

PMMB AREA 4

COST REPLACEMENT HEARING

INDEX OF REBUTTAL EXHIBITS

**Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

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

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 September, 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 – present)
- Accounting Advisory Committee (1993 – 2005)
- Member – Leadership Council (2007 – present)

Berkshire Country Club

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

Carl D. Herbein, CPA

SPEAKING ENGAGEMENTS (2006 – 2015)

International Milk Control Agency – Why Dairy Plants Relocate, August 13, 2006

All Star Dairy Association – Cost Benchmarking, March 16, 2006

Quality Chekd Dairy – Valuation of Your Dairy Company, February 1, 2007

All Star Dairy Association – Cost Benchmarking, March 28, 2007

All Star Dairy Association – Financial Reporting, March 6, 2008

Quality Chekd Dairy – Captive Insurance, April 21, 2008

Pennsylvania Association of Milk Dealers – Cost Comparison Analysis, September 22, 2009

World International Dairy Foods Association – Worldwide Food Expo – Dairy Industry Analysis, October 31, 2009

All Star Dairy Association – Forensic Accounting, March 23, 2010

Pennsylvania Association of Milk Dealers and Northeast Dairy Foods Association, Inc. – Delivery, Depots and Distributors – August 22, 2011

International Association of Milk Control Agencies (IAMCA) – California Federal Milk Marketing Order – September 14, 2015

International Dairy Foods Association – Capital Budgeting – September 15, 2015

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

Carl D. Herbein, CPA

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 September 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 September 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

US Justice Department Report – Dean Foods / Suiza – merger analysis

State of Kentucky v. Trauth Dairy – damage calculation

State of Indiana v. Schenkel Dairy – damage calculation

Sweet Water Valley Farm v. Dairy Farmers of America – restraint of trade

Dar-View Farms v. Maryland Dairy Veterinarians – professional malpractice matter – March 2015

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.

REBUTTAL EXHIBIT D1

Carl D. Herbein, CPA

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 association 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 association concerning cost replacement in Areas 1, 2, 4, and 5.

2013

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 3 and 6. Expert witness appearing on behalf of the Area 3 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 3 and 6. (hearing held January 2, 2013)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Areas 1, 2, 3, 4, 5 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning wholesale milk discounts in Milk Marketing Area 1, 2, 3, 4, 5, and 6. (hearing held October 2, 2013)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, and 3. Expert witness appearing on behalf of the Areas 1, 2, and 3 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 1, 2, and 3. (hearing held January 8, 2014)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 4, 5, and 6. Expert witness appearing on behalf of the Areas 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 4, 5, and 6. (hearing held February 5, 2014)

2014

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Areas 1, 2, 3, 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the over price premium – Part II in Milk Marketing Areas 1, 2, 3, 4, 5, and 6. (hearing held June 4, 2014)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Areas 1, 2, 3, 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the small delivery costs in Milk Marketing Areas 1, 2, 3, 4, 5, and 6. (hearing held June 11, 2014)

Submitted: December 23, 2015

REBUTTAL EXHIBIT D1

Carl D. Herbein, CPA

2014 - Continued

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 4, 5, and 6. Expert witness appearing on behalf of the Areas 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 4, 5, and 6. (hearing October 1, 2014)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, and 3. Expert witness appearing on behalf of the Areas 1, 2, and 3 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the cost replacement in Milk Marketing Areas 1, 2, and 3. (hearing held December 3, 2014)

2015

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 1, 2, 3, 4, 5, and 6. Expert witness appearing on behalf of the Areas 1, 2, 3, 4, 5, and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning the over price premium – Part II in Milk Marketing Areas 1, 2, 3, 4, 5, and 6. (hearing held February 25 - 27, 2015) continuance from June 2014

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Area 1. Expert witness appearing on behalf of the Area 1 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning General Price Hearing in Milk Marketing Area 1. (hearing held December 2, 2015)

Commonwealth of Pennsylvania Milk Marketing Board public hearing for Milk Marketing Areas 5 and 6. Expert witness appearing on behalf of the Areas 5 and 6 Milk Dealer Association. The purpose of the hearing is to receive testimony and exhibits concerning cost replacement in Milk Marketing Area 5 and 6. (hearing held December 2, 2015)

