

# **AREA 3**

## **COST REPLACEMENT HEARING DEALER SURREBUTTAL EXHIBITS**

**DECEMBER 3, 2014**

### **PMMB AREA 3**

#### **COST REPLACEMENT HEARING**

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**Carl D. Herbein, CPA**  
*Curriculum Vitae*

**EDUCATION**

Elizabethtown College – B.S. Degree in Accounting (1968)  
Delta Mu Delta – National Honor Society – Co-captain Cross Country Team

**EMPLOYMENT**

Herbein + Company, Inc., Reading, PA  
October, 2004 to present  
President and CEO

July, 1985 to October, 2004  
Managing Partner

1974 to June, 1985  
Partner  
Reading, PA

Carl D. Herbein, CPA – Reading, PA  
1972 to 1974

Ernst & Young, Reading, PA  
1967 to 1972  
Staff/Senior Accountant

**PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS**

CPA – Commonwealth of Pennsylvania (1971)

Member – American Institute of CPAs – Council (1990 – 1991)

Member – Pennsylvania Institute of CPAs – President (1988 – 1989)

Firm Member – PKF North American Network – Board of Directors (1993 – 1994)

Chairman – Reading Redevelopment Authority (1992 – 1998) Board of Directors (1984 – 1998)

Board Member

- Greater Berks Development Fund (1995 – present)
- Berks County Convention Center Authority - Treasurer (1996 – present)
- Alvernia University (2012 – present)

Berks County Chamber of Commerce (1980 – present)

- Chairman of the Board (1994 – 1996)
- Treasurer (1992 – 1993)
- Treasurer (2007-2009)

Greater Reading Economic Partnership (2005 – present)

Elizabethtown College

- Board of Trustees (1987 – 1992)
- Chair – Leadership Council (2007 – 2009)

Berkshire Country Club

- Board of Directors and Treasurer (October 2001 – 2007)

C.H. Briggs Hardware, Reading, PA  
Member of Board of Directors  
2008 to 2012

**Carl D. Herbein, CPA**

**PUBLICATIONS**

“Product Costing In A Volatile Environment,” which appeared in the *National Ice Cream Mix Association, Inc.* publication

“Milk Costing and Regulation – Is There a Conflict?” which appeared in the 2003 *International Association of Milk Control Agencies’* publication

“Benchmarking,” which appeared in the August 2004, *422 Business Advisor*

“Financing Agribusiness Growth”, which appeared in the *Pennsylvania CPA Journal*

“Processors Improve Profits With Benchmarking”, which appeared in the October 2011, *Dairy Foods Magazine*

**COMMUNITY AWARDS**

2006 Eugene L. Shirk Community Builder Award

2010 Corporate Honoree – March of Dimes

2012 Franciscan Award – Alvernia University

2013 Business Weekly Unity Award

2014 YMCA Champion of Youth

**EXPERT REPORTS, DEPOSITION AND TESTIMONY**

**COURT AND OTHER TESTIMONY**

Montana Department of Agriculture – Testimony concerning Montana Milk pool. (hearing held July 23, 2008)

State of Vermont – Expert testimony concerning establishment floor price – raw milk. (hearing held October 9, 2008)

Windsong Farms v. Telemark – Expert testimony – lender liability November 17, 2008

Niagara Milk Cooperative, Inc. v. Thomas J. Krenzer et al. – determination of fair value of dissenter’s interest February 23, 2009

State of New Jersey Department of Agriculture – Expert testimony – Farmer premium establishment. (hearing held November 19, 2009, December 17, 2009 and January 28, 2010)

Sweetwater Valley Farm, Inc. v. Dairy Farmers of America, Inc. – June 15, 2010

Bross v. Bross – domestic matter. Testimony October 16, 2010.

Van Peenen Dairy, Inc. v. Tuscan/Lehigh Dairies, Inc. – contractual dispute, November 22, 2011

Nicholas Meat Packing Co. v. Brigandi, Gleghorn and Associates – August 20, 2011 and July 2013.

Supports Coordination Organization Modeled Rate Review – payment rate dispute – July 15, 2013.

