EXHIBIT # _____

Testimony of
Robert D. Wellington of Agri-Mark Dairy Cooperative
In Support of Proposal #1
At Federal Order Hearing
(Docket No. AO-14-A74, et al.; DA-06-01)
January 24, 2006 in Alexandria, Va

My name is Robert D. Wellington. I serve as Senior Vice President of Economics, Communications and Legislative Affairs for Agri-Mark Dairy Cooperative. I have served in that capacity, along with being their economist, since 1989. Prior to that I worked eleven years as an economist and the chief of research and market information with the former New York-New Jersey Milk Market Administrator's Office. I have a Bachelor's and a Master's degrees in agricultural economics from Rutgers University, where I also taught.

Agri-Mark is a Capper-Volstead Cooperative with approximately 1300 member-owners whose farms produce milk throughout the six New England States and New York State. Agri-Mark owns and operates a cheese plant in Middlebury, Vermont, another in Chateaugay, New York, a cheese and other dairy products plant in Cabot, Vermont and a butter-powder plant in West Springfield, Massachusetts.

Proposal #1 was submitted by Agri-Mark in order to address a very serious crisis faced by its member-owners and its operations as well as the operations of all dairy product manufacturers who use Class III and IV milk pooled under Federal Milk Marketing Order.

BACKGROUND

Current Class III and IV Federal Order prices are determined using end-product pricing formulas. Such formulas begin with a national survey of the price of the primary end-products which use Class III and IV milk. The survey is conducted weekly by NASS using pricing information from many plants which manufacture commodity cheddar cheese, butter, nonfat dry milk and whey powder. A monthly weighted average price is determined for each of the four products. The resulting commodity prices are then adjusted by fixed manufacturing allowances and yield factors to determine final Class III and IV milk and component prices to be paid under the Federal Order. The manufacturing allowance is the amount of money allowed in each pricing formula in order to manufacture each type of product. The class prices produced after manufacturing allowances are subtracted from dairy commodity prices are the imputed values of raw producer milk for each manufacturing use.

Monthly commodity prices used in the Class III and IV formulas vary each month according to the actual selling prices of cheese, butter, nonfat dry milk and whey powder. When any of these prices change, the prices of milk and milk components paid by manufacturers also change. However, under current Class III and IV price formulas, the make allowance is fixed and does not change no matter how manufacturing costs change unless a Federal Order hearing, USDA decision and favorable producer referendum occurs.

Manufacturing allowances that are fixed in the class pricing formulas bear no relationship with the selling prices of any of the dairy products mentioned or the prices received by farmers for their milk. If cheese, butter, nonfat dry milk (NFDM) and whey powder prices were to double tomorrow, Class III and IV prices and farm prices would more than double, but manufacturing plants would receive the exact same allowance. In fact, manufacturing costs for energy, insurance, labor, capital and/or any other input could double yet the manufacturer would not get one penny more to cover those costs under the existing order provisions.

The Situation

The costs of manufacturing dairy products have risen dramatically since the time period when the Order manufacturing allowances were last surveyed. Current Order provisions use costs from cooperative plants from primary1998 as well as California plant survey costs from 1999 as reported in February 2000. Energy costs in particular have more than doubled, but other costs such as employee medical programs, insurance premiums and packaging have increased dramatically as well.

The manufacturing costs have risen to such a degree that dairy commodity manufacturing plants that purchase Federal Order Class III and IV milk are losing substantial amounts of money. A number of manufacturing plants in the Northeast milk marketing area where Agri-Mark members farm, have ceased production recently and class pricing problems have played a role in these closings.

During the past two years, a number of Class III manufacturing plants have closed or substantially reduced their cheese production. These plants include a Kraft cheddar cheese plant in Canton, NY, a Sorrento Italian cheese plant in Goshen, NY and a Saputo cheese plant in Allentown, PA. Each of those three plants formerly received upwards of 30 million pounds of producer milk per month. Just last fall, the Lucille Farms Italian cheese plant in Swanton, VT closed its doors, citing the distorted Federal Order Class III prices as a major reason for their recent financial hardships. That plants regularly received about 15 to 20 million pounds of milk per month.

A fifth cheese plant operated by Suprema Cheese in Ogdensburg, NY that received about 20 million pounds of milk per month, closed in 2004. The plant was recently re-opened by a kosher cheese maker. That plant now receives only one million pounds of kosher producer milk per month. A Losurdo Italian cheese plant in Heuvelton, NY recently down-sized from 20 million pounds per month to 10 million pounds per month.

