EXHIBIT

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BEFORE THE UNITED STATES DEPARTMENT

OF AGRICULTURE

AGRICULTURE MARKETING SERVICE

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| In the Matter of Milk in California Notice of Hearing on a Proposal to Establish a Federal Milk Marketing Order | 7 CFR Part 1051<br>Docket No.: AO-15-0071<br>AMS-DA-14-0095 |

Clovis, California, November 2015

Testimony of Rob Blaufuss

Part 6

## Introduction

I am appreciative the work that Proponents of Proposal 1 performed with regards to their transportation credit language. It is clear that the Cooperatives spent considerable time in developing a transportation credit program for a potential California Federal Order. That said, I would like to provide an overview of how the transportation credit and allowance program would function in Proposal 2 and concerns I have with parts of the Cooperatives proposal.

## Dairy Institute of California Transportation Credit Proposal

The Dairy Institute of California Federal Order hearing proposal language with regards to transportation allowances and credits largely mirrors that of current California State Order regulations. The key difference however is that the DIC proposal takes into account the differences in the location value of milk. Under the Dairy Institute proposal, the current California transportation credits and allowances would be reduced by the difference in the location differential value of the plant receiving milk and the supply area to which is serving that market.

In all current Federal Orders, producer pay prices are adjusted based on the location value of the plant to which they ship to. As an example, a producer delivering milk into a Class I plant in Los Angeles would be paid at the base zone differential. A producer whose milk is shipped to a butter/powder plant in Fresno, which is located in a $1.60 per-cwt differential zone, would have their blend price reduced by $0.50 per-cwt. This difference in the location value of milk is a tool which assists in ensuring an adequate supply of milk for fluid purposes. Proponents of Proposal 1 have not included a location adjustment in the producer pay price in their California Federal Order proposal.

## Concerns

While I am very appreciative of the study undertaken by Proponents of Proposal 1 on this issue, I do have some concerns with parts of their proposal. These concerns are addressed below.

**1.)** ***No producer location differential adjustments.*** As well as not including any direct requirements to serve the Class I market by way of performance standards, the Proponents of Proposal 1 also do not include plant location adjustments for producer milk. All producers will be paid at the same rate regardless if they ship milk to a Class I plant in Los Angeles or if they ship milk to a butter/powder plant in Fresno. This further reduces a Class I plant's ability to attract a milk supply.

**2.)** ***The fixed coefficient values used in the computation of the transportation payment.*** In order to calculate the monthly transportation allowances, the Cooperatives rely on the fixed coefficient values calculated in their regression analysis of 2013 data. In time, there is the potential that these coefficients may not be as predictive in the future as they are today.

**3.)** ***Using an 8-week average EIA diesel price.*** The Proponents of Proposal 1 use an 8-week average EIA Diesel price to adjust the base Diesel price in their transportation allowance program. An 8-week price average could potentially make the allowance program slow to respond to real-time changes in energy prices. The Southeast and Appalachian Federal Orders transportation credit programs for example use a four week average Diesel price to adjust their credit payment program levels.