

Dairylea

Cooperative Inc. ♦

December 19, 2006

Mr. Gino Tosi
Associate Deputy Administrator
USDA/AMS/Dairy Programs
Order Formulation and
Enforcement Branch
Stop 0231-Room 2971
1400 Independence Avenue SW
Washington, DC 20250-0231

Dear Mr. Tosi:

Dairylea Cooperative Inc. submits this letter relative to its proposal for the upcoming Class III and IV hearing. Dairylea's proposal remains the same as that submitted to you on September 28, 2006 and is attached. The Dairylea proposal gets at the heart of the circularity issue that hampers the ability for some manufacturers to pass their higher costs of production on to those buying their dairy products.

The Dairylea proposal is an effort to end the circularity inherent in the NASS pricing survey relative to its use in the calculation of Class III and IV prices. This would be accomplished by allowing manufacturers to pass along a regulated cost-of-production add-on without the add-on being included in the NASS Dairy Product Prices survey (DPPS). The Dairylea proposal also will be useful to all manufacturers as a means of assisting them in passing on higher costs of production.

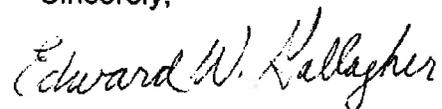
To assist in developing this proposal, Dairylea respectfully requests the following information:

- 1) From 2000 to present, the pounds of product, by month included in the DPPS. Please identify each product separately, however, pounds of block and barrel cheese can be combined. Include a summary table that shows annual data.
- 2) For the same time period and the same format as above, identify the percentage of like product that was manufactured in the U.S. For instance, compare DPPS cheese to U.S. cheddar cheese production, etc.
- 3) In a separate table and for the annual data only, please convert DPPS product pounds, by category (i.e., cheese, butter, etc) to milk equivalent using the total solids equivalent basis.

- 4) Please submit a map that colors in the states that have one or more plants included in the DPPS. For each state that is color coded, identify the number of plants included. If less than three and confidentiality is a concern, please denote without identifying the actual number of plants. Please reproduce a separate map for each product – block and barrel cheese can be combined into one map.
- 5) Create a second group of maps that describes the same information as in 4, however, identify and color code by region – using regions as identified in the Dairy Products Report.
- 6) Identify in a table the number of plants and, secondly, the number of reporting entities for each product type in the DPPS. Again the two cheese categories can be combined.
- 7) Please provide the number of reports filed each week during 2006, by product type in the DPPS.
- 8) Identify how many plants file information that cumulatively represent at least 70 percent of the product pounds in the DPPS, for 2006, by product type. Again, the cheese categories can be combined.
- 9) Identify how many reporting entities cumulatively file information that represents at least 70 percent of the product pounds in the DPPS for 2006, by product type. Again the cheese categories can be combined.
- 10) Make available the rule being developed, in final or draft form, codifying the process to verify the information presented in the product pricing survey.

Dairylea thanks you in advance for your consideration of including its proposal in the Class III and IV hearing and for providing the requested information. If you would like to discuss this matter, or have questions about the requested information, please contact me at 1-800-654-8838, extension 5658.

Sincerely,



Edward W. Gallagher
Vice President, Economics
and Risk Management

Federal Order Proposal submitted by Dairylea Cooperative Inc.

Amend section 1000.50 by adding a new section as follows:

(r) Manufacturing Surcharges. For the purposes of determining the NASS survey prices for this section, as reported by the Department, cost of production add-on surcharges, up to a maximum value as contained in part (1) of this section, shall not be included in the NASS survey prices.

(1) the maximum cost of production add-on surcharges shall be as follows:

- (i) chesc \$0.0xxx per pound;
- (ii) butter \$0.0xxx per pound
- (iii) whey powder \$0.0xxx per pound, and
- (iv) nonfat dry milk \$0.0xxx per pound

(2) To be excluded from the NASS survey price, cost of production factors must be shown on the appropriate invoice as a separately negotiated surcharge to the normal price charged on the invoice, up to the maximum amount as shown for such product pursuant to part (1), above. Failure to show the add-on as such will result in any such values being included in the NASS survey price.

Amend section 1000.53 (a) by adding a new section as follows:

- (12) The rates as determined in 1000.50 (r) (1).