These six plants combined no longer use almost 140 million pounds of producer milk per month or about 1.7 billion pounds of producer milk per year. That is the equivalent of the milk production of more than 1,000 Northeast dairy farms!

Table 1 shows the monthly Class III, Class IV and total producer receipt milk volumes for the Northeast Federal Order in 2005. Also shown are the monthly milk volumes as a percentage on the average annual monthly volume. Class III usage ranges from a high of 107% of the average volume in May to a low of 92% of the average in October. Class IV usage ranged from a high of 145% in May to a low of 48% in September. Clearly both Class III and IV plants seasonally balance producer milk supplies but Class IV plants do this to the greatest degree.

Table 2 shows the Class III, Class IV and total producer receipt milk volumes for the Northeast Federal Order on an annual basis from 2001 through 2005. Class III and IV usage as a percentage of total producer receipts are also calculated. Current Class III usage of milk has fallen 2.3 billion pounds from the 2001/2002 period. While much of this lost manufacturing milk volume originated from the Northeast plants which closed or down-sized, it also shows that remaining Class III plants are using less producer milk. Class III utilization has fallen from 31.4% in 2001 to 22.9% in 2005!

Milk production and total Northeast Order producer receipts fell in 2003 and 2004. Class IV butter and NFDM plants again performed a balancing role and used less milk in both years. However when milk production rose in 2005, the remaining cheese plants in the region absorbed relatively little of the extra milk, while butter/powder plants absorbed most of it. Class IV utilization rose from 8.8% in 2003 to 9.7% in 2004 and then to 12.7% in 2005. These Class IV plants took in the extra milk to clear the markets of surplus milk, not because it was profitable to do so. It is not surprising that that all the remaining large Class IV plants in the Northeast are operated by cooperatives.

Federal Order Class III and IV plants perform important roles in Federal Orders. They balance Class I and II needs seasonally and on weekends and holidays, as well as provide nearby regular orderly markets for producers in Federal Order marketing areas. Proprietary plants that purchase Federal order milk must pay the Federal Order minimum prices. Competitive pressures as well as fairness issues necessitate that cooperative plants do likewise or else risk losing members and milk supplies.

In industries not subject to government price regulations, increased costs may be passed on and recovered by buyers. Even in the regulated dairy industry, Class I and Class II processors may pass on costs without limits imposed by USDA. However this is not possible for dairy commodity manufacturers operating under Federal milk order pricing. Any attempts to raise commodity prices and apply that additional sales revenue to cover the higher manufacturing costs have been disallowed by USDA. In 2005 international demand for nonfat dry milk powder was rising as were the costs of energy to make the product. Dairy America, a federation of cooperatives (including Agri-Mark) that jointly market about 80% of U.S. NFDM production, was able to adjust its selling

price and accounted for the increase as an energy surcharge. Their hope was to exclude this energy surcharge from the NASS price survey. NASS did not allow a separate surcharge and instead raised the NASS survey price. That higher price was subsequently used in the Class IV price calculation and raised the milk price paid by federal order NFDM manufacturers accordingly. Despite higher energy costs, manufacturers recovered no additional money to cover those costs.

Manufacturing allowances used under the Federal Order are intended to cover the cost of making the products. Cheese, butter, NFDM and whey powder prices used in the formulas are updated monthly, resulting in new class prices. Agri-Mark believes that manufacturing allowances must also be updated to reflect current reality.

The impact of current FMMO manufacturing allowances on Agri-Mark plant operations for our fiscal year 2004 (December 1 2003 through November 30, 2004) are shown in Table 3. This table uses the product volumes and costs that are reported in the 2004 RBSC report as well as our actual return on investment, administration costs and marketing costs which will be discussed in greater detail further in my testimony. Agri-Mark operates whey condensing equipment at its Cabot plant and whey separation and condensing equipment at is Chateaugay plant. Whey in various forms is shipped from those to plants to our full whey processing facility that is part of our Middlebury cheese operation.

