pennsylvania
MILK BOARD

DATE: October 13, 2026

SUBJECT: Cost Replacement Hearing (Area 3)

Staff Pre-Submission Exhibits and Expert Testimony

TO: Interested Parties (via e-mail only)

FROM: Amy Jo Heebner
Staff Attorney, Pennsylvania Milk Board

PENNSYLVANIA MILK BOARD STAFF
COST REPLACEMENT HEARING
AREA 3
NOVEMBER 4, 2026

WITNESS LIST

The following individuals will testify at the Cost Replacement Hearing for Area 3 on November 4, 2026, on behalf of the Pennsylvania Milk Board Staff. Copies of *curriculum vitaes* and credentials will be available upon request.

1. Joseph Wilson, Milk Board Accountant

    a. Mr. Wilson will testify as an expert in milk industry accounting and cost replacement techniques. His testimony will address the subjects included in his pre-submitted testimony and exhibit (enclosed herein as Staff Exhibit 1) but is not limited to his pre-submitted testimony.

2. Gary Gojsovich, Milk Board Audit Supervisor

    a. Mr. Gojsovich will testify as an expert in milk industry cost accounting and regulation. His testimony will address the subjects included in his pre-submitted testimony and exhibits (enclosed herein as Staff Exhibits 2-14) but is not limited to his pre-submitted testimony.

Respectfully submitted,

Amy Jo Heebner

AMY JO HEEBNER
Staff Attorney
Pennsylvania Milk Board

STAFF EXHIBIT 1A

Joseph Wilson Testimony

Good morning. My name is Joseph Wilson, and for the last seven years I've served as the staff accountant for the Pennsylvania Milk Board. Today, I will be providing testimony related to Staff Exhibit 1.

A group of 17 dealers has voluntarily agreed to participate in an expanded monthly data collection conducted by Board staff. These dealers are referred to as "cross-section dealers" and represent a sub-population of all licensed dealers. For each Milk Marketing Area, a subset of the 17 cross-section dealers is selected. The data from these selected dealers is used to perform cost replacement calculations specific to that Area.

The sampling technique used for this analysis was purposeful, or judgmental, sampling— selected to meet the specific needs of the study. Because participation is voluntary, our analysis is based on the representativeness of the sample as determined by informed judgment. By establishing selection criteria prior to sampling, this method helps ensure that the data collected is as accurate and representative as possible for cost replacement calculations, given that a random sample is not feasible.

Of the 17 cross-section dealers, 14 sell into Area 3. Among these, four dealers of the 14 who sell into Area 3 were selected as a sample based off the needs of the study. Overall, the sales distribution for the Area 3 CRH cross- section closely mirrors that of all dealers.

Staff Exhibit 1 demonstrates that the product-level sales data for the Area 3 CRH cross-section dealers are closely aligned with that of all dealers selling into Area 3, particularly when considering the top five selling products.

STAFF EXHIBIT 2A

STAFF TESTIMONY BEFORE THE PENNSYLVANIA MILK BOARD
COST REPLACEMENT HEARING – MILK MARKETING AREA 3
November 4, 2026

Good morning. My name is Gary Gojsovich. I have been employed by the Pennsylvania Milk Board as an Audit Supervisor for over 20 years and I have been accepted as an expert in milk accounting to testify at previous cost replacement hearings. This morning I will be testifying to Staff Exhibits 2 through 14 for Area 3.

Staff Exhibit 2

This exhibit provides information about the average weighted cost for processing, packaging and delivering milk for the Area 3 cross-section milk dealers. For each of the major cost centers we have matched the expenses associated with the cost center with the volume of milk or other products that flowed through that cost center. The volumes are stated in points (where a point equals a quart or quart equivalent). All costs and points are weighted using the sales weighting method. For example, if a dealer has 25% of their sales in Area 3 then we include 25% of their costs and 25% of their points in the Area 3 cost centers.

Staff recommends that the Board replace the costs in the current Order with those costs in this exhibit.

Staff Exhibit 3

This exhibit provides information on the cost of containers for the cross-section dealers. We initially use the costs of the cross-section dealers for plastic containers, paper containers and resin as of April 2026 to calculate weighted cost per units. As has been done in previous hearings, we are using controlled container sales volumes for the previous year. We are therefore pairing current costs with the weighted units sold in the previous year to arrive at the most current weighted cost per unit available. Where the market has both paper and plastic containers, like the pint container, we have provided a combined paper/plastic price. After we established a cost for each container type in Column E, we are updating those April 2026 costs to the costs observed in our most current container surveys in Column F (October 2026). In Column G we are applying factors for container shrinkage. Column H adds the shrinkage factor to the updated container cost in Column F.

Staff recommends that the Board replace the base container costs with those found in Column C and the base weighted units with those in Column D and continue to update these costs using the audited surveys submitted by the cross-section dealers.

Staff also recommends that the Board continue the practice of providing separate plastic and paper half-pint prices through a plastic add-on.

Staff further recommends that the Board replace the current container costs with the costs found in column E.

Staff Exhibit 4

This exhibit provides information on the cost of ingredients added to the various milk products like chocolate powder and sugar used in chocolate milk. This exhibit pairs Year 2025 sales activity with April 2026 costs to get current weighted costs.

Staff recommends replacing the current ingredient costs with those in this exhibit. Staff further recommends the continuance of updating chocolate and sweetener costs quarterly.

