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SUPPORT OF NMPF CHANGE TO MAKE ALLOWANCE OF $.24 FOR CHEESE AND $.23 FOR WHEY

Hello, I am Paul Bauer CEO and General Manager since 2008 of the Ellsworth Cooperative Creamery. Ellsworth has a barrel cheese plant and a sweet whey drying plant. In 2022, Ellsworth produced 70.9 million pounds of cheese through its barrel plant and processed 33.7 million pounds of sweet whey solids. The total patron pounds for that year were 777 million pounds. We also opened a new cheese plant in 2022 in Menomonie for specialty and block cheese. In addition, the cooperative runs a process cheese plant in New London, Wisconsin.

ECC (Ellsworth Cooperative Creamery) has the unique position of supplying information to NDPRS on two products, barrel cheese and sweet whey powder. In December of 2022, only 10 barrel plants and 14 dried whey plants reported information to NDPSR. So, the cost to convert and make products are very relevant to Ellsworth and the entire classified milk pricing system. In addition, we have a new block cheddar plant that will soon be reporting to NDPSR as we increase production, and this will help to explain the cost difference in the final packed form of dairy products.

The Ellsworth Plant Has Seen Its Barrel Cheese Production Cost Rise Significantly From 2006 Levels.

We have a long history at Ellsworth with barrel cheese and sweet whey products, so we have data from this time period forward. The reason I am using the 2006 time period is that it ties most closely to the last time make allowances were surveyed and increased. While the make allowance may have been increased in 2008, the costs relate to 2006.

Further, I have broken the costs down as it relates to make allowance by product to be comparable to the Dr. Mark Stephenson survey work study published in 2022. Those groups are supplies (packaging), wages (processing labor), depreciation (return on investment), utilities (utilities) and other (non-labor or non-utilities costs for processing and general administration). I tracked costs to those groupings from 2006 forward to the year 2022. The one area that would differ is depreciation, as the survey used a calculated value for return on assets, whereas I used actual depreciation based on our GAAP accounting.

Barrel Cheese

Since 2006, our production volume has increased 53% in cheese output to 2022. In 2009 we added a whole milk UF at the start of our process to increase the efficiency of each vat cycle. This accounts for a good portion of our ability to keep production costs where they are today. We are not able to increase production significantly in the future without major investment in cheese equipment, whey processing, and site wastewater needs.

As a recap, our cost of supplies for cheese in 16 years is up 545%. This does represent an accounting change that happened in prior years included in grouping labeled other costs. This area of costs was up as a result of recent inflationary pressures. This area covers plastic, cardboard, starter, and rennet. The result is a $.022 increase per pound.

The next area is wages to make cheese. On a per pound basis, wages are up $.059 per pound in the 16-year period. This is a 322% increase. Wages include all time worked, vacation, and bonus time, plus mandatory benefits like social security tax, unemployment tax, etc. It also includes all the direct expenses related to health care. Since we are self-insured, these can be variable per year.

The amount of depreciation for cheese production represents the direct capital costs to expand cheese output in 2009 and a portion of improvements in wastewater and site improvements proportion to

cheese production. In 16 years, on a per pound basis, this was up 77%. This change is equal to $.002 per pound. Since Ellsworth has an established plant, our depreciation is very low.

The cost for utilities to make cheese has increased by 37% in the 16-year time period. We have used several methods to reduce costs in our plant. One is using third-person marketers to reduce gas cost and its variability. The pre-purchasing of natural gas and basis (space in the pipeline) will take spiking costs out of the gas purchases and the delivery basis charge. Since we are a very stable consumer of natural gas, we can, to a high degree, predict consumption to avoid major swings in gas prices. The second item being electrical rates, which we pay at very low rates because we have a steady load of electrical needs. Ellsworth gets very low rates since we have steady electrical loads between peak loading and low peak loading. These two factors keep our utility costs low to make cheese. In that period, our costs per pound went down $.004.

The last grouping for cheese is other. This is somewhat the catch-all for items that did not fall into the other groups. We changed the accounting process so that larger supply expenses were not placed in this category. As a result, the other cost for cheese processing was up 10% in 16 years. On a per pound cost, it went down $.014.

In total, our costs, as stated, in our plant to make barrel cheese have gone up $.064 per pound in 16 years. We can support the National Milk Producers Federation proposal to increase the make allowance to $.24 per pound on cheese as it is a starting point to collect better cost data for future increase in the make allowance.

Dried Sweet Whey

On the dried sweet whey side of the business, production of products has only increased 6% in 16 years. The reason for this is in 2008, Ellsworth stopped purchasing whey solids from other companies and

started to process only its own whey as we increased cheese production. As a result, we have not increased whey capacity at the plant.

