



Commonwealth of Pennsylvania

Milk Marketing Board
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Official General
Order No. A-942

Posted: January 10, 2007
Effective: February 1, 2007

AN ORDER REGARDING CLASS II FIXED ADD-ONS

NOW, this 10th day of January 2007, the Commonwealth of Pennsylvania, Milk Marketing Board (Board), adopts and issues this official general order pursuant to the authority conferred by the Milk Marketing Law, 31 P.S. §§ 700j-101 – 700j-1204. This order will become effective at 12:01 a.m. on February 1, 2007.

SECTION I

The attached findings of fact and conclusions of law are incorporated herein by this reference as though fully set forth in this order.

SECTION II

In each Milk Marketing Area the Class II fixed add-ons adopted by the Board in this order shall replace the Class II fixed add-ons embodied in the Cost Replacement Orders and price announcements for the respective Milk Marketing Areas.

PENNSYLVANIA MILK MARKETING BOARD

Boyd E. Wolff, Chairman

Luke F. Brubaker, Member

Barbara A. Grumbine, Consumer Member

Date: January 10, 2007

FINDINGS OF FACT AND CONCLUSIONS OF LAW

CLASS II FIXED ADD-ONS

January 10, 2007

FINDINGS OF FACT

1. On January 10, 2007, the Pennsylvania Milk Marketing Board (Board) convened a hearing for all milk marketing areas to receive testimony and evidence to consider Class II product costs and Class II fixed add-ons.
2. Notice of the hearing was published in the Harrisburg Patriot-News on January 4, 2007; the Philadelphia Inquirer and Philadelphia Daily News on January 5, 2007; and the Pittsburgh Post-Gazette on January 4, 2007. The hearing notice was also published on the websites of the Patriot-News, Inquirer, and Post-Gazette. Notice of the hearing was also mailed to those who have requested mailed notice of Board hearings by means of Bulletin No. 1408 dated December 29, 2006. Board Bulletin No. 1408 was also posted on the Board's website.
3. At the conclusion of the hearing, the parties waived the opportunity to file briefs.
4. Dave DeSantis testified for Board Staff as an expert in milk cost accounting and economic regulation of milk. Mr. DeSantis testified that Board Staff was alerted to some problems with January 2007 Class II prices and determined that the problems were due to errors contained in the Class II product cost exhibits presented at the most recent cost replacement orders in each milk marketing area. Mr. DeSantis explained that the errors in the Class II product cost exhibits affected the Class II fixed add-on exhibits, which form part of the basis for pricing Class II products. This hearing was necessary to allow for correction of those errors and submission of new Class II fixed add-on evidence.
5. Mr. DeSantis testified that the cross-section dealers primarily purchase Class II packaged products for resale, rather than manufacture them at their plants. The add-on reflects the difference between the actual purchase price and the theoretical cost of producing those same products at the plant. Assuming that the difference between the purchase price and the theoretical manufacturing cost remains constant throughout the year, all Class II packaged product prices can be adjusted by adding the Class II fixed add-on to the then-current Class II raw product cost each month. Mr. DeSantis recommended that the Board continue to use this methodology and also recommended that the Board replace the existing Class II fixed add-ons with the corrected add-ons he presented in his testimony.
6. Mr. DeSantis calculated the following Class II fixed add-ons:

| | | |
|---------|--------------------------|----------------|
| Area 1: | Half and Half | \$0.2013/quart |
| | Half and Half (Creamers) | \$0.0266/ounce |
| | Creams | \$0.2020/quart |

| | | |
|---------|--------------------------|----------------|
| | Sour Cream | \$0.1718/quart |
| Area 2: | Half and Half | \$0.1978/quart |
| | Half and Half (Creamers) | \$0.0268/ounce |
| | Creams | \$0.2002/quart |
| | Sour Cream | \$0.1481/quart |
| Area 3: | Half and Half | \$0.1930/quart |
| | Half and Half (Creamers) | \$0.0276/ounce |
| | Creams | \$0.1956/quart |
| | Sour Cream | \$0.1501/quart |
| Area 4: | Half and Half | \$0.2004/quart |
| | Half and Half (Creamers) | \$0.0274/ounce |
| | Creams | \$0.2019/quart |
| | Sour Cream | \$0.1545/quart |
| Area 5: | Half and Half | \$0.1940/quart |
| | Half and Half (Creamers) | \$0.0282/ounce |
| | Creams | \$0.1969/quart |
| | Sour Cream | \$0.1636/quart |
| Area 6: | Half and Half | \$0.1909/quart |
| | Half and Half (Creamers) | \$0.0273/ounce |
| | Creams | \$0.1868/quart |
| | Sour Cream | \$0.1576/quart |

7. The Board finds that the cross sections used by Mr. DeSantis to calculate Class II product costs and Class II fixed add-ons in each milk marketing area are representative of the milk dealers doing business in the respective areas. In so finding, the Board notes that these were the same cross sections found to be representative in the most recent cost replacement hearings for each of the milk marketing areas.
8. The Board finds that the Class II fixed add-ons presented by Mr. DeSantis and listed in Finding of Fact 6 should replace the Class II fixed add-ons contained in the current area orders. In so finding, the Board finds credible and persuasive the uncontradicted testimony of Mr. DeSantis regarding the calculation of Class II product costs and Class II fixed add-ons.
9. The Board finds that the publication of the hearing notice in the Harrisburg Patriot-News, the Philadelphia Inquirer and Daily News, and the Pittsburgh Post Gazette, combined with mailed notice and posting of the hearing notice on the Board's website provided reasonable notice to the public that the hearing would be held. The Board also finds that due to the uncontroversial nature of the proceeding, which was held to allow for correction of errors in exhibits offered at the most recent cost replacement hearings, the time between publication of the hearing notice and the hearing was reasonable.

CONCLUSIONS OF LAW

1. The January 10, 2007, hearing regarding Class II product costs and Class II fixed add-ons was held pursuant to the authority granted to the Board in sections 801 and 803 of the Milk Marketing Law (Law) (31 P.S. §§ 700j-801 and 700j-803).
2. The hearing was held following adequate notice and all interested parties were given a reasonable opportunity to be heard.
3. The cross sections used are representative of all dealers doing business in the respective Milk Marketing Areas.
4. In adopting the attached order, the Board has considered the entire record and concludes that the order is supported by a preponderance of credible evidence and is reasonable and appropriate under sections 801 and 803 of the Law.
5. The attached order may be amended pursuant to the procedures set out in section 801 of the Law.

PENNSYLVANIA MILK MARKETING BOARD

Boyd E. Wolff, Chairman

Luke F. Brubaker, Member

Barbara A. Grumbine, Consumer Member

Dated: January 10, 2007

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