

**Testimony of  
Richard Langworthy  
Agri-Mark Dairy Cooperative  
In Support of  
Proposal #1**

My name is Richard Langworthy. I serve as Senior Vice President of Manufacturing Operations for Agri-Mark Dairy Cooperative. I have served in that capacity since 1995. Prior to that, I was a Senior Vice President at H.P. Hood from 1989 to 1995 managing several divisions including the Empire Cheese Group. From 1977 to 1989 I worked for Agri-Mark and its predecessor cooperative serving as Senior Vice President of Marketing and Commercial Operations. From 1969 to 1977 I was employed by the New York-New Jersey Market Administrator's Office where I served as Chief of Research and Cooperative Relations.

I earned a Bachelor of Science majoring in Agriculture Economics at Cornell University and a Master of Science also in Agriculture Economics from the University of Connecticut.

Agri-Mark owns and operates two cheese plants, one in Middlebury, Vermont and another in Chateaugay, New York as well as a cheese and other dairy products plant in Cabot, Vermont and a butter-powder plant in West Springfield, Massachusetts. I directly oversee these operations and the plant managers of each facility report to me.

Proposal #1 is such a crucial issue to Agri-Mark that we hoped it would be useful to USDA in their decision making process if the hearing record includes direct information and testimony from someone who has direct day to day responsibility for operations and product manufacturing costs.

The manufacturing allowances currently in place in the Federal Orders were based upon information that included Agri-Mark information from 1998. Actual costs per unit of product produced at our operations continued to climb from 1998 forward, albeit at a slower rate of increase initially. Cost increases moved up more rapidly in 2004 as the costs of employee health insurance skyrocketed. Energy prices increased substantially in 2004 and have continued to rise. As noted by the recent U.S. Department of Energy announcement, energy prices are expected to be even higher in 2006.

Agri-Mark plants have taken many steps to increase efficiency and lower any costs possible. Since 1998, these steps included:

1. Installing a step down transformer at Agri-Mark's cheese plant at Middlebury, Vermont to permit buying lower cost high voltage electricity directly from the grid.
2. Drilling water wells at Middlebury to avoid purchase of more costly city water.
3. Pre-buying forward priced energy when prices warrant.
4. Participating in energy savings programs with respective electric companies in New York, Massachusetts, and Vermont that share cost in updating to more efficient motors, lighting and refrigeration equipment.

5. Installed larger enclosed vats, more efficient block forming towers with automatic bag presenters, automatic boxers and robotic palletizers at the Cabot, Vermont facility to reduce labor costs.
6. Purchase bulk commodity cleaning chemicals to reduce cost.
7. Consolidated purchasing power of multiple plants to control costs.
8. Extensive safety training programs to control workmen's compensation costs.
9. Re-structured supervision and management by consolidating job responsibilities at West Springfield, Massachusetts plant to reduce costs.
10. Expanded recovery and re-use of water at all plants to reduce water and sewer cost.

However even greater efficiency and efforts to keep costs as low as possible, have not been able to compensate for the increase in most costs.

Table 1 shows Agri-Mark's 2004 costs as reported in the RBCS study for each of our four plants as well as the weighted average RBCS.

Costs continued to rise in 2005 and 2006, particularly those involving energy or containing energy products as components (such as certain cleaning supplies, plastics, packaging, etc). Agri-Mark energy costs included in our 2004 costs more likely reflect 2003 energy prices since we pre-buy most of our oil and propane whenever possible. However during 2005, it became more costly and difficult to pre-buy energy. When pre-buy contracts are available now, they are usually at rates even higher than the current high prices. Table 2 shows the rates and change in Agri-Mark annual average energy costs for oil, propane, and natural gas at Agri-Mark manufacturing plants from 2001 to 2005 as well as locked in pre-bought rates for some part of 2006.

Table 3 shows the cost of electric and other energy sources per pound of product at our plants in 2003, 2004 and 2005 as well as the change during that period.

Table 4 indicates health insurance costs paid by Agri-Mark for 1998 through projected 2006. The number of employees and cost per employee are also shown as well as the percentage change in costs per employee.

Compared to our average costs and costs increases experienced in recent years, we believe that proposal #1 provides a conservative value for manufacturing costs, but does allow our facilities to operate without sustaining the multi-million dollar losses that they are currently incurring.

Table 5 shows the costs of moving whey solids from Agri-Mark's Cabot and Chateaugay plants to our central whey processing facility which is part of our Middlebury cheddar cheese plant. When converted from a pound of whey solids to a pound of whey powder, the costs per pound are \$.0189 for Chateaugay whey and \$.0313 for Cabot whey.

I would be happy to respond to any questions that USDA or others have in regard to this information or Agri-Mark manufacturing operations.