PMMB AREA 4

COST REPLACEMENT HEARING

**PROCESSING, PACKAGING AND DELIVERY COSTS/POINT
(WEIGHTED AVERAGE BASED ON SALES IN AREA 4)**

**Galliker Dairy Company, Harrisburg Dairies, Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

Cost Center	Total Points in PMMB Area 4 (1)	Average Cost/Point (1)
Receiving, lab and field work	214,026,406	\$ 0.0108
Standardization and pasteurization	384,169,495	0.0111
Bottling	346,860,353	0.0355
Cold room	367,634,314	0.0347
Delivery	164,448,952	0.1159
Selling	227,341,465	0.0305
		<u>\$ 0.2385</u>

(1) Reflects points (and related cost/point) for sales in PMMB Area 4 for the cross-section dealers.

REBUTTAL EXHIBIT D2-A

PMMB AREA 4

COST REPLACEMENT HEARING

COST REPLACEMENT ADJUSTMENTS FOR PROCESSING, PACKAGING AND DELIVERY COSTS

**Galliker Dairy Company, Harrisburg Dairies, Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

	2014 Weighted Average Cost/Point	2013 Cost/Point Included in Existing Order (1)	Increase (Decrease)
Receiving, lab and field work	\$0.0108	\$0.0116	(\$0.0008)
Standardization and pasteurization	0.0111	0.0118	(0.0007)
Bottling	0.0355	0.0380	(0.0025)
Cold room	0.0347	0.0389	(0.0042)
Delivery	0.1159	0.1075	0.0084
Selling	<u>0.0305</u>	<u>0.0303</u>	<u>0.0002</u>
Sub total	\$0.2385	\$0.2381	\$0.0004
Add:			
2015 Cost increase (decrease) adjustment - Exhibit D7			0.0087
Less:			
2014 Cost (increase) decrease adjustment (1)			<u>0.0052</u>
Net change			<u><u>\$0.0143</u></u>

PMMB AREA 4

COST REPLACEMENT HEARING

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

Galliker Dairy Company, Harrisburg Dairies, Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven

<u>Container Size</u>	<u>March 2015 Container Cost (1)</u>	<u>Adjust from March 2015 to November 2015 - Current (2)</u>	<u>Subtotal</u>	<u>Calculated Shrinkage and Loss (4)</u>	<u>Shrinkage Cost</u>	<u>Total Container Cost</u>
Gallon (5)	\$ 0.2000	\$ (0.0364)	\$ 0.1636	1.20%	\$ 0.0020	\$ 0.1656
1/2 gallon - plastic	0.1508					
1/2 gallon - paper (3)	-					
1/2 gallon - blended (5)	<u>0.1508</u>	(0.0163)	0.1345	1.24%	0.0017	0.1362
Quart - plastic	0.1724					
Quart - paper	<u>0.0882</u>					
Quart - blended (5)	<u>0.1694</u>	(0.0031)	0.1663	1.57%	0.0026	0.1689
Pint - plastic	0.1109					
Pint - paper	<u>0.0546</u>					
Pint - blended (5)	<u>0.1096</u>	(0.0057)	0.1039	1.62%	0.0017	0.1056
Twelve ounce (3)						
Ten ounce (3)						
1/2 pint - plastic (5)	0.0680	(0.0002)	0.0678	0.92%	0.0006	0.0684
1/2 pint - paper (5)	0.0286	(0.0009)	0.0277	0.85%	0.0002	0.0279
Four ounce - paper	0.0276		0.0276	1.53%	0.0004	0.0280
Dispenser	0.0518		0.0518	1.30%	0.0007	0.0525

- (1) For containers not purchased in March 2015 the most recent invoice was used.
- (2) November 2015 container costs were used by the PMMB to establish minimum resale prices for December 2015.
- (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.

PMMB AREA 4

COST REPLACEMENT HEARING

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

**Galliker Dairy Company, Harrisburg Dairies, Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

<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)	\$ 0.1656	\$ 0.1846	\$ (0.0190)
Half Gallon (2)	0.1362	0.1460	(0.0098)
Quart (2)	0.1689	0.1577	0.0112
Pint (2)	0.1056	0.1010	0.0046
1/2 pint - plastic (2)	0.0684	0.0696	(0.0012)
1/2 pint - paper (2)	0.0279	0.0285	(0.0006)
Four ounce - paper	0.0280	0.0283	(0.0003)
Dispenser (per quart)	0.0525	0.0535	(0.0010)

(1) Per General Order No. A-963 (CRO 5) as updated.

