



October 2, 2006

**Dana Coale
Deputy Administrator
USDA/AMS/ Dairy Programs
STOP 0225, Room 2968-S
1400 Independence Avenue S.W.
Washington, DC 20250-0225**

**RE: Comments of Dairy Farmers of America
Reconvened Hearing on Make Allowances
September 14 2006 Strongsville OH
Docket No. AO-14-A74, et al.; DA-06-01**

Dear Deputy Administrator:

This brief is submitted on behalf of the producer-members of Dairy Farmers of America. (DFA).

DFA urges the Secretary, in light of the wide array of data presented in the Hearing, to make an adjustment in make allowances only on a minimal and reasonable basis. The Secretary must use his judgment in deciding the proper balance between the competing interests of both producers, and in this case, buyers of manufacturing milk.

While make allowances must clearly and fairly offset manufacturing costs, the Secretary must consider that only a portion of the broad spectrum of manufactured dairy products meets the requirements of the NASS survey, and thus is totally subject to the circularity arguments that were documented at the Hearing. While many manufacturers, DFA included, are suffering stressed margins from operations, there are a wide range of manufactured products that are able to pass on some level of increased costs through the marketing system. Farmers have a

much more limited ability to do so. Thus, when choosing the appropriate level of manufacturing cost to be reflected in the formula, DFA urges the Secretary to be judicious.

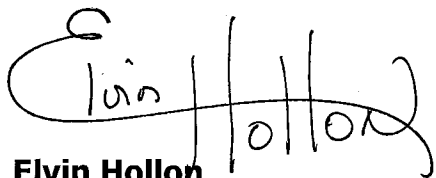
DFA supports the inclusion of an energy cost index to the make allowances. Testimony at the Hearing provided ample data, examples and specific language for the Secretary to implement it into the product formulas.

We know from participation in the Hearing and from our own experience as a manufacturer that energy cost increases are stressing margins. An index concept would go far in correcting many, but not all, of the problems raised in the Hearing. A major issue that would be corrected is that changes in costs would be automatically reflected in the formulas and in milk prices. This would provide manufacturers and producers with a more equitable resolution to the issue.

We are not aware that any party at the Hearing or in the briefs (following the first Hearing) objected to an energy adjustor concept.

We would propose that the adjustments be made monthly. The methodology is easy to follow, and all the data is publicly available. A monthly calculation treats all parties as fairly as possible and best aligns milk prices with changes in energy costs.

Sincerely,

A handwritten signature in black ink, appearing to read "Elvin Hollon". The signature is stylized with a large initial "E" and a long horizontal stroke.

Elvin Hollon

Director of Fluid Marketing and Economic Analysis