Using the same categories as cheese and using the groupings of Dr. Stephenson's survey, we have supplies, wages, depreciation, utilities and other to track costs. In the supply category, costs are up 102% as compared to the prior 16 years. This side of the business, like the cheese side, had an accounting recording change, so some of the supplies were listed in 2006 as other expenses. Whey has gone through a change in packaging options compared to 2006. The chart below shows the change of whey production to include condensed whey sales, which now represent 23% of the production in 2022. The packaging shift will lower the spending for packaging material. The supply costs in total for this time period went up $.005 per pound. Further, the change in packaging material (bags and totes) was a positive change of $.004 per pound, and the change in makeup of product shipped was a negative $.0029, so the cost of packaging material less the change in final packaging mix increased by $.0011.

TABLE 1

Ellsworth Packaging Style of Whey		
Style / Year	2006	2022
Bags	30%	30%
Totes	35%	22%
Bulk	35%	25%
Condensed	NA	23%

Wages for producing dried whey are up 270% in 16 years. On a per pound basis, this is an increase of $.043 per pound. Again, wages include all time worked, vacation and bonus time, plus mandatory benefits like social security tax, unemployment tax, etc. As with cheese, it will also include all the direct expenses related to health care. Since we are self-insured, these can be variable per year.

Dried whey depreciation has increased 67% in this time period. This is a $.003 increase per pound. Again, we have an established plant and as such do not have a lot of depreciation. We currently use

GAAP accounting on depreciation. The amount of depreciation is not sufficient to replace the assets we have in place, which further supports the need for better costing information from USDA.

For utilities, we have pre-purchased gas and limited electrical costs through various business tools that keep our costs low. We have seen a 37% increase in total costs and a per pound increase of $.003.

The other grouping of costs has only gone up 1% in 16 years. This has a decrease in cost of $.001 per pound. This again represents a change in recording some costs as supplies in 2022 that were recorded in 2006 as other.

In total, the cost to produce dried sweet whey has gone up $.054 per pound in 16 years. We can support the National Milk Producers Federation proposal to increase the make allowance to $.23 per pound on dried sweet whey as it is a starting point to collect better cost data for future increase in the make allowance.

Issues In Make Allowance Discussions

In working on collecting our plant data, it helps to highlight some of the areas where better methods need to be implemented in the dairy reporting of complex information. Since not all of us do cost accounting in the same fashion, it can lead to different values on a per pound basis. The process of collecting information differently than other companies is fine because the internally collected information will be used inside the organization. However, it does become an issue when trying to aggregate information to adjust a make allowance. As an example, where do the costs of supervision or quality supervision to make cheese get grouped? Further, where does labor to load the truck or take samples get placed for the make allowance values? Without clear guidelines as an industry, we cannot get costs that are similarly allocated when a plant has mixed products that are not included in the survey work.

Limitations In Using The 2018 Survey Results Compiled By Dr. Stephenson

Another issue in the survey's work is the cost per end product. There are two very different requirements to make cheese when you have a barrel plant and block plant. They are not the same product yet are lumped in the same cost survey as they were in Dr. Stepheson work. To be accurate, this needs to be tracked and then brought to the same level to make accurate make allowance cost discovery. The material packaging costs on barrels and blocks are very different. On a per pound basis an additional cost of $.03042 per pound is needed for block production (see chart below of actual costs of materials for Ellsworth and its Menomonie Block plant). This difference alone changes the make allowance up for blocks by 14% of the total cost, just on the required material. This doesn't include the extra handling of blocks compared to barrels. At present, we collect only one set of information on a make allowance which does not distinguish between barrels, 640's or blocks. Since we use end product price, less one make allowance, it would not support block cheese manufacturing as it would under represent their costs.

TABLE 2

BARREL COSTS:			
	QTY PER BARREL	COST EACH	TOTAL COST
LINERS	1	$1.48110	$1.48110
BARREL COVERS	2	$1.04395	$2.08790
BARREL SLEEVES	1	$2.46215	$2.46215
BAND STRAPPING (FT)	7	$0.01195	$0.08365
		TOTAL	$6.11480
	PACKAGING COST PER LBS PER 500# BARREL	500	$0.01223

TABLE 3

BLOCK COSTS:			
	QTY PER BLOCK	COST EACH	TOTAL COST
LINERS	1	$0.48844	$0.48844
BOX	1	$0.54355	$0.54355
Wood Liner	1	$0.67400	$0.67400
		TOTAL	$1.70599
	PACKAGING COST PER LBS PER 40# BLOCK	40	$0.04265

It would be important for future survey work to find the cost of packaging by end cheese type being produced. This will allow for the end product price less make allowance to reflect actual costs to make each product. This will assist in providing long-term market conditions to allow the market to have dairy assets in place for processing milk and thus provide orderly marketing of milk.

Summary

The Ellsworth Cooperative Creamery can support the adjustment to the make allowance as proposed by National Milk Producers Federation and the creation of a survey to update the make allowance via a regulated mandatory reporting.