and pints sold are in plastic containers. Many of those packaging machines require two operators. The number of operators is now an important factor in allocating labor costs in the bottling department accurately.

For the non-labor costs, it is correct to allocate using only the machine filling speeds without considering the number of operators. The number of operators working on a filling line directly changes labor costs, but not the other costs like repairs and maintenance, supplies, utilities, and other non-payroll costs.

Cold Room and Delivery Cost Centers

The cold room cost center costs shown on Exhibit D2 are \$0.0482 per point and delivery cost center costs per point are \$0.1549 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 2017. 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 D11

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 \$1,3369,144 out of the gallon package and add \$1,035,275 to the paper half pint. The net effect of the plusses and minuses is a loss to the dealers of \$1,925. 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.

The columns on the right of D11 show the container efficiency adjustments in the current order. The current adjustments are multiplied by the 2017 actual container sales. The result is that based on 2017 sales wholesale prices in Area 5 were too high by \$692,628. This means actual costs are incorrectly allocated. More costs are being added to the small containers than is being deducted from the large containers. The current container efficiency adjustments aren't revenue neutral. As we go through the other PMMB areas we will see that some are out-of-balance in each direction.

Based on our collaborative efforts, I anticipate that our calculation of the proposed, updated container efficiency adjustments will be the same as those that have been calculated by Board Staff and presented in their Staff Surrebuttal Exhibit.

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.

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 12/31/2017 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 2017 weighted average rate of return for the Area 5 cross-section dealers was 0.4%. This is well below the statutory range of 2.5% to 3.5%. Three of the plants had operating losses in 2017. 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

MARCH 11, 2019

PMMB AREA 5

MARCH 11, 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-A	Calculation of Minimum Wholesale Price Gallon Reduced Fat Milk (2%)
Revised Rebuttal Exhibit D10-B	Calculation of Minimum Wholesale Price Half Pint Flavored Nonfat Milk (Skim)
Revised Rebuttal Exhibit D11	Adjustments for Container Efficiencies Due to Container Size

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

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

Ronald W. Mong, CPA

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

Board of Directors – Venango County United Way

Chairman of Administrative Board – Calvary United Methodist Church

Distinguished Service Award – Oil City Jaycees

Ronald W. Mong, CPA

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

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

Ronald W. Mong, CPA

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)

REVISED REBUTTAL EXHIBIT D2

PMMB AREA 5

MARCH 11, 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 2017 Points in PMMB Area 5 (1)</u>	<u>Weighted Average 2017 Cost/Point (1)</u>
Receiving, lab and field work	159,518,966	\$ 0.0264
Standardization and pasteurization	174,813,580	0.0238
Bottling	181,433,412	0.0406
Cold room	203,811,239	0.0482
Delivery	197,596,310	0.1549
Selling	201,014,946	0.0302
		<u>\$ 0.3241</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

MARCH 11, 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)

	2017 Weighted Average Cost/Point	2016 Cost/Point Included in Existing Order (1)	Increase (Decrease)
Receiving, lab and field work	\$0.0264	\$0.0241	\$0.0023
Standardization and pasteurization	0.0238	0.0218	0.0020
Bottling	0.0406	0.0317	0.0089
Cold room	0.0482	0.0475	0.0007
Delivery	0.1549	0.1478	0.0071
Selling	<u>0.0302</u>	<u>0.0304</u>	<u>(0.0002)</u>
Sub total	\$0.3241	\$0.3033	\$0.0208
Add:			
2018 Cost increase (decrease) adjustment - Exhibit D7			0.0064
Less:			
2017 Cost (increase) decrease adjustment (1)			<u>(0.0091)</u>
Net change			<u><u>\$0.0181</u></u>

(1) Per General Order No. A-954 (CRO 8).

REVISED REBUTTAL EXHIBIT D3

PMMB AREA 5

MARCH 11, 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>March 2018 Container Cost (1)</u>	<u>Adjust from March 2018 to January 2019 - Current (2)</u>	<u>Subtotal</u>	<u>Calculated Shrinkage and Loss (3)</u>	<u>Shrinkage Cost</u>	<u>Total Container Cost</u>
Gallon	\$ 0.1797	\$ 0.0026	\$ 0.1823	1.86%	\$ 0.0034	\$ 0.1857
1/2 gallon - plastic	0.1302					
1/2 gallon - paper	(5)					
1/2 gallon - blended (4)	<u>0.1302</u>	0.0021	0.1323	1.84%	0.0024	0.1347
Quart - plastic	0.1349					
Quart - paper	0.0918					
Quart - blended (4)	<u>0.1248</u>	0.0147	0.1395	1.57%	0.0022	0.1417
Pint - plastic	0.1166					
Pint - paper	0.0561					
Pint - blended (4)	<u>0.1160</u>	0.0014	0.1174	1.62%	0.0019	0.1193
Twelve ounce - plastic	0.1186		0.1186			0.1186
Ten ounce - paper	(5)		-			-
1/2 pint - plastic (4)	0.0749	0.0009	0.0758	0.92%	0.0007	0.0765
1/2 pint - paper (4)	0.0290	(0.0007)	0.0283	0.85%	0.0002	0.0285
Four ounce - paper	0.0288		0.0288	1.53%	0.0005	0.0293
Dispenser	0.0740		0.0740	1.30%	0.0010	0.0750

(1) For containers not purchased in March 2018 the most recent invoice was used.