Allen S. Fisher, et. al. v. Dominion Transmission, Inc. – crop damage – loss calculation – October 2013.

DeVries Dairy v. White Eagle Cooperative Association – expert testimony – economic discrimination – October 2013.

**Carl D. Herbein, CPA**

**COMMONWEALTH OF PENNSYLVANIA MILK MARKETING BOARD APPEARANCES**

**2007**

Expert witness appearing on behalf of dealer association concerning licensee to licensee discounts.

Expert witness appearing on behalf of dealer association concerning cost replacement hearings for Areas 1, 2, 3, 4, 5, and 6.

**2008**

Expert witness appearing on behalf of dealer association concerning cost replacement hearings for Areas 1, 2, 3, 4, 5, and 6.

Expert witness appearing on behalf of dealer association concerning bulk milk cream, shrinkage, producer premium related to recombinant bovine growth hormone, and milk prices and percentage discounts.

**2009**

Expert witness appearing on behalf of dealer association concerning cost replacement hearings for Areas 1, 2, 3, 4, 5 and 6.

Expert witness appearing on behalf of dealer association concerning emergency hearing related to level of Class I Over-order Premium.

**2010**

Expert witness appearing on behalf of dealer association concerning formula for calculating the Over Order Premium.

Expert witness appearing on behalf of dealer association concerning cost replacement in Area 4 and Area 5.

**2011**

Expert witness appearing on behalf of dealer associations concerning cost replacement in Areas 1, 2, 3, 4, 5, and 6.

**2012**

Expert witness appearing on behalf of dealer associations concerning multi-store discounts in Area 5 and Area 6.

Expert witness appearing on behalf of dealer associations concerning Over Order Premium duration and level.

Expert witness appearing on behalf of dealer associations concerning cost replacement in Areas 1, 2, 3, 4, 5, and 6.

**2013**

Expert witness appearing on behalf of dealer associations concerning wholesale milk discounts in Areas 1, 2, 3, 4, 5, and 6.

Expert witness appearing on behalf of dealer associations concerning over-price premium in Areas 1, 2, 3, and 4.

**2014**

Expert witness appearing on behalf of dealer associations concerning cost replacement in Areas 1, 2, 3, 4, and 5.

Expert witness appearing on behalf of dealer associations concerning small delivery cost in Areas 1, 2, 3, 4, 5 and 6.

**SURREBUTTAL EXHIBIT D2-A**

**PMMB AREA 3**

**COST REPLACEMENT HEARING**

**COST REPLACEMENT ADJUSTMENTS FOR INGREDIENTS**

**Clover Farms Dairy Co., Guers Dairy, Pocono Mountain Dairies, Schneider – Valley Farms, Inc., Swiss Premium Dairy, Inc., Turkey Hill L.P., Tuscan/Lehigh Dairies, L.P. – Schuylkill Haven**

|                               | <u>March 2014<br/>Weighted<br/>Average<br/>Cost/Pound</u> | <u>Cost/Pound<br/>included in Existing<br/>Order (1)</u> | <u>Increase<br/>(Decrease)</u> |
|-------------------------------|---|--|--------------------------------|
| Standard milk                 | \$0.0000  | \$0.0000   | \$0.0000                       |
| Reduced fat milk (2%)         | 0.0009  | 0.0008   | 0.0001                         |
| Lowfat milk (1%)              | 0.0007  | 0.0008   | (0.0001)                       |
| Nonfat milk (skim)            | 0.0026  | 0.0023   | 0.0003                         |
| Flavored milk (2)             | 0.0326  | 0.0395   | (0.0069)                       |
| Flavored reduced fat milk (2) | 0.0310  | 0.0297   | 0.0013                         |
| Flavored nonfat milk (2)      | 0.0255  | 0.0266   | (0.0011)                       |
| Buttermilk                    | 0.0309  | 0.0363   | (0.0054)                       |
| Eggnog                        | 0.1807  | 0.1690   | 0.0117                         |

(1) Per General Order No. A-962 (CRO 4)

(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.

(1) Per General Order OGO A-962 (CRO 4) as updated for flavored milk on October 1, 2014

(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.