**TABLE 1: MANUFACTURING COSTS FOR RBCS\*  
AND AGRI-MARK PLANTS, 2004**

	<u>DIRECT PLANT COSTS**</u>
PRODUCT/PLANT	<u>2004</u>
CHEESE (RBCS)*	\$0.15136
Middlebury, Vt	\$0.16881
Cabot, Vt	\$0.25065
Chateaugauy, NY	\$0.21836
BUTTER (RBCS)*	\$0.16588
West Springfield, Ma	\$0.17588
NONFAT DRY MILK (RBCS)*	\$0.16816
West Springfield, Ma	\$0.17362
WHEY CONDENSING (RBCS)*	\$0.06549
Cabot, Vt	\$0.02446
Chateaugauy, NY	\$0.12054

\*weighted average of RBCS plants

\*excludes adjustments for ROI,G&A, Marketing and butter packaging

**Table 2: Annual Average Prices Paid for Fuel Oil, Propane and Natural Gas, Agri-Mark**

FY*	Cabot	%	Middlebury	%	Middlebury	%	Chateaugay	%
	#6 Fuel Oil.	change		#6 Fuel Oil.		change		Propane
	<u>\$/gal.</u>		<u>\$/gal.</u>		<u>\$/gal.</u>		<u>\$/gal.</u>	
2001	\$0.79		\$0.67		\$0.69		\$0.73	
2002	\$0.83	5%	\$0.63	-6%	\$0.57	-18%	\$0.66	-10%
2003	\$0.87	5%	\$0.70	11%	\$0.74	31%	\$0.87	32%
2004	\$0.94	8%	\$0.72	3%	\$0.79	7%	\$0.87	0%
2005	\$1.24	32%	\$1.11	55%	\$1.08	36%	\$1.08	24%
2006	na		\$1.43	28%	\$1.37	26%	\$1.52	41%
Lock			through March		through April		500,000 gal	

  

FY*	W. Springfield	%	W. Springfield	%	W. Springfield	%
	#6 Fuel Oil	change	Natural Gas	change	Electricity	change
	<u>\$/gal.</u>		<u>\$/deka therm</u>		<u>\$/kw</u>	
2001	\$0.62		\$5.88		\$0.087	
2002	\$0.59	-5%	\$7.75	32%	\$0.084	-4%
2003	\$0.59	0%	\$6.39	-18%	\$0.088	5%
2004	\$0.68	15%	\$8.24	29%	\$0.083	-5%
2005	\$1.02	50%	\$10.30	25%	\$0.092	11%
2006	\$1.40	37%	\$15.48	50%	\$0.137	49%
Lock	through February		through October		through December	

\*Agri-Mark's fiscal year runs from December 1 to November 30

Table 3

RBCS Fuel Cost per pound cheese \$.0087  
RBCS Electric Cost per pound cheese \$.0043

### Middlebury Cheese and Whey Energy Cost per Pound Analysis

Cheese:								
	Production	Electric	Elec. Cost per Lb	Oil	Oil Cost per Lb		Total Utilities	Total Utilities Cost per Lb
2003	49,569,843	\$ 755,483.00	\$ 0.0152	\$ 413,196.99	\$ 0.0083		\$ 1,168,679.99	\$0.0236
2004	51,769,652	\$ 732,358.41	\$ 0.0141	\$ 437,592.29	\$ 0.0085		\$ 1,169,950.70	\$0.0226
2005	51,829,136	\$ 750,019.64	\$ 0.0145	\$ 656,168.54	\$ 0.0127		\$ 1,406,188.18	\$0.0271

Whey Powders:									
	Production	Electric	Elec. Cost per Lb	Oil	Oil Cost per Lb	Propane	Propane Cost per Lb	Total Utilities	Total Utilities Cost per Lb
2003	47,146,798	\$ 478,144.00	\$ 0.0101	\$ 878,043.61	\$ 0.0186	\$ 533,703.60	\$ 0.0113	\$ 1,889,891.24	\$0.0401
2004	48,843,966	\$ 466,459.67	\$ 0.0095	\$ 929,883.62	\$ 0.0190	\$ 585,155.16	\$ 0.0120	\$ 1,981,498.48	\$0.0406
2005	52,157,019	\$ 476,368.64	\$ 0.0091	\$ 1,394,358.15	\$ 0.0267	\$ 821,985.44	\$ 0.0158	\$ 2,692,712.27	\$0.0516

### McCadam Cheese Energy Cost per Pound Analysis

Cheese:								
	Production	Electric	Elec. Cost per Lb	Oil	Oil Cost per Lb		Total Utilities	Total Utilities Cost per Lb
2003	33,003,983	\$ 484,668.00	\$ 0.0147	\$ 660,018.00	\$ 0.0200		\$ 1,144,686.03	\$0.0347
2004	37,504,726	\$ 587,943.00	\$ 0.0157	\$ 811,114.00	\$ 0.0216		\$ 1,399,057.04	\$0.0373
2005	35,836,518	\$ 707,034.00	\$ 0.0197	\$ 1,007,582.00	\$ 0.0281		\$ 1,714,616.05	\$0.0478

