



BEFORE THE UNITED STATES DEPARTMENT
OF AGRICULTURE
AGRICULTURE MARKETING SERVICE

In the Matter of Milk in California
Notice of Hearing on a Proposal to
Establish a Federal Milk Marketing
Order

7 CFR Part 1051
Docket No.: AO-15-0071
AMS-DA-14-0095

Clovis, California, November 2015

Testimony of Sue Taylor

Part 3

I am Sue Taylor. I previously testified at this proceeding on behalf of Leprino Foods. Today I am testifying on behalf of Dairy Institute and my testimony is focused specifically on the regulated milk price impacts of the Dairy Institute proposal (Proposal 2). ~~Rob Blaufuss of Dean Foods has joined me on the witness stand to assist with potential questions related to Class I or II.~~

Attached are tables that show the calculated minimum regulated prices resulting from the application of the Proposal 2 (Dairy Institute) formulas documented in Attachment A to the commodity prices that existed over the ten year period from January 2005 – December 2015. 2014. This analysis does not capture the adjustments that would be expected to in the marketplace, including changes in the commodity prices that would occur as milk allocation adjusts due to increased competition across the manufactured product complexes of cheese vs. butter / dry milk. Additionally, the analysis does not include adjustments that would likely occur in over-order premiums.

Throughout the tables, I refer to the two methodologies for valuation of other solids in the Class III formula as "dry whey" referring to the proposal, as modified, contained in the "Notice of Hearing" or "liquid WPC" referring to the alternative proposal that was submitted to USDA in the May 27, 2015 letter to the Department and is also under consideration at this Hearing.

The following is a brief description of the tables:

- **Attachment B, Table 1: Class III, Class IV Pricing Factors**
 - Pages 1 - 3 show the Proposal 2:
 - Western pricing factors calculated based upon the default value formulas in the left table;
 - NASS / NDPSR / AMS pricing factors currently in use in the Federal Milk Marketing Order System in the middle table; and
 - 4 California State Order commodity prices in the right table.
 - Pages 5 - 6 show the Proposal 2 Western pricing factors less:
 - NASS / NDPSR / AMS pricing factors currently in use in the Federal Milk Marketing Order System in the left table; and
 - California State Order commodity prices in the right table.

- **Attachment B, Table 2: Advanced Pricing Factors**
 - Pages 1 - 3 show the Proposal 2:
 - Western advanced pricing factors calculated based upon the default value formulas in the left table;
 - NASS / NDPSR / AMS advanced pricing factors currently in use in the Federal Milk Marketing Order System in the middle table; and
 - California State Order advanced pricing factors for Class 1 in the right table.

4-5

- Pages ~~5-6~~ show the Proposal 2 advanced pricing factors less:
 - AMS advanced pricing factors currently in use in the Federal Milk Marketing Order System in the left table; and
 - California State Order advanced pricing factor in the right table.

- **Attachment B, Table 3: Class IV Pricing Impact**
 - Pages 1 - 3 show the Proposal 2:
 - Class IV component and hundredweight prices under Proposal 2 in the left table;
 - Class IV component and hundredweight prices restated based upon current price formulas adopted in October 2008 in the middle table; and
 - Class 4a component and hundredweight prices using the most recent permanent formulas (August 2012) under the California State Order in the right table.
 - Pages 4 - 6 show the Proposal 2 Class IV prices less:
 - Class IV component and hundredweight prices restated based upon current price formulas adopted in October 2008 in the Federal Milk Marketing Order System in the left table; and
 - Class 4a component and hundredweight prices using the most recent permanent formulas (August 2012) under the California State Order in the right table.

- **Attachment B, Table 4: Class III Pricing Impact**
 - Pages 1 - 3 show the Proposal 2:
 - Class III component and hundredweight prices under both the dry whey and the liquid WPC other solids valuation proposals in the left table;
 - Class III component and hundredweight prices restated based upon current price formulas adopted in October 2008; and
 - Class 4b component and hundredweight prices using the most recent permanent formulas (August 2012) under the California State Order in the right table.
 - Pages 4 - 6 show the Proposal 2 Class III prices less:
 - Class III component and hundredweight prices restated based upon current price formulas adopted in October 2008 in the Federal Milk Marketing Order System in the left table; and
 - Class 4b component and hundredweight prices using the most recent permanent formulas (August 2012) under the California State Order in the right table.

