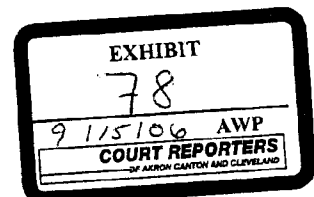


**Impact of Modifications to Federal Order Make Allowances on
Class Prices, Blend Prices, and Pool Values in 2006 and 2007**

**Testimony Presented at the Class III/IV Federal Order Hearing
Stongsville, Ohio**

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- **Weighted average:** the weighted average make allowances presented in the September 1 Cornell study.
- **Modified weighted average:** this is the same as the weighted average scenario with the exception that the whey make allowance was set equal to the weighted average cost of nonfat dry milk plus \$0.0256. This was based on a post hearing report presented by Agri-Mark that noted that processing costs for liquid skim milk and skim whey were only differentiated by the volume of water that had to be removed during drying time.¹
- **Population average:** this scenario used the weighted average scenario with the exception that the cheese make allowance is the new Cornell estimate for the population of U.S. cheese plants located in federal orders (\$0.2028/lb).
- **Population average with energy adjustments:** this is the same as the population average scenario plus the higher energy costs for 2005 reported in Stephenson's testimony.

Table 1. Scenarios for Make Allowances

		95% Confidence Interval					Population Average w/ Energy Adjustments
Products	Baseline	Low	High	Weighted Average	Modified Weighted Average	Population Average	
-----\$/lb-----							
Cheese	0.1650	0.1502	0.2808	0.1638	0.1638	0.2028	0.2062
Butter	0.1150	0.1108	0.1108	0.1108	0.1108	0.1108	0.1137
Nonfat	0.1400	0.1204	0.1846	0.1410	0.1410	0.1410	0.1480
Dry whey	0.1590	0.1328	0.3237	0.1941	0.1666	0.1941	0.2017

Model Results for 2006 and 2007

The simulation results are discussed next in terms of changes in federal order prices, uniform blend prices, and pool values and are compared to the baseline. These results are presented in Tables 2 - 7.

The model results indicate that small changes in the make allowances result in big changes in federal order prices. For example, the Cornell study (September 1) shows that the weighted average make allowances are very similar to the baseline. The exception is dry whey which is currently \$0.1590 per pound (the baseline) and is \$0.1941 under the weighted average scenario. This change, when entered into the model, increased the Class III skim solids value and resulted in the Class III price rising \$0.19 per cwt relative to the baseline. In addition, this change resulted in the Class I mover rising \$0.20 per cwt since the skim portion of the mover is the higher of the Class III and IV skim prices. This change in the whey make allowance also reduced the average blend price in all ten federal orders by \$0.14 per cwt, with the largest adjustments coming out of the heavy Class I and III markets. Finally, this slight change reduced the pool value in 10 orders by \$176-\$177 million.

¹ See page 12 paragraph 24 of the Agri-Mark post hearing brief.

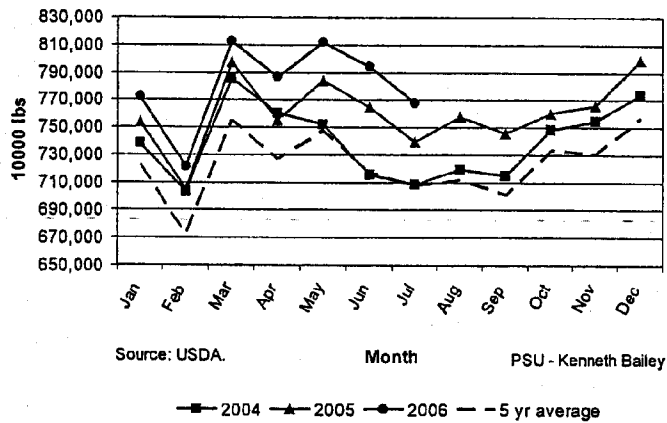
Table 5. Analysis of Uniform Prices for 2007—Changes from the Baseline

	Baseline	95% Confidence Interval		Weighted Average	Modified Weighted Average	Population Average	Population Average w/ Energy Adj
	\$/cwt	Low	High				
		--change from baseline, \$/cwt--					
Orders							
Northeast	13.75	0.22	-1.21	-0.13	-0.02	-0.28	-0.35
Appalachian	14.09	0.21	-1.12	-0.13	-0.02	-0.26	-0.32
Southeast	14.00	0.22	-1.26	-0.15	-0.02	-0.30	-0.37
Florida	15.34	0.21	-1.26	-0.17	-0.03	-0.31	-0.37
Mideast	12.65	0.23	-1.39	-0.14	-0.02	-0.34	-0.41
Upper Midwest	12.38	0.26	-1.77	-0.17	-0.03	-0.47	-0.54
Central	12.52	0.23	-1.37	-0.13	-0.02	-0.34	-0.40
Southwest	13.26	0.22	-1.21	-0.12	-0.02	-0.28	-0.35
Arizona	12.57	0.23	-1.30	-0.13	-0.02	-0.31	-0.38
Pacific Northwest	12.08	0.22	-1.11	-0.10	-0.02	-0.25	-0.32
Average of 10 orders	13.27	0.23	-1.30	-0.14	-0.02	-0.31	-0.38

Table 6. Federal Order Pool Values for 2006—Changes from the Baseline

	Baseline	95% Confidence Interval		Weighted Average	Modified Weighted Average	Population Average	Population Average w/ Energy Adj
	mil \$	Low	High				
		--change from baseline, mil \$--					
Orders							
Northeast	3,173	53	-259	-30	-5	-67	-83
Appalachian	879	13	-62	-9	-2	-17	-21
Southeast	1,097	18	-91	-12	-2	-25	-30
Florida	473	7	-34	-5	-1	-10	-12
Mideast	2,230	43	-240	-26	-5	-64	-76
Upper Midwest	3,129	71	-460	-46	-8	-125	-144
Central	2,048	40	-223	-23	-4	-58	-70
Southwest	1,426	25	-125	-14	-2	-32	-40
Arizona	392	7	-39	-4	-1	-10	-12
Pacific Northwest	938	18	-84	-8	-1	-20	-26
Sum	15,784	295	-1,619	-177	-30	-428	-514

Figure 1. Monthly Total Cheese Production



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