**SURREBUTTAL EXHIBIT D2-B**

**PMMB AREA 3**

**COST REPLACEMENT HEARING**

**BUTTERFAT CONTENT OF PRICE CONTROLLED PRODUCTS**

**Clover Farms Dairy Co., Guers Dairy, Pocono Mountain Dairies, Schneider – Valley Farms, Inc.,  
Swiss Premium Dairy, Inc., Turkey Hill L.P., Tuscan/Lehigh Dairies, L.P. – Schuylkill Haven**

|                               | <b><u>2013 Weighted<br/>Average<br/>Butterfat Test</u></b> | <b><u>2012 Weighted<br/>Average Butterfat<br/>Test Included in<br/>Existing Order (1)</u></b> | <b><u>Increase<br/>(Decrease<br/>)</u></b> |
|-------------------------------|--|---|--|
| Standard milk                 | 3.2590%  | 3.2609%   | -0.0019%                                   |
| Reduced fat milk (2%)         | 1.9577%  | 1.9581%   | -0.0004%                                   |
| Lowfat milk (1%)              | 0.9563%  | 0.9488%   | 0.0075%                                    |
| Nonfat milk (skim)            | 0.0946%  | 0.0990%   | -0.0044%                                   |
| Flavored milk                 | 3.3462%  | 3.3487%   | -0.0025%                                   |
| Flavored reduced fat milk (2) | 1.3397%  | 1.3474%   | -0.0077%                                   |
| Flavored nonfat milk (2)      | 0.0929%  | 0.0947%   | -0.0018%                                   |
| Buttermilk                    | 3.7978%  | 3.7995%   | -0.0017%                                   |
| Eggnog                        | 6.6621%  | 6.3921%   | 0.2700%                                    |

(1) Per General Order No. A-962 (CRO 4)

**SURREBUTTAL EXHIBIT D3**

**PMMB AREA 3**

**COST REPLACEMENT HEARING**

**PROCESSING, PACKAGING AND DELIVERY COSTS/POINT FOR 2013  
(WEIGHTED AVERAGE BASED ON SALES IN AREA 3)**

**Clover Farms Dairy Co., Guers Dairy, Pocono Mountain Dairies, Schneider – Valley Farms, Inc.,  
Swiss Premium Dairy, Inc., Turkey Hill L.P., Tuscan/Lehigh Dairies, L.P. – Schuylkill Haven**

| <b>Cost Center</b>                 | <b>Total Points in<br/>PMMB Area 3 (1)</b> | <b>Weighted Average<br/>Cost/Point (1)</b> |
|------------------------------------|--|--|
| Receiving, lab and field work      | 99,443,710                                 | \$ 0.0149                                  |
| Standardization and pasteurization | 136,818,701                                | 0.0179                                     |
| Bottling                           | 135,839,527                                | 0.0363                                     |
| Cold room                          | 145,844,977                                | 0.0404                                     |
| Delivery                           | 112,908,187                                | 0.1322                                     |
| Selling                            | 110,951,470                                | 0.0242                                     |
|                                    |  | <hr/>                                      |
|                                    |  | \$ 0.2659                                  |

(1) Reflects points (and related cost/point) for sales in PMMB Area 3 for the cross-section dealers.



**SURREBUTTAL EXHIBIT D3-A**

**PMMB AREA 3**

**COST REPLACEMENT HEARING**

**COST REPLACEMENT ADJUSTMENTS FOR PROCESSING, PACKAGING AND DELIVERY COSTS**

**Clover Farms Dairy Co., Guers Dairy, Pocono Mountain Dairies, Schneider – Valley Farms, Inc.,  
Swiss Premium Dairy, Inc., Turkey Hill L.P., Tuscan/Lehigh Dairies, L.P. – Schuylkill Haven**

