TREGA FOODS
GREAT PEOPLE. GREAT PRODUCTS.

2701 Freedom Road, P.O. Box 223
Little Chute, WI 54140-0223
Telephone: (920) 788-6311
Fax: (920) 788-1424

January 19, 2007

Hearing Clerk
Stop 9200-Room 1031
United States Department of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250-9200

RE: Docket no. AO-14-A74, et al.;DA-06-01: Milk in the Midwest and Other Marketing Areas; Tentative Final Decision on Proposed Amendments and Opportunity To File Written Exceptions to Tentative Marketing Agreements and Orders

I am writing on behalf of Trega Foods, Inc. regarding the tentative final decision on make allowance adjustments for Class III and IV. Trega Foods is a privately held Company that operates three cheese plants (Class III plants) all in Wisconsin and all three plants regulated by the federal milk marketing orders (Order 30).

We believe that there were some flaws in calculating the make allowances that were part of the tentative final decision and that the make allowances should have been set at a higher level. Those make allowances from the tentative final decision are:

Cheese	$0.1682
Butter	$0.1202
NFDM	$0.1570
Dry Whey	$0.1956

Our reasons for our belief that the make allowances should have been higher are as follows:

1. When setting make allowances it is important not to set the make allowances too low because this sets the minimum price to be paid by manufacturers for milk and if set too low, it does not give manufacturers the ability to cover costs and dollars to invest capital to build and maintain facilities. The current pricing system does not afford manufacturers the ability to recoup increased processing costs from the marketplace. For this reason, we believe that when setting make allowances, it is better to err on the side of a make allowance that is too high rather than one that is too low. If too high, competition among users of milk will force over order payments to producers. If too low, disinvestment from the industry will take place.
2. The new make allowance for cheese ($0.1682), which we produce, is clearly much too low. California, which is not regulated by the federal order system and has some of the largest, newest and more cost efficient plants in the country, reports an audited cheese cost of production of $0.1769 per pound. This reflects the weighted average (by pounds of production) costs of manufacturing representing 98.5

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percent of cheddar and Monterrey Jack cheese produced in the state. This difference in make allowances between California and the federal order system puts our Company at a competitive disadvantage.

3. With the decision to adjust make allowances for cheese to $0.1682 per pound within the federal order system, it is saying that cheese plants within the federal order system are more efficient than cheese plants in California. This is hard to believe given the fact that much of the growth in production of cheese in the United States over the past years has taken place in California with large efficient plants being built. Such a difference just does not seem possible.
4. When determining make allowances, USDA should have followed the recommendation of Dr. Mark Stephenson of Cornell University and adjusted the results of his cheese costs of processing survey to reflect the fact that he had used an unbalanced, stratified procedure.
5. USDA should not have ignored the California data on whey costs. Even though the reported costs may have been perceived as somewhat high, they are real, ***fully audited*** costs. They should be included in setting the make allowances. To use different systems in determining make allowances for each of the products does not seem right.

I would hope that consideration be given to adjusting the make allowances from this decision upward to something that better reflects production costs and allows plants regulated within the federal order system to better compete with plants in California. We are a processor that has been struggling with outdated make allowances for way too long as a decision was being made while the California make allowances can be adjusted ***significantly quicker***. Then when the decision is made it still puts make allowances at too low of a level and at a level that puts processors in areas of the country regulated by federal orders at a competitive disadvantage with our competition in California.

I appreciate your consideration as you evaluate the tentative final decision.

Sincerely,

Douglas D Simon

Douglas D. Simon
President
Trega Foods, Inc.