(2) These container costs to be updated on a monthly basis.

(3) Difference between plastic ½ pint and paper ½ pint is \$0.0405. PMMB resale price schedules show the ½ pint paper price. \$0.0405 is the plastic add-on.

PMMB AREA 4

COST REPLACEMENT HEARING

**SUMMARY OF CURRENT INGREDIENT COSTS
(WEIGHTED AVERAGE BASED ON ACTUAL SALES IN AREA 4)**

**Galliker Dairy Company, Harrisburg Dairies, Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

	March 2015 Ingredient Cost Per Pound (1)
Standard	\$.0000
Reduced fat (2%) milk	.0024
Low fat (1%) milk	.0022
Nonfat (skim) milk	.0025
Flavored milk	.0419
Flavored reduced fat milk	.0330
Flavored nonfat milk	.0268
Buttermilk	.0274
Eggnog	.1591

(1) For ingredients not purchased in March 2015 the most recent invoice was used.

PMMB AREA 4

COST REPLACEMENT HEARING

COST REPLACEMENT ADJUSTMENTS FOR INGREDIENTS

**Galliker Dairy Company, Harrisburg Dairies Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

	March 2015 Weighted Average Cost/Pound	Cost/Pound included in Existing Order (1)	Increase (Decrease)
Standard milk	\$0.0000	\$0.0000	\$0.0000
Reduced fat milk (2%)	0.0024	0.0032	(0.0008)
Lowfat milk (1%)	0.0022	0.0029	(0.0007)
Nonfat milk (skim)	0.0025	0.0037	(0.0012)
Flavored milk (2)	0.0419	0.0363	0.0056
Flavored reduced fat milk (2)	0.0330	0.0357	(0.0027)
Flavored nonfat milk (2)	0.0268	0.0279	(0.0011)
Buttermilk	0.0274	0.0452	(0.0178)
Eggnog	0.1591	0.1972	(0.0381)

(1) Per General Order OGO A-963 (CRO 5) as updated for flavored milks on October 1, 2015.

(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 4

COST REPLACEMENT HEARING

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

Galliker Dairy Company, Harrisburg Dairies, Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven

<u>PMMB Area 4</u>	<u>Costs</u>	<u>Revenues</u>	<u>Weighted Net Cost (Revenue)</u>	<u>Weighted Pounds (1)</u>	<u>Weighted Cost (Revenue) Per Pound</u>
Shrinkage	\$ 1,319,744		\$ 1,319,744		
Bulk milk revenue minus milk costs		283,001			
Bulk milk cost center costs & freight	1,760				
Net bulk milk cost (revenue)			(281,241)		
Bulk cream revenue minus milk costs		1,670,794			
Bulk cream cost center costs	351,716				
Net bulk cream cost (revenue)			(1,319,078)		
Total	<u>\$ 1,673,220</u>	<u>\$ 1,953,795</u>			
Net cost (net revenue) - calendar year 2014			\$ (280,575)	402,439,592	\$ (0.0007)
Net cost (net revenue) in current order - calendar year 2013			<u>\$ 267,829</u>	328,317,891	<u>0.0008</u>
Net change - cost increase (cost reduction)			<u>\$ (548,404)</u>		<u>\$ (0.0015)</u>

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

PMMB AREA 4

COST REPLACEMENT HEARING

BUTTERFAT CONTENT OF PRICE CONTROLLED PRODUCTS

**Galliker Dairy Company, Harrisburg Dairies, Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

	<u>2014 Weighted Average Butterfat Test</u>	<u>Butterfat Test included in Existing Order (1)</u>	<u>Increase (Decrease)</u>
Standard milk	3.2848%	3.2896%	-0.0048%
Reduced fat milk (2%)	1.9518%	1.9687%	-0.0169%
Lowfat milk (1%)	0.9563%	0.9721%	-0.0158%
Nonfat milk (skim)	0.1123%	0.1126%	-0.0003%
Flavored milk	3.2823%	3.3627%	-0.0804%
Flavored reduced fat milk	0.9407%	0.9440%	-0.0033%
Flavored nonfat milk	0.0802%	0.1144%	-0.0342%
Buttermilk	1.0005%	1.0005%	0.0000%
Eggnog	7.9792%	6.9207%	1.0585%

(1) Per General Order No. A-963 (CRO 5)

PMMB AREA 4

COST REPLACEMENT HEARING

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

**Galliker Dairy Company, Harrisburg Dairies, Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

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
	2015	2014	2015	2014	2015	2014	
Labor and fringe benefits	\$ 19,071,679	\$ 17,902,397	163,267,481	166,681,791	\$ 0.1168	\$ 0.1074	\$0.0094
Utilities	930,728	1,122,911	163,267,481	166,681,791	0.0057	0.0067	(0.0010)
Insurance	201,642	148,136	163,267,481	166,681,791	0.0012	0.0009	0.0003
							<u>\$0.0087</u>

(1) Weighted based on sales in PMMB Area 4.