The Agri-Mark Middlebury plant does not produce commodity whey powder but instead produces whey protein concentrate (WPC) and permeate (lactose powder). I have estimated the pounds of whey powder equivalent from the pounds of cheese produced at each plant based upon a ratio of 0.6 pounds of whey powder for each pound of cheese produced. Our costs of making whey protein concentrate and permeate are much higher than that for whey powder and the final prices are different, so it would not be appropriate to use our actual costs. Instead, I used the costs being proposed based upon the RBCS and CDFA surveys and combined in the same fashion USDA used in their last decision.

The total impact of Agri-Mark incurring its manufacturing costs while only receiving the equivalent of the current Order manufacturing allowances is a negative $15.4 million in 2004. This represents a cost difference of $0.65 per hundredweight on all of the milk produced by our member-owners. Agri-Mark members have, in fact and effect, subsidized the Northeast blend price by accounting to the pool for much more than the value of milk used to make Class III and IV commodity products. The amount of this unfair subsidy has grown steadily as manufacturing costs have risen for seven years, but the manufacturing allowance has not changed. The inequity is now of crisis proportions.

Due to this cost crisis facing Agri-Mark and all Federal order dairy manufacturers, Agri-Mark and others in the industry are seeking the fastest and simplest manufacturing allowance update that can be done in a fair and reasonable manner. We believe that the fairest way, and hopefully the quickest, is to update the Order manufacturing

allowances by duplicating the surveys and methods already accepted by USDA that have already been used in the past to determine make allowances. We all have various concerns relative to several other Class III & IV pricing provisions, but we have laid aside those concerns temporarily in order to address this crisis. Once this crisis has been addressed, Agri-Mark is very supportive of conducting a second and more comprehensive Class III & IV pricing hearing as soon as the Dairy Division of USDA deems appropriate in order to deal with those other issues. We also believe that a full, nationwide manufacturing cost survey methodology should be developed and then conducted annually to regularly update make allowances and prices. Cornell University is developing such a methodology and survey. Agri-Mark operations and financial staff are assisting Cornell in this endeavor. When the survey is complete and reviewed by the industry, we believe that is when a more comprehensive hearing should be held.

PROPOSAL #1

In order to provided the necessary information for an emergency cost update hearing, Agri-Mark asked the Rural Business Cooperative Service (RBCS – now know as the Cooperative Service) to update the survey that they have conducted in the past. Dr. Charles Ling has done so and we appreciate his efforts. The California Department of Food and Agriculture also conducts an annual survey of plant costs which is usually released in the fall. We also appreciate their willingness to testify about their survey at this hearing.

Table 4 shows the calculations of the new make allowances being proposed by Agri-Mark under Proposal #1. It uses the weighted average of the latest RBCS and California manufacturing cost surveys for 40# block cheddar cheese and butter.

CHEESE

In order to determine the cheese manufacturing allowance, we are proposing using the weighted average costs of the RBCS 40 pound block cheddar plants and all the California cheddar cheese plants. Relative to the California survey, this is the same group as used by USDA in the last decision setting current allowances. The RBCS survey had sufficient plants this time to report costs separately for plants which produced 40 pound blocks of cheddar cheese. Although cheese costs from additional plants were also available in the RBCS survey results, that larger group also included plants that produced cheddar cheese in 640 and 500 pound containers and some other types of cheeses as well as the 40 pound block plants. The weighted average costs of the larger group, inclusive of the 40 pound block group, was $.018 cents below that of the 40 pound block only group. We believe that the price difference was caused by the lower costs of producing barrel cheese. In fact, when the 40 pound block group is removed from the larger group, the remaining plants in that larger group are shown to have a cost of production of $0.1211. This is 3.0 cents below the 40 pound block group. In the current order pricing provisions, USDA already adds exactly 3.0 cents to the NASS barrel cheese price to bring that price to a 40# block level. This makes it clear that USDA already accounts for the lower costs of producing barrel cheddar in its

formula and therefore only the 40 pound block cheddar cheese manufacturing costs should be included when setting manufacturing allowances for cheese. In addition, the CDFA cheese cost manufacturing survey has adjusted plants costs since 1996 to standardize their reported costs to a 40 pound block plant basis (please see footnote 1 of the CDFA summary table entitled "Weighted Average Manufacturing Costs for Butter, Nonfat Powder, Skim Whey Powder and Cheddar Cheese 1989-2005 amended January 2006". This is exhibit _____ already discussed by the CDFA representative.)