|   | <u>2013 Weighted<br/>Average<br/>Cost/Point</u> | <u>2012 Cost/Point<br/>Included in<br/>Existing Order<br/>(1)</u> | <u>Increase<br/>(Decrease)</u> |
|---|---|---|--------------------------------|
| Receiving, lab and field work                         | \$0.0149  | \$0.0131  | \$0.0018                       |
| Standardization and pasteurization                    | 0.0179  | 0.0160  | 0.0019                         |
| Bottling  | 0.0363  | 0.0332  | 0.0031                         |
| Cold room   | 0.0404  | 0.0365  | 0.0039                         |
| Delivery  | 0.1322  | 0.1248  | 0.0074                         |
| Selling   | <u>0.0242</u>                                   | <u>0.0242</u>   | <u>0.0000</u>                  |
| Sub total   | \$0.2659  | \$0.2478  | \$0.0181                       |
| Add:  |   |   |                                |
| 2014 Cost increase (decrease) adjustment - Exhibit D4 |   |   | (0.0032)                       |
| Less:   |   |   |                                |
| 2013 Cost (increase) decrease adjustment (1)          |   |   | <u>(0.0060)</u>                |
| Net change  |   |   | <u>\$0.0089</u>                |

(1) Per General Order No. A-962 (CRO 4)

**PMMB AREA 3**

**COST REPLACEMENT HEARING**

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

**Clover Farms Dairy Co., Guers Dairy, Pocono Mountain Dairies, Schneider – Valley Farms, Inc.,  
Swiss Premium Dairy, Inc., Turkey Hill L.P., Tuscan/Lehigh Dairies, L.P. – Schuylkill Haven**

| <b>Type of Expense</b>    | <b>Weighted Expenses for the Six Months Ended June 30 (1)</b> |              | <b>Weighted Points for the Six Months Ended June 30 (1)</b> |             | <b>Cost Per Point</b> |             | <b>Increase (Decrease) Per Point</b> |
|---------------------------|---|--------------|---|-------------|-----------------------|-------------|--------------------------------------|
|                           | <b>2014</b>   | <b>2013</b>  | <b>2014</b>   | <b>2013</b> | <b>2014</b>           | <b>2013</b> |                                      |
| Labor and fringe benefits | \$ 9,501,704  | \$ 9,645,743 | 73,336,140  | 72,075,287  | \$ 0.1296             | \$ 0.1338   | (\$0.0042)                           |
| Utilities                 | 680,755   | 594,578      | 73,336,140  | 72,075,287  | 0.0093                | 0.0082      | 0.0011                               |
| Insurance                 | 328,561   | 328,864      | 73,336,140  | 72,075,287  | 0.0045                | 0.0046      | <u>(0.0001)</u>                      |
|                           |   |              |   |             |                       |             | <u>(\$0.0032)</u>                    |

(1) Weighted based on sales in PMMB Area 3

**SURREBUTTAL EXHIBIT D5**

**PMMB AREA 3**

**COST REPLACEMENT HEARING**

**CHANGES IN DIESEL FUEL COSTS**

**Clover Farms Dairy Co., Guers Dairy, Pocono Mountain Dairies, Schneider – Valley Farms, Inc.,  
Swiss Premium Dairy, Inc., Turkey Hill L.P., Tuscan/Lehigh Dairies, L.P. – Schuylkill Haven**

|   |                        |
|---|------------------------|
| Diesel fuel costs – calendar year 2013 (1)                  | \$2,259,317            |
| Delivery points – calendar year 2013 (1)                    | <u>112,908,187</u>     |
| Diesel fuel cost per point delivered                        | <u><u>\$0.0200</u></u> |
| <br>  |                        |
| Average diesel price – calendar year 2013 (2)               | \$4.010                |
| Average diesel price – September 2014 (2) (3)               | <u>\$3.900</u>         |
| Increase (decrease) from year 2013 to month October 2014    | -2.74%                 |
| <br>  |                        |
| Increase (decrease) in diesel fuel cost per point delivered | <u>(\$0.0005)</u>      |

- (1) Costs of cross-section dealers weighted by sales in Area 3
- (2) On-highway diesel prices per gallon for the Central Atlantic Region as published by the U.S. Energy Information Administration
- (3) September 2013 diesel fuel costs were used by the PMMB in establishing minimum prices for November 2014