PMMB AREA 4

COST REPLACEMENT HEARING

CHANGES IN DIESEL FUEL COSTS

**Galliker Dairy Company, Harrisburg Dairies, Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

Diesel fuel costs – calendar year 2014 (1)	\$2,491,824
Delivery points – calendar year 2014 (1)	<u>164,448,952</u>
Diesel fuel cost per point delivered	<u><u>\$0.0152</u></u>
Average diesel price – calendar year 2014 (2)	\$3.987
Average diesel price – October 2015 (2) (3)	<u>\$2.639</u>
Increase (decrease) from year 2014 to month October 2015	-33.81%
Increase (decrease) in diesel fuel cost per point delivered	<u><u>(\$0.0051)</u></u>

- (1) Costs of cross-section dealers weighted by sales in Area 4.
- (2) On-highway diesel prices per gallon for the Central Atlantic Region as published by the U.S. Energy Information Administration.
- (3) October 2015 diesel fuel costs were used by the PMMB in establishing minimum prices for December 2015.

PMMB AREA 4

COST REPLACEMENT HEARING

CHANGES IN HEATING FUEL COSTS (NATURAL GAS)

**Galliker Dairy Company, Harrisburg Dairies, Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

Heating fuel costs – calendar year 2014 (1)	\$390,126
Standardization & pasteurization points – calendar year 2014 (1)	<u>384,169,495</u>
Heating fuel cost per point pasteurized	<u><u>\$0.0010</u></u>
Average heating fuel costs – calendar year 2014 (2)	\$10.19
Average heating fuel costs – August 2015 (2) (3)	<u>11.12</u>
Increase (decrease) from year 2014 to month August 2015	9.13%
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 4.
- (2) Industrial natural gas prices for Pennsylvania in dollars per thousand cubic feet as published by the U.S. Energy Information Administration.
- (3) August 2015 natural gas costs were used by the PMMB in establishing minimum prices for December 2015.

PMMB AREA 4

COST REPLACEMENT HEARING

**CALCULATION OF WHOLESALE MINIMUM PRICE
GALLON REDUCED FAT MILK (2%) FOR DECEMBER 2015**

**Galliker Dairy Company, Harrisburg Dairies, Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

	<u>Reference</u>	<u>Proposed Order</u>	<u>Current Order (2)</u>	<u>Change</u>
Butterfat test	D6	1.9518%	1.9687%	-0.0169%
Butterfat price as announced by PMMB	(1)	\$ 3.1560 per lb.	\$ 3.1560 per lb.	
Extended butterfat value		\$ 0.0616 per lb.	\$ 0.0621 per lb.	
Skim price as announced by PMMB	(1)	\$ 11.17 per cwt.	\$ 11.17 per cwt.	
Extended skim value		\$ 0.1095 per lb.	\$ 0.1095 per lb.	
Total milk value at announced prices		<u>\$ 0.1711 per lb.</u>	<u>\$ 0.1716 per lb.</u>	<u>\$(0.0005)</u>
Ingredient cost	D3	0.0024	0.0032	
Cost of shrinkage / bulk milk & cream	D5	(0.0007)	0.0008	
Total milk cost per pound		<u>\$ 0.1728 per lb.</u>	<u>\$ 0.1756 per lb.</u>	<u>\$(0.0028)</u>
Pounds per gallon (conversion)		8.62	8.62	
Total milk cost per gallon		<u>\$ 1.4895</u>	<u>\$ 1.5137</u>	<u>\$(0.0242)</u>
Container cost (adjusted for shrinkage)	D3	0.1656 each	0.1846 each	(0.0190)
Cost center costs	D2	0.9540	0.9524	0.0016
1st half 2014 to 1st half 2015 adjustment	D7	0.0348	(0.0208)	0.0556
Container efficiency adjustment	(2)	(0.0842)	(0.0842)	-
Percentage discount adjustment	(3)	(0.0088)	(0.0088)	-
Diesel fuel adjustment	D8	(0.0204)	(0.0204)	-
Heating fuels adjustment	D9	0.0004	0.0008	(0.0004)
		<u>\$ 2.5309 each</u>	<u>\$ 2.5173 each</u>	<u>\$ 0.0136</u>
Dealer profit at 3.4%	(2)	0.0891	0.0886	\$ 0.0005
Subtotal		<u>\$ 2.6200 each</u>	<u>\$ 2.6059 each</u>	<u>\$ 0.0141</u>
Less: average delivery cost	(2)	(0.4352)	(0.4352)	
Add: high cost delivery	(2)	0.9664	0.9664	
Wholesale minimum price		<u><u>\$ 3.1512 each</u></u>	<u><u>\$ 3.1371 each</u></u>	<u><u>\$ 0.0141</u></u>