BUTTER

In the decision establishing the current make allowance for butter, USDA combined the RBCS weighted averages for all plants in that survey with the weighted average of only the high cost butter plants in the CDFA survey. The Department's reasoning for using only the high cost sub-group for California was to reflect similar plant sizes as those in the RBCS survey, along with reflecting the balancing role that such plants perform in the federal order system.

As we reviewed the RBCS and California plant size data for 2004 shown in Table 5, we saw that the low costs butter group averaged 72 million pounds of production annually and the high cost group averaged about 24 million pounds. The simple average of both groups was 48 million pounds. The RBCS plants produced 36 million pounds of butter per year but had a capacity to produce more if not for their balancing role. Had there been sufficient plants to report a California medium cost group, we likely would have preferred that option, but it was not available. Under the circumstances we felt is was fairer and more appropriate to use the entire weighted average of all CDFA butter plants in calculating a proposed make allowance even though that method results in a smaller make allowance than the method used by USDA in the last decision.

NFDM

The make allowance for NFDM determined in the last decision also used the entire RBCS weighted average for all plants but then only used the weighted average of the two lower cost sub-groups (of three total groups) from the CDFA survey. As shown in Table 5, the RBCS NFDM plants produced an average of 31 million pounds of product annually, although like with butter, they performed a balancing role. This compares with 156 million pounds for the low cost California group, 60 million pounds for the medium cost group and 13 million for the high cost group. If you combined the low and medium cost group, the average production would be 101 million pounds. We propose that USDA use only the medium cost group from California. We believe that this is the most appropriate cost group when considering comparable plant sizes. We do not believe it is appropriate to use the weighted average of all three sub-groups because the three low cost plants produce so much powder that they dramatically distort the average costs of the seven other plants. In addition, the shear volume of their NFDM production indicates that it is unlikely that they perform a balancing role similar to the RBCS Federal Order plants.

It is important that USDA understands the limitations of weighted averages when determining a cost. An average cost weighted by product volume implies that half the product volumes in the group will have higher costs and half lower costs. Those with higher costs than a fixed manufacturing allowance with not be able to cover their costs and will lose money on that part of their operation. However when there is a wide range of plant sizes involved in a cost survey and those much larger plants tend to have lower than average costs, using a weighted average leads to not just half the product volumes not being to cover their costs, it also leads to the majority of plants not being able to cover their costs. When the huge plants more often happen to be in California and the smaller ones are in the Federal Orders, a weighted average cost can lead to the majority of plants in the Federal Orders not being able to cover their costs. I do not believe that would be the intention of the Department, particularly relative to NFDM plants which balance Class I markets.

It is also important to recognize that the recent building of extremely large dairy product manufacturing plants out west will likely result in lowering the weighted average manufacturing costs. However, all else being equal, when such a large low cost plant opens it doors and the national weighted average cost appear to fall as a result, the actual cost incurred by the remaining plants in the country have in deed not changed. For USDA to reflect such a change in manufacturing cost allowances would likely hurt most other plants in the country.

WHEY POWDER

We propose that the whey make allowance be determined by adding a differential cost per pound to the NFDM manufacturing allowance as discussed above. This is the same method USDA used in the last decision when a cost factor of $.019 per pound was added to the NFDM make allowance. I understand that others will be providing testimony to show that the updated cost factor is $.025 due to higher energy costs and perhaps other factors. For my analysis purposes, I will show the price impacts of using either a $.019 or a $.025 additional cost. Based on the evidence and testimony at this hearing, we believe that USDA should use the appropriate fixed cost, whether it be $.019 or $.025 and add it to the NFDM make allowance to set the whey powder manufacturing costs.

In that last decision, whey powder plant cost data was not available. For this hearing, we had hoped that appropriate plant cost data would assist the Department is setting the appropriate make allowance. However we are concerned about the widespread difference between the RBCS and CDFA survey costs and some of the cost components in the RBCS survey. In addition, whey is handled in many different ways at cheese plants, depending upon the size of the operation, its proximity to alternative outlets for its whey and even the age of the plant. Some cheese plants even dispose of their whey by land spreading or feeding to cows or pigs. Agri-Mark's plant in Chateaugay, NY currently land spreads some of its whey component products because our whey-processing facility in Middlebury, Vermont can not handle all the whey from

our three facilities. On occasion, we and other in the Northeast sell condensed whey to Canada and other areas. Our concern with whey is that if the Federal order pricing formulas continue to assign a high value to the Class III price based upon the manufacturing of whey at very large, new plants that costs tens of millions of dollars to build, smaller and older plants like many in the Northeast will be at a large competitive disadvantage under minimum Federal order pricing. If whey pricing issues force a company to build a whey drying facility that often costs far more than its cheese plant, that company may just close its doors or relocate entirely to the milk surplus western states. This just happened this fall with a cheese plant in Swanton, Vermont.