**SURREBUTTAL EXHIBIT D6**

**PMMB AREA 3**

**COST REPLACEMENT HEARING**

**CHANGES IN HEATING FUEL COSTS (NATURAL GAS)**

**Clover Farms Dairy Co., Guers Dairy, Pocono Mountain Dairies, Schneider – Valley Farms, Inc.,  
Swiss Premium Dairy, Inc., Turkey Hill L.P., Tuscan/Lehigh Dairies, L.P. – Schuylkill Haven**

|  |                        |
|--|------------------------|
| Heating fuel costs – calendar year 2013 (1)                      | \$319,898              |
| Standardization & pasteurization points – calendar year 2013 (1) | <u>136,818,701</u>     |
| Heating fuel cost per point pasteurized                          | <u><u>\$0.0023</u></u> |
| Average heating fuel costs – calendar year 2013 (2)              | \$9.16                 |
| Average heating fuel costs – July 2014 (2) (3)                   | <u>9.83</u>            |
| Increase (decrease) from year 2013 to month July 2014            | 7.31%                  |
| Increase (decrease) in heating fuel cost per point pasteurized   | <u>\$0.0002</u>        |

- (1) Costs of cross-section dealers weighted by sales in Area 3.
- (2) Industrial natural gas prices for Pennsylvania in dollars per thousand cubic feet as published by the U.S. Energy Information Administration.
- (3) July 2014 natural gas costs were used by the PMMB in establishing minimum prices for November 2014.

PMMB AREA 3

COST REPLACEMENT HEARING

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

Clover Farms Dairy Co., Guers Dairy, Pocono Mountain Dairies, Schneider – Valley Farms, Inc.,  
Swiss Premium Dairy, Inc., Turkey Hill L.P., Tuscan/Lehigh Dairies, L.P. – Schuylkill Haven

| <u>PMMB Area 3</u>                                       | <u>Weighted<br/>Costs</u> | <u>Weighted<br/>Revenues</u> | <u>Weighted Net<br/>Cost (Revenue)</u> | <u>Weighted<br/>Pounds</u> | <u>Weighted Cost<br/>(Revenue) Per<br/>Pound</u> |
|--|---------------------------|------------------------------|--|----------------------------|--|
| Shrinkage  | \$ 549,334                |                              | \$ 549,334                             |                            |  |
| Bulk milk revenue minus milk costs                       |                           | 305,164                      |  |                            |  |
| Bulk milk cost center costs & freight                    | 42,020                    |                              |  |                            |  |
| Net bulk milk cost (revenue)                             |                           |                              | (263,144)                              |                            |  |
| Bulk cream revenue minus milk costs                      |                           | 1,033,450                    |  |                            |  |
| Bulk cream cost center costs                             | 199,464                   |                              |  |                            |  |
| Net bulk cream cost (revenue)                            |                           |                              | (833,986)                              |                            |  |
| Total  | <u>\$ 790,818</u>         | <u>\$ 1,338,614</u>          |  |                            |  |
| Net cost (revenue) - calendar year 2013                  |                           |                              | \$ (547,796)                           | 192,390,200                | \$ (0.0028)                                      |
| Net cost (revenue) in current order - calendar year 2012 |                           |                              | <u>\$ (605,589)</u>                    | 211,824,552                | <u>(0.0029)</u>                                  |
| Net change - cost increase (cost reduction)              |                           |                              | <u>\$ 57,793</u>                       |                            | <u>\$ 0.0001</u>                                 |

**SURREBUTTAL EXHIBIT D8**

**PMMB AREA 3**

**COST REPLACEMENT HEARING**

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

**Clover Farms Dairy Co., Guers Dairy, Pocono Mountain Dairies, Schneider – Valley Farms, Inc., Swiss Premium Dairy, Inc., Turkey Hill L.P., Tuscan/Lehigh Dairies, L.P. – Schuylkill Haven**

