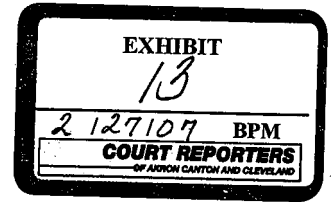


February 26, 2007



**Public Hearing on Proposed Amendments to Class III and
Class IV Product Price Formulas**

My name is Clayton Galarneau. I am the Director of Manufactured Product Sales and Operations for Michigan Milk Producers Association (MMPA). I have been with MMPA for twenty-one years and I am currently responsible for the operations of two manufacturing plants located in Michigan. MMPA is a milk marketing cooperative headquartered in Novi, Michigan. MMPA members supply over 3.5 billion pounds of milk per year from about 1,600 farms, located in Michigan, Wisconsin, Indiana, and Ohio.

Approximately one-third of the milk marketed by MMPA is processed within our own two facilities. MMPA's manufacturing plants produce a variety of bulk dairy products including cream, condensed skim milk, Grade A nonfat dry milk (NFDM) and Grade AA bulk butter. These plants provide a key role in assisting with the balancing of the milk requirements for the greater Michigan, Indiana and Ohio milk shed.

We support the proposal presented by Agri-Mark advocating the adjustment of the Class III and IV make allowances based on the most current cost data available. We recommend including the CDFA data through 2005 as noted in the Preliminary Economic Analyses prepared by USDA Agricultural Marketing Service. We also support Agri-Mark's proposal which seeks to amend the Class III and IV product formulas annually using an annual survey of the cheese, whey, butter and NFDM costs. We support the Market Administrator performing the annual survey using a representative random sample of the manufactures of cheese, whey, butter and NFDM.

We support the proposal presented by National Milk Producers Federation (NMPF) to include a mechanism for adjusting the energy portion of the make allowance formulas on a monthly basis for changes in natural gas and electricity. The experiences of the last two years of widely fluctuating fuel and electricity prices have proven the necessity of a monthly adjuster to the energy portion of the make allowance used in the price formulas for Class III and IV milk values. Energy represents a significant portion of the cost of producing butter, powder, cheese and whey. We provided evidence at the national hearing held in January of 2006, which documented the tremendous financial impact that the increase in energy costs had on our operations for 2005 and the first quarter of 2006. As energy costs increase, manufactures need to be able to recover the increased costs by adjusting the make allowance and if energy costs decrease farmers should also benefit from a reduction to the make allowance to generate a higher milk price.

We oppose the proposal #7 submitted by Dairy Producers of New Mexico, which seeks to eliminate the farm-to-plant shrink from the product pricing formulas. MMPA and competitors in the Michigan, Wisconsin, Indiana, and Ohio markets pay dairy farmers the Federal Order blend prices based on farm weights and tests. MMPA's processing plants are billed for milk based on the farmer's weights and tests. Unfortunately, not all of the milk picked up from the farm is received by the plant. Invariably, some portion of the milk clings to the walls of the transport vessel, pipes and hoses and the plant receives slightly less than the purchase quantity. This farm-to-plant shrink needs to be allowed for in the yield factor for Class III and IV products. Our organization regularly monitors farm-to-plant shrink and the loss typically averages about .3 percent by weight. Attachment A summarizes several months of MMPA's experience in tracking farm-to-plant losses. The results summarized in Attachment A are very typical of the last several years of experience.

We oppose proposals submitted by Dairy Producers of New Mexico, which seek to change the Class IV NFDM and butter yield factors. MMPA's two manufacturing plants have considerable experience in the production of NFDM and butter and we find the current yield factors provide a reasonable method of determining the appropriate milk value for Class IV products. Attachment B summarizes the mass balance of Class IV products produced from 100 pounds of milk testing 3.5% butterfat and having 8.685% solids nonfat. The current Class IV price formula uses a yield factor of 1.2 pounds of butter per pound of butterfat. The formula assumes 4.2 pounds of butter from 100 pounds of milk containing 3.5% butterfat ($3.5 \times 1.2 = 4.2$). Similarly, the formula assumes 8.59815 pounds of NFDM using the yield factor of .99 pounds of powder per pound of solids nonfat ($.99 \times 8.685 = 8.59815$). The model is valued using the average NASS butter price for 2006 of \$1.2193 and the average NASS NFDM price for 2006 of \$.8874, generating a milk price of \$11.06 per hundred weight.

In contrast to the model presented in Attachment B, the model shown in Attachment C attempts to explain the typical outputs that MMPA experiences from 100 pounds of milk containing 3.5% butterfat and 8.685% solids nonfat. MMPA typically experiences a butter yield of 4.11 pounds per 100 pounds of 3.5 % butterfat milk and 8.42 pounds of NFDM. In addition to the butter and NFDM produced, MMPA would typically expect about .38 pounds of buttermilk powder from each 100 pounds of milk.