(2) January 2019 container costs were used by the PMMB to establish minimum resale prices for February 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

MARCH 11, 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)	\$ 0.1857	\$ 0.1723	\$ 0.0134
Half Gallon (2)	0.1347	0.1219	0.0128
Quart (2)	0.1417	0.1271	0.0146
Pint (2)	0.1193	0.1043	0.0150
Twelve ounce	0.1186	0.1123	0.0063
1/2 pint - plastic (2)	0.0765	0.0774	(0.0009)
1/2 pint - paper (2)	0.0285	0.0291	(0.0006)
Four ounce - paper	0.0293	0.0290	0.0003
Dispenser (per quart)	0.0750	0.0518	0.0232

(1) Per General Order No. A-954 (CRO 8) as updated.

(2) These container costs to be updated monthly.

(3) Difference between plastic ½ pint and paper ½ pint is \$0.0480. PMMB resale price schedules show the ½ pint paper price. \$0.0480 is the plastic add-on.

REVISED REBUTTAL EXHIBIT D4

PMMB AREA 5

MARCH 11, 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)

	March 2018 Ingredient Cost Per Pound (1)
Standard	\$.0000
Reduced fat (2%) milk	.0001
Low fat (1%) milk	.0001
Nonfat (skim) milk	.0007
Flavored milk	.0377
Flavored reduced fat milk	.0310
Flavored nonfat milk	.0333
Buttermilk	.0218
Eggnog	.1435

(1) For ingredients not purchased in March 2018 the most recent invoice was used.

REVISED REBUTTAL EXHIBIT D4-A

PMMB AREA 5

MARCH 11, 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)	0.0007	0.0010	(0.0003)
Flavored milk (2)	0.0377	0.0357	0.0020
Flavored reduced fat milk (2)	0.0310	0.0304	0.0006
Flavored nonfat milk (2)	0.0333	0.0332	0.0001
Buttermilk	0.0218	0.0215	0.0003
Eggnog	0.1435	0.1315	0.0120

(1) Per General Order OGO A-954 (CRO 8) as updated for flavored milks on January 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.

REVISED REBUTTAL EXHIBIT D5

PMMB AREA 5

MARCH 11, 2019 COST REPLACEMENT HEARING

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

Dean Dairy Products Company, LLC (Sharpsville, PA), 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 (1)	Weighted Cost (Revenue) Per Pound
Shrinkage	\$ 1,108,646		\$ 1,108,646		
Bulk milk revenue minus milk costs		446,958			
Bulk milk cost center costs & freight	638,268				
Net bulk milk cost (revenue)			191,310		
Bulk cream revenue minus milk costs		1,929,219			
Bulk cream cost center costs	656,065				
Net bulk cream cost (revenue)			(1,273,154)		
Total	<u>\$ 2,402,979</u>	<u>\$ 2,376,177</u>			
Net cost (net revenue) - calendar year 2017			\$ 26,802	307,485,075	\$ 0.0001
Net cost (net revenue) in current order - calendar year 2016			<u>\$ (595,375)</u>	372,048,415	<u>(0.0016)</u>
Net change - cost increase (cost reduction)			<u>\$ 622,177</u>		<u>\$ 0.0017</u>

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

REVISED REBUTTAL EXHIBIT D6

PMMB AREA 5

MARCH 11, 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>2017 Weighted Average Butterfat Test</u>	<u>Butterfat Test included in Existing Order (1)</u>	<u>Increase (Decrease)</u>
Standard milk	3.2526%	3.2667%	-0.0141%
Reduced fat milk (2%)	1.9298%	1.9393%	-0.0095%
Lowfat milk (1%)	0.9560%	0.9642%	-0.0082%
Nonfat milk (skim)	0.1041%	0.0961%	0.0080%
Flavored milk	3.4121%	3.4208%	-0.0087%
Flavored reduced fat milk	1.0063%	1.0196%	-0.0133%
Flavored nonfat milk	0.2200%	0.2505%	-0.0305%
Buttermilk	2.0444%	2.0521%	-0.0077%
Eggnog	6.5372%	6.6523%	-0.1151%

(1) Per General Order No. A-954 (CRO 8)