| <b>Container Size</b>    | <b>March 2014 Container Cost (1)</b> | <b>Adjust from March 2014 to October 2014 - Current (2)</b> | <b>Subtotal</b> | <b>Calculated Shrinkage and Loss (4)</b> | <b>Shrinkage Cost</b> | <b>Total Container Cost</b> |
|--------------------------|--------------------------------------|---|-----------------|--|-----------------------|-----------------------------|
| Gallon (5)               | \$ 0.2001                            | \$ 0.0031   | \$ 0.2032       | 1.54%                                    | \$ 0.0031             | \$ 0.2063                   |
| 1/2 gallon - plastic     | 0.1513                               |   |                 |  |                       |                             |
| 1/2 gallon - paper       | 0.1451                               |   |                 |  |                       |                             |
| 1/2 gallon - blended (5) | <u>0.1505</u>                        | -   | 0.1505          | 1.22%                                    | 0.0018                | 0.1523                      |
| Quart - plastic          | 0.1226                               |   |                 |  |                       |                             |
| Quart - paper            | 0.0864                               |   |                 |  |                       |                             |
| Quart - blended (5)      | <u>0.1059</u>                        | 0.0032  | 0.1091          | 1.57%                                    | 0.0017                | 0.1108                      |
| Pint - plastic           | 0.1041                               |   |                 |  |                       |                             |
| Pint - paper             | 0.0559                               |   |                 |  |                       |                             |
| Pint - blended (5)       | <u>0.0825</u>                        | 0.0022  | 0.0847          | 1.62%                                    | 0.0014                | 0.0861                      |
| Twelve ounce             | (3)                                  |   |                 |  |                       |                             |
| Ten ounce                | 0.0544                               |   | 0.0544          |  |                       | 0.0544                      |
| 1/2 pint - plastic (5)   | 0.0697                               | 0.0012  | 0.0709          | 0.92%                                    | 0.0007                | 0.0716                      |
| 1/2 pint - paper (5)     | 0.0279                               | 0.0012  | 0.0291          | 0.85%                                    | 0.0002                | 0.0293                      |
| Four ounce - paper       | 0.0273                               |   | 0.0273          | 1.53%                                    | 0.0004                | 0.0277                      |
| Dispenser                | 0.0418                               |   | 0.0418          | 1.30%                                    | 0.0005                | 0.0423                      |

- (1) For containers not purchased in March 2014 the most recent invoice was used.
- (2) October 2014 container costs were used by the PMMB to establish minimum resale prices for November 2014.
- (3) Container not packaged in this Area.
- (4) Calculated based on actual container loss from a state-wide cross section of processing dealers for controlled containers used during the period January – March 2009. This state-wide cross section is composed of every processing dealer that participates in a cost replacement hearing.
- (5) Current container costs would replace these costs on a monthly basis when the PMMB minimum resale prices are announced.

**SURREBUTTAL EXHIBIT D8-A**

**PMMB AREA 3**

**COST REPLACEMENT HEARING**

**ADJUSTED CONTAINER COSTS COMPARED TO CURRENT MONTH  
CONTAINER COSTS – NOVEMBER 2014**

**Clover Farms Dairy Co., Guers Dairy, Pocono Mountain Dairies, Schneider – Valley Farms, Inc.,  
Swiss Premium Dairy, Inc., Turkey Hill L.P., Tuscan/Lehigh Dairies, L.P. – Schuylkill Haven**

|                            |           |           |             |
|----------------------------|-----------|-----------|-------------|
| Gallon (2)                 | \$ 0.2063 | \$ 0.2184 | \$ (0.0121) |
| Half Gallon (2)            | 0.1523    | 0.1564    | (0.0041)    |
| Quart (2)                  | 0.1108    | 0.1204    | (0.0096)    |
| Pint (2)                   | 0.0861    | 0.0863    | (0.0002)    |
| Ten Ounce                  | 0.0544    | 0.0548    | (0.0004)    |
| 1/2 pint - plastic (2) (3) | 0.0716    | 0.0707    | 0.0009      |
| 1/2 pint - paper (2)       | 0.0293    | 0.0295    | (0.0002)    |
| Four ounce - paper         | 0.0277    | 0.0276    | 0.0001      |
| Dispenser (per quart)      | 0.0423    | 0.0403    | 0.0020      |

- (1) Per General Order No. A-962 (CRO 4) as updated.
- (2) These container costs to be updated on a monthly basis.
- (3) The difference in the proposed cost replacement order between plastic ½ pint and paper ½ pint is \$0.0423. The current PMMB wholesale price schedule shows \$0.0412 as the plastic add-on to the ½ pint paper price.