Staff Exhibit 5

Dealers typically sell off excess bulk milk and cream they are unable to use in their own plants and they will recognize either a profit or a loss on these sales. Dealers also lose small amounts of milk as it moves through the plant; this loss is called shrinkage.

Row 1 shows the calculation for shrinkage cost. Column G shows the weighted costs using the sales weighting method.

Rows 2, 3 and 5 show calculations for determining profits and/or losses on diverted or transferred sales of bulk milk and cream. Dealers incur additional costs to process and sell transferred milk and cream (Column E). We add these additional processing costs to the producer costs in Column D to determine if the dealers made a profit or loss on the transactions.

The costs in the top panel are summarized in Column H. We divide these costs by the number of pounds of product sold or manufactured by the dealers (net of purchased packaged products) in Column I. By dividing the costs in Column H by the pounds in Column I we arrive at a weighted cost per pound in Column J.

Staff recommends that the Board use the costs and profits in this exhibit to replace those in the existing Order.

Staff Exhibit 6

This exhibit summarizes the costs of the milk components. We are using the most current announced milk prices available prior to the submission date for the Initial Exhibits. The current fat and skim prices for Class I products are in the top panel. In the lower panel we show the actual pounds of the Class I products (Columns A and B) sold by the cross-section dealers in this Area. We have labeled the columns A through K and show how we arrive at the cost per pound for each of the products in the table.

Staff recommends that the Board continue to use this method for establishing the before-bottling costs.

Staff Exhibit 7

In this exhibit we compare the costs and related plant volumes for three significant categories (labor, utilities, and insurance) for the 1st half of Year 2026 with the 1st half of 2025 to update the cost per point from Staff Exhibit 2. We use bottling points as the denominator as they are a good measure of the plants' overall volume or activity. In columns A and B, we list the first half-year costs for 2026 and 2025 for each of the cost categories. In the next two columns, we list the bottling points for 2026 and 2025 for the first half-year. By dividing the costs by the points in columns E and F, we can compare the cost increase or decrease per point in column G.

Staff recommends replacing the first half cost adjustment in the current Order with the adjustment in this exhibit.

Staff Exhibit 8

In this exhibit we update diesel fuel costs from the previous year (Year 2025) by indexing to diesel prices for the most current month (August 2026). Line 1 shows the weighted cost for diesel fuel for the cross-section dealers for Year 2025. Line 2 is the Year 2025 average On-Highway diesel price per gallon as posted by the Energy Information Administration (EIA). Line 3 is the current EIA On-Highway diesel price. Line 4 shows the percentage of change in the diesel price from Year 2025 to the current price. Line 5 shows the current presumed diesel cost. By subtracting line 1 from line 5 we find the changed diesel cost on line 6. And by dividing the changed diesel cost on line 6 by the weighted delivery points of the cross-section dealers, we find the changed cost per point on line 8.

Staff recommends that the Board continue to include this adjustment in the cost replacement process. Staff also recommends that the Board replace the Year 2024 points and costs with the Year 2025 points and costs found in this exhibit.

Staff Exhibit 9

Staff has calculated the current heating fuel add-on using the same methodology as in Staff Exhibit 8 except here we are using Standardization and Pasteurization points and the Pennsylvania Natural Gas Industrial price as posted by the EIA. Staff recommends that the Board continue to include this adjustment in the cost replacement process. Staff also recommends that the Board replace the 2024 points and costs with the 2025 points and costs found in this exhibit.

Staff Exhibit 10

The container efficiency adjustments are made to account for the cost efficiencies of bottling and handling milk in larger size containers than in smaller size containers. Board Staff updated these adjustments by replacing Year 2024 container sales with Year 2025 container sales (Column B) and by also replacing the Year 2024 processing costs per points for the Bottling, Cold Room and Delivery cost centers with those for Year 2025.

Staff recommends that the Board replace the container efficiency adjustments per the existing Order with those found in column E of this exhibit.

Staff Exhibit 11

This exhibit summarizes the information from the previous exhibits to arrive at proposed wholesale prices which are shown in Column K.

Staff Exhibit 12

This exhibit calculates our proposed retail prices which are shown in Column G. The starting point for this exhibit is the proposed wholesale prices per Staff Exhibit 11 to which adjustments are made for discounts, in-store handling and retail profit.

Staff Exhibit 13

This exhibit shows the effect this cost replacement hearing will have on the wholesale minimum price of a gallon of Reduced Fat (2%) milk. It compares the proposed wholesale price per Staff Exhibit 11 with the current (or existing) price per that same exhibit. The overall result will be an increase of $0.3108 per gallon with the majority of the increase being attributed to a $0.2388 increase in processing costs along with a $0.0945 increase in the gallon container cost; the cost update adjustment decreased -$0.0552 which was an offset to the aforementioned increases.

Staff Exhibit 14

This exhibit shows the effect this cost replacement hearing will have on the wholesale minimum price of a paper ½ Pint of Flavored Reduced Fat milk. It compares the proposed wholesale price per Staff Exhibit 11 with the current (or existing) price per that same exhibit. The overall result will be an increase of $0.0350 per half pint with the majority of the increase being attributed to a $0.0149 increase in processing costs along with a $0.0110 increase in ingredient costs.

Thank you. I'd be happy to answer any questions pertaining to my exhibits.