

**United States Department of Agriculture
Federal Milk Order Hearing
January 24, 2006**

7 CFR Parts 1000, 1001, 1005, 1006, 1007, 1030, 1032, 1033, 1124, 1126, and 1131

[Docket No. A0-14-A74, et al.; DA-06-01]

In Support of Indexing Energy Costs in Federal Order Make Allowances

I am Neil Gulden, Director of Fluid Marketing for Associated Milk Producers Inc. (AMPI).

We understand that National Milk Producers Federation will be proposing the adoption of monthly indexing adjustments to the energy components of make allowances. It is also our understanding that the indexes used will be from the Bureau of Labor Statistics for Industrial Natural Gas and Industrial Electric Power Distribution.

The greatest cost increase by far is for natural gas. The attached graph, attachment 1, shows AMPI's percentage change in gas costs from the prior year for 2004 and 2005 compared to the BLS series WPU0553 percent change for Industrial Natural Gas. There are obvious monthly differences but on average in 2004 AMPI's percentage change was slightly less than BLS. In 2005 our change in cost was about 10 percentage points higher than the BLS. The BLS series appears to be a little conservative relative to our experience on gas cost change, but we believe it will represent a long term, big picture view of both gas and electrical cost changes across the country.

Most of the testimony at this hearing is focused on updating the make allowance cost for cheese, butter, nonfat dry milk and dry whey through 2004 by using RBCS and CDFR surveyed data. AMPI supports the use of the BLS series WPU0553 for fuels and the BLS series WPU0543 for electricity. These adjustments would be made to the energy costs portion of the make allowance of the commodities listed above, as determined by the Secretary, for use in calculating Class III and IV formula prices.

All energy costs, especially natural gas, have seen unprecedented increases in 2005, particularly in the months of September through December. Attachment 2 shows AMPI's average natural gas cost by month for 2004 and 2005. 2005 averaged 31% over 2004, but September through December averaged 65% over the same period in 2004.

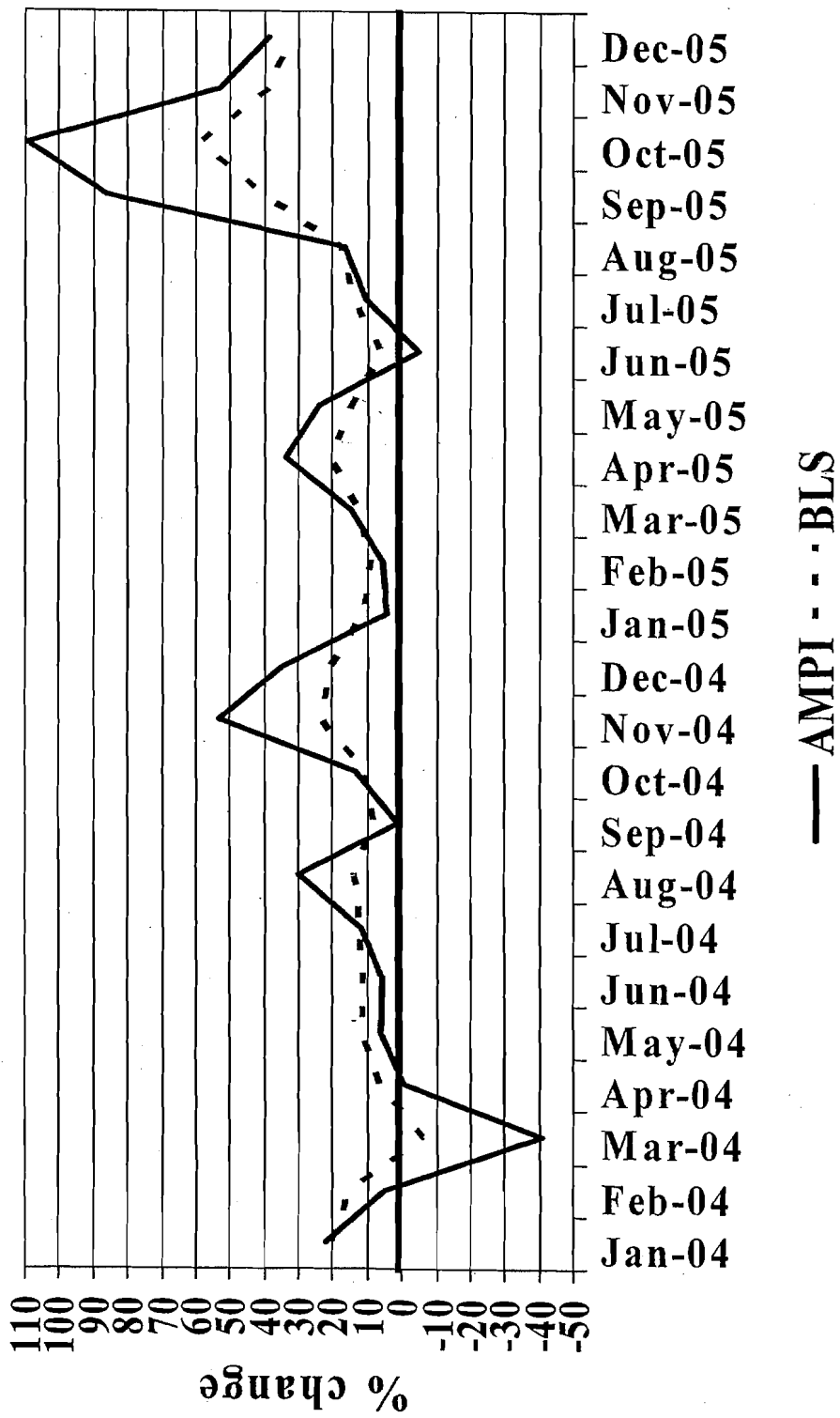
The steep energy cost increases in late 2005 need to be included in any emergency decision. If including indexing in an emergency decision is somehow going to delay the process, we urge the Secretary to at least include some recognition of these tremendous 2005 cost increases. We would propose that at least the average annual percentage increases from 2004 to 2005 for the BLS series WPU0553 for Industrial Natural Gas and the BLS series WPU0543 for Industrial Electricity be used in an emergency decision to adjust make allowances in Class III and IV formula prices.

If the BLS indexes are later included in a final decision and updated to the most current month, adjustments could be made for the fact that some increases had already been accounted for.

This concludes my statement.

AMPI vs. BLS Series WPU0553

Natural Gas Cost
% change from same month/prior year



Attachment ~~1~~ 2

AMPI Average Natural Gas Cost