- **Attachment B, Table 5: Class II Pricing Impact**

- Pages 1 - 3 show the Proposal 2:
 - Class II component and hundredweight prices under Proposal 2 in the left table; and
 - Class II component and hundredweight prices restated based upon current price formulas adopted in October 2008 in the right table.
- Pages 4 - 6
 - Weighted Class 2 and 3 component and hundredweight prices using the most recent permanent formulas (August 2012) under the California State Order. This table consolidates the California price across Classes 2 and 3 by weighting a simple average of the Northern California and Southern *California* Class 2 prices with the statewide Class 3 price based upon total solids utilization.
- Pages 7 - 9 show the Proposal 2 Class II prices less:
 - Class II component and hundredweight prices restated based upon current price formulas adopted in October 2008 in the Federal Milk Marketing Order System in the left table; and
 - Weighted Class 2 and 3 component and hundredweight prices using the most recent permanent formulas (August 2012) under the California State Order in the right table.

- **Attachment B, Table 6: Class I Pricing Impact**

- Pages 1 - 3 show the Proposal 2:
 - Class I component and hundredweight prices under both the dry whey and liquid WPC other solids valuation in the ~~left~~ table;
- Pages 4 - 6 show the:
 - FMMO Class I component and hundredweight prices restated based upon current price formulas adopted in October 2008; and the
 - CDFA Class 1 component and hundredweight prices using the most recent permanent formulas (August 2012) under the California State Order in the right table.
- Pages 7 - 9 show the Proposal 2 Class I base component and hundredweight prices less:
 - The Class I base component and hundredweight prices restated based upon current price formulas adopted in October 2008 in the FMMO in the left table; and
 - The California ~~differential~~ Class 1 component and hundredweight prices using the most recent permanent formulas (August 2012) in the right table.
 - It is important to note that this is a bit of an apples and oranges comparison since the Proposal 2 Class I prices represent the Class I

base prices to which the Class I differential (\$1.80 per cwt in Northern California and \$2.10 per cwt in Southern California) are added to determine the Class I price. In contrast, the California State Order does not apply a discreet differential for Class 1 price and the price is inclusive of all value.

In addition to adjustments that will occur in the Proposal 2 pool related to conformance of the application of pricing and pooling consistent with the balance of the Federal Milk Marketing Orders, the pool revenue from Class I will be enhanced by the additional volume that is currently exempt from pool obligation through the Type 70 producer handler exemption under the California State Order.

Attachment A

Proposal 2 (Dairy Institute) Class III and Class IV Price Formulas as Amended

11 November 2015

Class III:

- Class III Price = (Class III skim milk price x 0.965) + (Butterfat price x 3.5).
- Class III Skim Milk Price = (Protein price x 3.1) + (Other solids price x 5.9).
- Protein Price = ((Cheese price ~~-0.0224~~ - ~~0.2306~~) x 1.383) + (((Cheese price ~~-0.0224~~ - ~~0.2306~~) x 1.572) - Butterfat price x 0.9) x 1.17).
- Other Solids Price = (Dry whey price ~~-0.0063~~ - ~~0.2325~~) times 1.03
- Alternative Other Solids Price = Formula expressed in mathematical terms: (((WPC34 Price/0.34) * 0.12) - ~~0.3110~~) * 1.03.
- Butterfat Price = (Butter price ~~-0.0218~~ - ~~0.1739~~) times 1.211.

Class IV:

- Class IV Price = (Class IV skim milk price x 0.965) + (Butterfat price x 3.5).
- Class IV Skim Milk Price = Nonfat solids price times 9.
- Nonfat Solids Price = (Nonfat dry milk price at ~~-0.0244~~ - ~~0.2012~~) times 0.99.
- Butterfat Price = See Class III.

Items in bold italics are formula factors that are changed from those that appeared in the Federal Register. Make Allowances were changed to include the marketing and administrative allowance subsequent to Dr. William Schiek's Part 3 testimony.