California has been collecting whey cost data for two years now, but even their price setting authority did not recognize their own survey data and methodology as appropriate to set the state's actual make allowances. During both of those years, the survey has reported a cost of $.267 per pound, but their rate setting authority used only $.20 per pound for the past year as the appropriate make allowance. The RBCS data generates similar concerns. It reports dramatically lower costs than in California a full ten cents per pound lower when all comparable costs are added. In addition, the RBCS survey reported energy costs for whey powder which are 35% lower per product pound than for NFDM. This makes little sense since whey begins with a higher moisture content that NFDM and requires an additional processing step. I am not an expert in this area, but Mr. Richard Langworthy, who is in charge of all of our manufacturing operations, including our whey processing facility attached to our Middlebury, VT plant, can speak further to this issue during his testimony. In addition, I believe that other knowledgeable witnesses will also be giving testimony later in the hearing.

Dr. Ling has conducted his cost survey many, many times for cheese, butter and NFDM. This has allowed him and survey participants to thoroughly review the methodology for those products. This is only the second time that Dr. Ling has attempted to calculate whey powder production costs. Problems in the allocation of costs as well as the reporting of all costs may have played a role. In addition, I understand that the economies of scale achieved by the RBSC survey plants at near, or surprisingly above 100% capacity, are only achieved through the transportation of condensed whey from other facilities. These transportation costs need to be accounted for if the Department wishes to make use of the RBSC and CDFA data. In addition, any plants operating so close, or above, full capacity on an annual basis in markets that do have production seasonality must have times of the year when their whey can not be processed in their full plants. The Department must also somehow account for those costs.

Indeed, most plants producing American cheese, such as cheddar, do not process whey into powder or other dry whey products as disclosed in USDA's publication "Dairy Plants Accepted and Approved for Grading". Of the 83 American cheese plants listed for 2005, 46 plants do not dry whey or whey products! Neither do the hundreds of smaller plants who must find ways to dispose of their whey by-product. This situation should counsel caution as the Department looks to assign manufacturing allowances that will likely over state the Class III price for most cheese makers.

The industry needs a quick of a decision on updating manufacturing allowances as possible. Clearly the methodology of whey cost accounting needs more work. In fact this is an area that the Cornell manufacturing cost study can address more thoroughly at the next hearing to be hopefully held within a year or so. In the meantime, we support updating the NFDM manufacturing allowance and adding the appropriate cost differential of either $.019 or $.025 cents to it in order to set the whey make allowance by the same approach as in USDA's the last decision.

RETURN OF INVESTMENT, ADMINISTRATIVE AND MARKETING COSTS

Agri-Mark's proposal includes updating the return on investment as well as administrative and marketing costs in the same manner used in the last decision regarding manufacturing allowances, That decision made use of the California costs for the appropriate group categories reported in the CDFA survey. Table 6 shows the 2004 California costs along with the Agri-Mark costs at our Middlebury, Vt. and West Springfield, Ma. plant facilities.

Agri-Mark costs are above the California costs for every category except administrative costs for our Middlebury cheese plant. Our Middlebury plant is relatively new and very labor efficient which may be the reason why our allocated administrative costs are lower. In any case, we believe that the California costs are sufficiently representative at this point to be used again.

IMPACT OF 2004 SURVEY ALLOWANCES ON CLASS AND COMPONENT PRICES

Table 7 shows a summary of the 2004 survey manufacturing allowances that are part of our proposal. The cheese manufacturing allowance increases from $.165 to $.179 per pound. The butter manufacturing allowance increases from $.115 per pound to $.151 per pound. The NFDM make allowance rises from $.14 to $.187. The whey powder manufacturing allowance rises from $.159 to $.206 when a $.019 factor is added to the NFDM price and to $.212 when a $.025.

The price of butterfat falls $0.044 cents per pound. The price of protein remains unchanged and the price of nonfat solids fall $0.046 cents per pound. The price of other solids falls from $0.048 to $0.054 per pound depending upon the additional NFDM factor.