REVISED REBUTTAL EXHIBIT D7

PMMB AREA 5

MARCH 11, 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
	2018	2017	2018	2017	2018	2017	
Labor and fringe benefits	\$ 19,412,692	\$ 19,076,801	90,002,249	90,852,957	\$ 0.2157	\$ 0.2100	\$0.0057
Utilities	1,267,177	1,182,378	90,002,249	90,852,957	0.0141	0.0130	0.0011
Insurance	631,659	668,909	90,002,249	90,852,957	0.0070	0.0074	(0.0004)
					<u>\$0.2368</u>	<u>\$0.2304</u>	<u>\$0.0064</u>

(1) Weighted based on sales in PMMB Area 5

REVISED REBUTTAL EXHIBIT D8

PMMB AREA 5

MARCH 11, 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 2017 (1)	\$2,524,315
Delivery points – calendar year 2017 (1)	<u>197,596,310</u>
Diesel fuel cost per point delivered	<u><u>\$0.0128</u></u>
Average diesel price – calendar year 2017 (2)	\$2.822
Average diesel price – December 2018 (2) (3)	<u>\$3.340</u>
Increase (decrease) from year 2017 to month December 2018	18.36%
Increase (decrease) in diesel fuel cost per point delivered	<u><u>\$0.0023</u></u>

- (1) Costs of cross-section dealers weighted by sales in Area 5.
- (2) On-highway diesel prices per gallon for the Central Atlantic Region as published by the U.S. Energy Information Administration.
- (3) December 2018 diesel fuel costs were used by the PMMB in establishing minimum prices for February 2019

REVISED REBUTTAL EXHIBIT D9

PMMB AREA 5

MARCH 11, 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 2017 (1)	\$265,116
Standardization & pasteurization points – calendar year 2017 (1)	<u>174,813,580</u>
Heating fuel cost per point pasteurized	<u>\$0.0015</u>
Average heating fuel costs – calendar year 2017 (2)	\$8.80
Average heating fuel costs – October 2018 (2) (3)	<u>8.47</u>
Increase (decrease) from year 2017 to month October 2018	-3.75%
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) October 2018 natural gas costs were used by the PMMB in establishing minimum prices for February 2019.

**REVISED REBUTTAL EXHIBIT D10-A
PMMB AREA 5**

MARCH 11, 2019 COST REPLACEMENT HEARING

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

**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)**

	<u>Reference</u>	<u>Proposed Order</u>	<u>Current Order (2)</u>	<u>Change</u>
Butterfat test	D6	1.9298%	1.9393%	-0.0095%
Butterfat price as announced by PMMB	(1)	\$ 2.5313 per lb.	\$ 2.5313 per lb.	
Extended butterfat value		\$ 0.0488 per lb.	\$ 0.0491 per lb.	
Skim price as announced by PMMB	(1)	\$ 10.31 per cwt.	\$ 10.31 per cwt.	
Extended skim value		\$ 0.1011 per lb.	\$ 0.1011 per lb.	
Total milk value at announced prices		<u>\$ 0.1500 per lb.</u>	<u>\$ 0.1502 per lb.</u>	<u>\$ (0.0002)</u>
Ingredient cost	D4	0.0001	0.0001	
Cost of shrinkage / bulk milk & cream	D5	<u>0.0001</u>	<u>(0.0016)</u>	
Total milk cost per pound		<u>\$ 0.1502 per lb.</u>	<u>\$ 0.1487 per lb.</u>	<u>\$ 0.0015</u>
Pounds per gallon (conversion)		<u>8.62</u>	<u>8.62</u>	
Total milk cost per gallon		<u>\$ 1.2947</u>	<u>\$ 1.2818</u>	<u>\$ 0.0129</u>
Container cost (adjusted for shrinkage)	D3	0.1857 each	0.1723 each	0.0134
Cost center costs	D2	1.2964	1.2132	0.0832
1st half 2018 to 1st half 2017 adjustment	D7	0.0256	0.0364	(0.0108)
Container efficiency adjustment	(2)	(0.0684)	(0.1067)	0.0383
Percentage discount adjustment	(3)	(0.0020)	(0.0020)	-
Diesel fuel adjustment	D8	0.0092	0.0156	(0.0064)
Heating fuels adjustment	D9	<u>(0.0004)</u>	<u>0.0004</u>	<u>(0.0008)</u>
		<u>\$ 2.7408 each</u>	<u>\$ 2.6110 each</u>	<u>\$ 0.1298</u>
Dealer profit at 3.5%	(2)	<u>0.0994</u>	<u>0.0947</u>	<u>\$ 0.0047</u>
Subtotal		<u>\$ 2.8402 each</u>	<u>\$ 2.7057 each</u>	<u>\$ 0.1345</u>
Less: average delivery cost	(2)	(0.5220)	(0.5220)	
Add: high cost delivery	(2)	<u>0.9748</u>	<u>0.9748</u>	
Wholesale minimum price		<u><u>\$ 3.2930 each</u></u>	<u><u>\$ 3.1585 each</u></u>	<u><u>\$ 0.1345</u></u>

(1) As announced for February 2019 by PMMB on January 16, 2019

(2) Per OGO A-954 (CRO 8) as updated.