### Cabot Cheese Energy Cost per Pound Analysis

Cheese:								
	Production	Electric	Elec. Cost per Lb	Oil	Oil Cost per Lb		Total Utilities	Total Utilities Cost per Lb
2003	20,949,500	\$ 450,000.00	\$ 0.0215	\$ 242,000.00	\$ 0.0115		\$ 692,000.03	\$0.0330
2004	22,947,969	\$ 486,000.00	\$ 0.0212	\$ 308,000.00	\$ 0.0134		\$ 794,000.03	\$0.0346
2005	20,262,776	\$ 505,000.00	\$ 0.0250	\$ 434,000.00	\$ 0.0214		\$ 939,000.05	\$0.0463

Table 3

## West Springfield Butter and Powder Energy Cost per Pound Analysis

<b>Butter</b>										
	<b>Production</b>	<b>Electric</b>	<b>Elec. Cost per Lb</b>	<b>Oil</b>	<b>Oil Cost per Lb</b>	<b>Gas</b>	<b>Gas Cost per Lb</b>	<b>Total Utilities</b>	<b>Total Utilities Cost per Lb</b>	
2003	38,410,618	\$ 32,402.01	\$ 0.0008	\$ 21,652.48	\$ 0.0006	\$ 401.21	\$ 0.00001	\$ 54,455.70	\$0.0014	
2004	35,893,290	\$ 58,540.23	\$ 0.0008	\$ 22,063.60	\$ 0.0006	\$ 525.82	\$ 0.00001	\$ 81,129.65	\$0.0023	
2005	33,866,359	\$ 40,007.67	\$ 0.0012	\$ 39,811.76	\$ 0.0012	\$ 1,066.99	\$ 0.00003	\$ 80,886.42	\$0.0024	

<b>Powder:</b>										
	<b>Production</b>	<b>Electric</b>	<b>Elec. Cost per Lb</b>	<b>Oil</b>	<b>Oil Cost per Lb</b>	<b>Gas</b>	<b>Gas Cost per Lb</b>	<b>Total Utilities</b>	<b>Total Utilities Cost per Lb</b>	
2003	25,199,591	\$ 747,622.38	\$ 0.0296	\$ 173,815.29	\$ 0.0069	\$ 329,386.85	\$ 0.0131	\$ 1,250,824.56	\$0.0496	
2004	22,258,790	\$ 622,842.96	\$ 0.0280	\$ 166,773.24	\$ 0.0075	\$ 431,695.93	\$ 0.0194	\$ 1,221,312.17	\$0.0549	
2005	38,513,620	\$ 993,523.81	\$ 0.0258	\$ 345,864.67	\$ 0.0090	\$ 875,996.50	\$ 0.0228	\$ 2,215,385.01	\$0.0575	

**TABLE 4: AGRI-MARK HEALTH INSURANCE COSTS, TOTAL AND PER EMPLOYEE,  
1998-PROJECTED 2006**

	<u>TOTAL COSTS</u>	<u># EMPLOYEES</u>	<u>COST/EMPLOYEE</u>	<u>% CHANGE</u>
	<u>(\$ million)</u>			
1998	\$2.33	541	\$4,299	
1999	\$2.66	585	\$4,550	5.85%
2000	\$3.23	605	\$5,339	17.31%
2001	\$3.24	619	\$5,238	-1.88%
2002	\$3.60	625	\$5,763	10.02%
2003	\$4.44	897	\$4,948	-14.14%
2004	\$5.96	909	\$6,558	32.53%
2005	\$7.01	921	\$7,612	16.07%
PROJ 2006	\$7.50	930	\$8,066	5.96%

TABLE 5: COSTS OF MOVING WHEY SOLIDS FROM CABOT, VT AND CHATEAUGAY, NY TO MIDDLEBURY, VERMONT

Chateaugay, NY

Costs of loading out at Chateaugay		\$0.0042
Transport Costs from Chateaugay to Middlebury		
Trucking Rate per Load	\$350	
Pounds of Solids per Load	22950	
Cost per pound of whey solids		<u>\$0.0153</u>
Total costs of shipping and transport		\$0.0195
Yield of whey powder from whey solids	1.03	
<b>Cost per pound of whey powder</b>		<b>\$0.0189</b>

Cabot, VT

Costs of loading out (Chateaugay cost)		\$0.0042
Transport Costs from Cabot to Middlebury		
Trucking Rate per Load	\$295	
Pounds of Solids per Load	10510	
Cost per pound of whey solids		<u>\$0.0281</u>
Total costs of shipping and transport		\$0.0323
Yield of whey powder from whey solids	1.03	
<b>Cost per pound of whey powder</b>		<b>\$0.0313</b>