(1) As announced for December 2015 by PMMB on November 19, 2015.

(2) Per OGO A-963 (CRO 5) as updated.

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

REBUTTAL EXHIBIT D10-B

PMMB AREA 4

COST REPLACEMENT HEARING

**CALCULATION OF WHOLESALE MINIMUM PRICE
HALF PINT FLAVORED NONFAT MILK (SKIM) FOR DECEMBER 2015**

**Galliker Dairy Company, Harrisburg Dairies, Inc., Rutter Bros. Dairy, Inc.,
Swiss Premium Dairy, Turkey Hill Dairy, Tuscan/Lehigh Dairies, Inc. – Schuylkill Haven**

	<u>Reference</u>	<u>Proposed Order</u>	<u>Current Order (2)</u>	<u>Change</u>
Butterfat test	D6	0.0802%	0.1144%	-0.0342%
Butterfat price as announced by PMMB	(1)	\$ 3.1560 per lb.	\$ 3.1560 per lb.	
Extended butterfat value		\$ 0.0025 per lb.	\$ 0.0036 per lb.	
Skim price as announced by PMMB	(1)	\$ 11.17 per cwt.	\$ 11.17 per cwt.	
Extended skim value		\$ 0.1116 per lb.	\$ 0.1116 per lb.	
Total milk value at announced prices		<u>\$ 0.1141</u> per lb.	<u>\$ 0.1152</u> per lb.	<u>\$ (0.0011)</u>
Ingredient cost	D4	0.0268	0.0279	
Cost of shrinkage / bulk milk & cream	D5	(0.0007)	0.0008	
Total milk cost per pound		<u>\$ 0.1402</u> per lb.	<u>\$ 0.1439</u> per lb.	<u>\$ (0.0037)</u>
Pounds per gallon (conversion)		<u>0.50</u>	<u>0.50</u>	
Total milk cost per half pint		<u>\$ 0.0701</u>	<u>\$ 0.0720</u>	<u>\$ (0.0019)</u>
Container cost (adjusted for shrinkage)	D3	0.0279 each	0.0285 each	(0.0006)
Cost center costs	D2	0.0596	0.0595	0.0001
1st half 2014 to 1st half 2015 adjustment	D7	0.0022	(0.0013)	0.0035
Container efficiency adjustment	(2)	0.0210	0.0210	-
Percentage discount adjustment	(3)	(0.0005)	(0.0005)	-
Diesel fuel adjustment	D8	(0.0013)	(0.0014)	0.0001
Heating fuels adjustment	D9	-	0.0001	(0.0001)
		<u>\$ 0.1790</u> each	<u>\$ 0.1779</u> each	<u>\$ 0.0011</u>
Dealer profit at 3.4%	(2)	<u>0.0063</u>	<u>0.0063</u>	\$ -
Subtotal		<u>\$ 0.1853</u> each	<u>\$ 0.1842</u> each	<u>\$ 0.0011</u>
Less: average delivery cost	(2)	(0.0272)	(0.0272)	
Add: high cost delivery	(2)	<u>0.0604</u>	<u>0.0604</u>	
Wholesale minimum price		<u><u>\$ 0.2185</u></u> each	<u><u>\$ 0.2174</u></u> each	<u><u>\$ 0.0011</u></u>

(1) As announced for December 2015 by PMMB on November 19, 2015.

(2) Per OGO A-963 (CRO 5) as updated.

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