**SURREBUTTAL EXHIBIT D9-A**

**PMMB AREA 3**

**COST REPLACEMENT HEARING**

**CALCULATION OF WHOLESALE MINIMUM PRICE  
GALLON REDUCED FAT MILK (2%) FOR NOVEMBER 2014**

**Clover Farms Dairy Co., Guers Dairy, Pocono Mountain Dairies, Schneider – Valley Farms, Inc.,  
Swiss Premium Dairy, Inc., Turkey Hill L.P., Tuscan/Lehigh Dairies, L.P. – Schuylkill Haven**

|   | <u>Reference</u> | <u>Proposed<br/>Order</u>    | <u>Current<br/>Order (2)</u> | <u>Change</u>           |
|---|------------------|------------------------------|------------------------------|-------------------------|
| Butterfat test                          | D2-B             | 1.9577%                      | 1.9581%                      | -0.0004%                |
| Butterfat price as announced by PMMB    | (1)              | \$ 3.2725 per lb.            | \$ 3.2725 per lb.            |                         |
| Extended butterfat value                |                  | \$ 0.0641 per lb.            | \$ 0.0641 per lb.            |                         |
| Skim price as announced by PMMB         | (1)              | \$ 18.34 per Cwt             | \$ 18.34 per Cwt             |                         |
| Extended skim value                     |                  | \$ 0.1798 per lb.            | \$ 0.1798 per lb.            |                         |
| Total milk value at announced prices    |                  | <u>\$ 0.2439</u> per lb.     | <u>\$ 0.2439</u> per lb.     | <u>\$ -</u>             |
| Ingredient cost                         | D2               | 0.0009                       | 0.0008                       |                         |
| Cost of shrinkage / bulk milk & cream   | D7               | (0.0028)                     | (0.0029)                     |                         |
| Total milk cost per pound               |                  | <u>\$ 0.2420</u> per lb.     | <u>\$ 0.2418</u> per lb.     | <u>\$ 0.0002</u>        |
| Pounds per gallon (conversion)          |                  | <u>8.62</u>                  | <u>8.62</u>                  |                         |
| Total milk cost per gallon              |                  | <u>\$ 2.0860</u>             | <u>\$ 2.0843</u>             | <u>\$ 0.0017</u>        |
| Container cost (adjusted for shrinkage) | D8               | 0.2063 each                  | 0.2184 each                  | (0.0121)                |
| Cost center costs                       | D3               | 1.0636                       | 0.9912                       | 0.0724                  |
| 1st six months 2013 to 2014 adjustment  | D4               | (0.0128)                     | 0.0240                       | (0.0368)                |
| Container efficiency adjustment         | (2)              | (0.0812)                     | (0.0812)                     | -                       |
| Percentage discount adjustment          | (3)              | 0.0244                       | 0.0244                       | -                       |
| Diesel fuel adjustment                  | D5               | (0.0020)                     | (0.0040)                     | 0.0020                  |
| Heating fuels adjustment                | D6               | 0.0008                       | 0.0008                       | -                       |
|   |                  | <u>\$ 3.2851</u> each        | <u>\$ 3.2579</u> each        | <u>\$ 0.0272</u>        |
| Dealer profit at 3.4%                   | (2)              | 0.1156                       | 0.1147                       |                         |
| Subtotal                                |                  | <u>\$ 3.4007</u> each        | <u>\$ 3.3726</u> each        | <u>\$ 0.0281</u>        |
| Less: average delivery cost             | (2)              | (0.4992)                     | (0.4992)                     |                         |
| Add: high cost delivery                 | (2)              | 0.9448                       | 0.9448                       |                         |
| <b>Wholesale price</b>                  |                  | <u><b>\$ 3.8463</b></u> each | <u><b>\$ 3.8182</b></u> each | <u><b>\$ 0.0281</b></u> |

(1) As announced for November 2014 by PMMB on October 23, 2014.