Attachment C multiplies MMPA's typical yields for butter, NFDM and buttermilk by the average NASS prices. The model shows MMPA's typical yield generates a milk value of \$11.11 per hundred weight. Although this appears to be greater than the value generated in the current Class IV formula by \$.05 per hundred weight, several factors combine to eliminate the perceived \$.05 advantage. Unfortunately, in the production process of butter, NFDM and buttermilk off-grade products are produced. Our experience in butter production indicates about 1.3% of total production will need to be sold as off-grade. This product typically will have to be sold for about a 30 to 40 % discount from the prevailing NASS prices. The NFDM and buttermilk production processes typically produce about 1.25% of production that must be sold as off-grade and they are generally

discounted by about 30 to 40% as well. The bottom of Attachment C summarizes the lost value attributed to off-grade products in this example as \$.05 per hundred weight.

Although MMPA's butter and NFDM production typically generates yields slightly different from the factors used in the current Class IV price formula, the current formula does provide a more simplified calculation for generating milk values as a very close proxy to a more complicated alternative. MMPA recommends that the yield factors used in the Class IV price formula remain as currently stated.

We urge the department to revise the make allowances as recommended above and provide an emergency decision as expeditiously as possible.

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

Sincerely,

A handwritten signature in black ink, reading "Clayton Galarneau". The signature is written in a cursive, flowing style.

Clayton Galarneau
Director, Manufactured Sales and Operations

MMPA farm to plant shrinkage

	weight	loss	% loss
May	264,177,166	640,413	0.24%
June	261,315,386	845,044	0.32%
July	264,922,543	840,822	0.32%
August	244,310,321	802,593	0.33%
September	243,660,896	664,252	0.27%
October	244,555,256	533,616	0.22%
	1,522,941,568	4,326,740	0.28%

73% of MMPA milk is scaled

Analysis of USDA Class IV Yield Factors

Attachment B

	----Inputs----		-----Yield-----						Lost lbs.	Total lbs.
	Milk	Salt	Butter	Buttermilk	NFDM					
			lbs.	%	lbs.	%	lbs.	%		
Water	87.815		0.6720	16.00%		3.50%	0.28374	3.30%	86.8593	87.815
Snf	8.685		0.0798	1.90%		90.75%	8.25250	95.98%	0.3527	8.685
Bf	3.500		3.3810	80.50%		5.75%	0.06191	0.72%	0.05709	3.500
Salt		0.0672	0.0672	1.60%						
	100.000	0.0672	4.2000	100.00%	0	100.00%	8.59815	100.00%	87.2691	100.000

NASS Prices	x	1.2193	x	0.8874	
Revenue		5.1211		7.6300	
Manufacturing Allowance	-	0.4830	-	1.2037	
Milk Value		<u>\$4.6381</u>		<u>\$6.4263</u>	<u>\$ 11.06</u>

Current Formula:

NASS Prices		1.2193		0.8874	
Make Allowance	-	0.115	-	0.14	
		1.1043		0.7474	
Yield per lb.	x	1.2	x	0.99	
Component Value		1.3252		0.739926	
Times Milk Components	x	3.5	x	8.685	
Milk Value		<u>\$4.6381</u>		<u>\$6.4263</u>	<u>\$ 11.06</u>

Milk Components		3.5		8.685	
Yield per lb.		1.2		0.99	
Yield per cwt.		<u>4.2</u>		<u>8.59815</u>	

Inputs		Yield				NFD		Total lbs.	Loss
Milk	Salt	lbs.	Butter %	lbs.	Buttermilk %	lbs.	%		
Water	87.815	0.65760	16.00%	0.00950	2.50%	7786	3.30%	87.815	
Snf	8.685	0.07809	1.90%	0.34542	90.90%	8152	95.92%	8.685	2%
Bf	3.500	3.30855	80.50%	0.02508	6.60%	6062	0.72%	3.500	3%
Salt	0.06576	0.06576	1.60%						
	100.000	0.06576	4.11	0.38	100.00%	4.2	100.00%	100.000	
NASS Prices	x	1.2193		x	0.878526		x	0.8874	
Revenue		5.0113			0.33384			7.47191	
Manufacturing Allowance	-	0.4727		-	0.0532		-	1.1788	
Milk Value	(a)	\$4.5387			\$0.2806			\$6.2931	\$11.11
Current Formula:									
NASS Prices		1.2193						0.8874	
Make Allowance	-	0.115		-			-	0.14	
		1.1043						0.7474	
Yield	x	1.2		x	0.99		x	0.99	
Component Value		1.3252			0.739926			0.739926	
Times milk components	x	3.5		x	8.685		x	8.685	
(b)		\$6.1381			\$6.4263			\$6.4263	\$11.06
Difference (a) - (b)		-\$0.0994			\$0.2806			40.1331	\$0.05
Off-Grade Production %		1.30%			1.25%			1.25%	
Total Production	x	4.11		x	0.38		x	8.42	
Off-Grade Production lbs.		0.0534			0.0048			0.1053	
30% NASS Price Discount	x	-0.3658		x	-0.2636		x	-0.2662	
Lost Product Value		-\$0.0195			-\$0.0013			-\$0.0280	-\$0.05