



Michigan Milk Producers Association

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September 29, 2006

Attn: Gino Tosi
USDA/AMS/Dairy Programs
Order Formulation and Enforcement Branch
STOP 0231-Room 2971
1400 Independence Avenue, SW.
Washington, DC 20250 - 0231

[Docket No. AO-14-A74, et. al.; DA-06-01]

Re: Notice of Intent to Reconvene National Hearing on Proposed Amendments to Tentative Marketing Agreements and Orders

Dear Sir:

Michigan Milk Producers Association (MMPA) provided testimony at the Federal Order hearing on January 26, 2006 supporting the proposal presented by Agri-Mark Dairy Cooperative advocating increasing the make allowance provisions of the Class III and IV pricing formulas. Our testimony provided evidence of the significant increases in our production costs for butter and powder that we have not been able to recover as a result of the circularity of the milk pricing mechanisms. These costs are real and amount to millions of dollars that our members are suffering as a result of the obsolete make allowances, which are inadequate to recover the costs of production in today's processing environment.

Agri-Mark provided testimony to increase the make allowances for butter, powder, cheese and whey based upon the updated information obtained from the most recent Rural Business Cooperative Service (RBCS) survey and the California Department of Food and Agriculture annual survey of plant costs. We agree with the need to update the 2004 survey information for the fuel and electricity cost increases experienced in 2005. Our plants experienced production cost increases for butter and powder that were similar to the values proposed by Agri-Mark and we are satisfied with the rationale and values for the fuel and electricity adjustment submitted by Agri-Mark.

National Milk Producers Federation (NMPF) also provided testimony regarding the need to adjust the make allowance in the Class III and IV price formulas and we support their

conclusions as well. As a result of the widely fluctuating fuel and electricity prices and the significance of these costs in the production of butter, powder, cheese and whey, we agree with NMPF that it is appropriate to include a mechanism for adjusting fuel and electricity on a regular basis. As these energy costs increase, processors need to be able to recover the increased costs by adjusting the make allowance. As energy costs decrease, the make allowance should be adjusted downward to maintain a fair make allowance for the processor and return any additional revenue to the producers.

We believe the proposals presented by Agri-Mark and NMPF provide a reasonable method of revising the old make allowances to reflect the realities of the current processing environment. Several witnesses, including MMPA, provided testimony regarding the losses incurred by processors as a result of the inadequacy of the current make allowances. MMPA, as well as many other processors of powder, butter and cheese balance huge quantities of surplus milk for federal order participants during many months each year. The current make allowances do not allow us to recover our costs of production and we will continue to suffer tremendous losses on a significantly growing portion of our business.

We urge the department to revise the make allowances as recommended by Agri-Mark and NMPF and provide an emergency decision as expeditiously as possible.

MMPA also supports the proposal, which NMPF was not allowed to present during the hearing regarding the separation of the Class I and II milk prices from the effects of any make allowance adjustments for Class III and IV products.

These comments are submitted on behalf of the Michigan Milk Producers Association which is a member owned and operated dairy cooperative serving over 2,400 dairy farmer members in Michigan, Ohio, Indiana and Wisconsin. Thank you for considering our comments.

Sincerely,

A handwritten signature in blue ink that reads "Clayton Galarnreau". The signature is written in a cursive, flowing style.

Clayton Galarnreau
Director, Manufactured Sales and Operations