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

REVISED REBUTTAL EXHIBIT D10-B

PMMB AREA 5

MARCH 11, 2019 COST REPLACEMENT HEARING

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

**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)**

	<u>Reference</u>	<u>Proposed Order</u>	<u>Current Order (2)</u>	<u>Change</u>
Butterfat test	D2-B	0.2200%	0.2505%	-0.0305%
Butterfat price as announced by PMMB	(1)	\$ 2.5313 per lb.	\$ 2.5313 per lb.	
Extended butterfat value		\$ 0.0056 per lb.	\$ 0.0063 per lb.	
Skim price as announced by PMMB	(1)	\$ 10.31 per cwt.	\$ 10.31 per cwt.	
Extended skim value		\$ 0.1029 per lb.	\$ 0.1029 per lb.	
Total milk value at announced prices		<u>\$ 0.1084 per lb.</u>	<u>\$ 0.1092 per lb.</u>	<u>\$ (0.0008)</u>
Ingredient cost	D2	0.0333	0.0332	
Cost of shrinkage / bulk milk & cream	D7	0.0001	(0.0016)	
Total milk cost per pound		<u>\$ 0.1418 per lb.</u>	<u>\$ 0.1408 per lb.</u>	<u>\$ 0.0010</u>
Pounds per gallon (conversion)		0.50	0.50	
Total milk cost per half pint		<u>\$ 0.0709</u>	<u>\$ 0.0704</u>	<u>\$ 0.0005</u>
Container cost (adjusted for shrinkage)	D8	0.0285 each	0.0291 each	(0.0006)
Cost center costs	D3	0.0810	0.0758	0.0052
1st half 2018 to 1st half 2017 adjustment	D4	0.0016	0.0023	(0.0007)
Container efficiency adjustment	D11	0.0158	0.0367	(0.0209)
Percentage discount adjustment	(3)	(0.0001)	(0.0001)	-
Diesel fuel adjustment	D5	0.0006	0.0010	(0.0004)
Heating fuels adjustment	D6	(0.0001)	-	(0.0001)
		<u>\$ 0.1982 each</u>	<u>\$ 0.2152 each</u>	<u>\$ (0.0170)</u>
Dealer profit at 3.5%	(2)	0.0072	0.0078	\$ (0.0006)
Subtotal		<u>\$ 0.2054 each</u>	<u>\$ 0.2230 each</u>	<u>\$ (0.0176)</u>
Less: average delivery cost	(2)	(0.0326)	(0.0326)	
Add: high cost delivery	(2)	0.0609	0.0609	
Wholesale minimum price		<u><u>\$ 0.2337 each</u></u>	<u><u>\$ 0.2513 each</u></u>	<u><u>\$ (0.0176)</u></u>

(1) As announced for February 2019 by PMMB on January 17, 2019.

(2) Per OGO A-954 (CRO 8) as updated.

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

REVISED REBUTTAL EXHIBIT D11

PMMB AREA 5

MARCH 11, 2019 COST REPLACEMENT HEARING

ADJUSTMENTS FOR CONTAINER EFFICIENCIES
DUE TO CONTAINER SIZE

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)

Container Size	Container Quantities Sold by Cross-Section Dealers in 2017 in Area 5	Proposed		Container Efficiency Adjustments in Current Order (1)		Impact on Cross-Section Dealer Revenue	
		Container Efficiency	Adjustments	in Current Order (1)	Adjustments	Cross-Section Dealer Revenue	Impact on Cross-Section Dealer Revenue
Gallon	20,016,721	\$ (0.0684)	\$ (1,369,144)	\$ (0.1067)	\$ (2,135,784)		
Half Gallon	18,611,778	(0.0548)	(1,019,925)	(0.0419)	(779,833)		
Quart	4,518,172	0.0809	365,520	0.0330	149,100		
Pint	7,296,235	0.0843	615,073	0.0755	550,866		
12 oz.	36,398	0.0562	2,046	0.0103	375		
Half Pint - Plastic	3,724,004	0.0158	58,839	0.0367	136,671		
Half Pint - Paper	65,523,764	0.0158	1,035,275	0.0367	2,404,722		
4 oz.	5,437,339	0.0288	156,595	0.0373	202,813		
Dispenser (per quart)	1,547,244	0.0994	153,796	0.1058	163,698		
Net impact on cross-section dealer revenues			\$ (1,925)		\$ 692,628		

(1) Per OGO A-954 (CRO 8) as updated.