(2) Per OGO A-962 (CRO 4) as updated.

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



**SURREBUTTAL EXHIBIT D9-B**

**PMMB AREA 3**

**COST REPLACEMENT HEARING**

**CALCULATION OF WHOLESALE MINIMUM PRICE  
HALF PINT FLAVORED NONFAT MILK (SKIM) FOR NOVEMBER 2014**

**Clover Farms Dairy Co., Guers Dairy, Pocono Mountain Dairies, Schneider – Valley Farms, Inc.,  
Swiss Premium Dairy, Inc., Turkey Hill L.P., Tuscan/Lehigh Dairies, L.P. – Schuylkill Haven**

|   | <u>Reference</u> | <u>Proposed<br/>Order</u>    | <u>Current<br/>Order (2)</u> | <u>Change</u>           |
|---|------------------|------------------------------|------------------------------|-------------------------|
| Butterfat test                          | D2-B             | 0.0929%                      | 0.0947%                      | -0.0018%                |
| Butterfat price as announced by PMMB    | (1)              | \$ 3.2725 per lb.            | \$ 3.2725 per lb.            |                         |
| Extended butterfat value                |                  | \$ 0.0030 per lb.            | \$ 0.0031 per lb.            |                         |
| Skim price as announced by PMMB         | (1)              | \$ 18.34 per Cwt             | \$ 18.34 per Cwt             |                         |
| Extended skim value                     |                  | \$ 0.1832 per lb.            | \$ 0.1832 per lb.            |                         |
| Total milk value at announced prices    |                  | <u>\$ 0.1862</u> per lb.     | <u>\$ 0.1863</u> per lb.     | <u>\$ (0.0001)</u>      |
| Ingredient cost                         | D2               | 0.0255                       | 0.0266                       |                         |
| Cost of shrinkage / bulk milk & cream   | D7               | (0.0028)                     | (0.0029)                     |                         |
| Total milk cost per pound               |                  | <u>\$ 0.2089</u> per lb.     | <u>\$ 0.2100</u> per lb.     | <u>\$ (0.0011)</u>      |
| Pounds per half pint (conversion)       |                  | <u>0.50</u>                  | <u>0.50</u>                  |                         |
| Total milk cost per half pint           |                  | <u>\$ 0.1045</u>             | <u>\$ 0.1050</u>             | <u>\$ (0.0005)</u>      |
| Container cost (adjusted for shrinkage) | D8               | 0.0293 each                  | 0.0295 each                  | (0.0002)                |
| Cost center costs                       | D3               | 0.0665                       | 0.0620                       | 0.0045                  |
| 1st six months 2013 to 2014 adjustment  | D4               | (0.0008)                     | 0.0015                       | (0.0023)                |
| Container efficiency adjustment         | (2)              | 0.0202                       | 0.0202                       | -                       |
| Percentage discount adjustment          | (3)              | 0.0015                       | 0.0015                       | -                       |
| Diesel fuel adjustment                  | D5               | (0.0001)                     | (0.0003)                     | 0.0002                  |
| Heating fuels adjustment                | D6               | 0.0001                       | 0.0001                       | -                       |
|   |                  | <u>\$ 0.2212</u> each        | <u>\$ 0.2195</u> each        | <u>\$ 0.0017</u>        |
| Dealer profit at 3.4%                   | (2)              | 0.0078                       | 0.0077                       |                         |
| Subtotal                                |                  | <u>\$ 0.2290</u> each        | <u>\$ 0.2272</u> each        | <u>\$ 0.0018</u>        |
| Less: average delivery cost             | (2)              | (0.0312)                     | (0.0312)                     |                         |
| Add: high cost delivery                 | (2)              | 0.0591                       | 0.0591                       |                         |
| <b>Wholesale price</b>                  |                  | <u><b>\$ 0.2569</b></u> each | <u><b>\$ 0.2551</b></u> each | <u><b>\$ 0.0018</b></u> |

(1) As announced for November 2014 by PMMB on October 23, 2014.

(2) Per OGO A-962 (CRO 4) as updated.

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