Class III prices fall from $0.43 to $0.46 per cwt, once again depending upon the NFDM factor used. The Class IV price falls $0.55 per cwt.

IMPACT OF 2004 SURVEY ALLOWANCES ON AGRI-MARK OPERATIONS

The impact of Proposal #1 upon Agri-Mark operations can be seen in Table 8. This table is the same as Table 3 from the beginning of my testimony. However, in this table

the manufacturing cost allowances have been changed from the current ones to the 2004 survey allowances. These revised make allowance reduce our cost shortfalls by $7.2 million or approximately $600,000 per month. This represents $0.30 per cwt. on our annual member milk volume.

Keep in mind that these 2004 make allowances do not make our operations break even. The allowances were designed to be conservative and used weighted averaged that tend to disadvantage smaller plants like ours. In addition, as noted earlier, the impacts shown in Table 8 make it appear that our whey operations would now break even. That is likely not the case, but my use of the 2004 whey powder make allowances as a proxy for actual costs resulted in the break even status of whey powder.

ADJUSTING MANUFACTURING ALLOWANCES TO INCLUDE 2005 ENERGY COSTS:

It is a lengthy process to gather and organize cost data. The costs shown in the two surveys use primarily 2004 information since 2005 data is not yet available this early in 2006. In the case of Agri-Mark, the cost time period we used was our fiscal year, which was December 2003 – November 2004. General costs during 2005 have only gone up slightly in most areas with the notable exception of energy and energy related costs. Energy costs, particularly for fuel oil. natural gas and propane have jumped substantially.

Richard Langworthy, Agri-Mark's Senior Vice President of Manufacturing Operations will be testifying on Agri-Mark specific energy and other costs later in this hearing. His information will show the huge increases in energy costs that have occurred just in the past few years. These high rates are also reflected in our anticipated energy costs for 2006.

On January 10, 2006, the U.S. Department of Energy released its short-term energy outlook and discussed its energy cost price projections for West Texas Intermediate Crude Oil, Gasoline and Crude Oil prices and Natural Gas Henry Hub Spot Prices. The crude oil price averaged $41.44 per barrel in 2004, which was a 33% increase from 2003. In 2005, that price jumped another 36% to $56.47 on average. According to USDOE, that price is expected to average $63 in 2006 and $60 in 2007. In other words, 2006 and 2007 oil prices are expected to be 52% and 45% respectively above 2004 price levels.

Natural gas prices (Henry Hub spot) averaged $6.20 per thousand cubic feet (mcf) in 2004 and rose 45% in 2005 to $9.00 mcf. 2006 and 2007 prices are expected to be $9.80 and $8.84 respectively or increases of 58% and 43% respectively above 2004 prices.

Clearly energy prices are increased substantially in 2005 and expected to remain significantly above 2004 levels through 2007. It is crucial that the Federal Order manufacturing allowances incorporate at least 2005 energy price changes.

We have worked with others in the industry to find a very simple set of energy indices that can fairly and reasonable update 2004 energy costs to reflect 2005 levels. We propose that the energy adjustments for 2005 be calculated using the Producer Price Indexes for Industrial Natural Gas (BLS series WPU0553) and Industrial Electric Power Distribution (BLS Series WPU0543, Base = 1982) weighted by the costs per pound of product in the RBCS survey as well as the CDFA survey, if those individual prices are entered into the hearing record.

These Producer Price Indices show a 6.0% annual average increase in electric power costs and a 23.8% increase in Industrial Natural Gas costs from 2004 to 2005. I have applied those percentage changes toward the appropriate costs per pound for each product under the RBCS costs only since California energy costs are not available yet.

The bottom rows of Table 4 shows that as a result of this energy adjuster, the cheese manufacturing allowances would be increased by $.0021 per pound, the butter allowance would increase by $.0028 per pound and the NFDM allowance would rise by $.0098 per pound.

We understand that the National Milk Producers Federation will be proposing an ongoing energy index to adjust the manufacturing allowances on a continuing basis. Their proposal uses the same Producer price Indices as we used in our 2005 adjustment. While we support the NMPF proposal, we, as well as NMPF, all recognize that an on-going energy adjustor is a new concept for setting manufacturing allowances. There is concern that the NMPF proposal may take more time and review for the Department to consider than Agri-Mark's relatively simple and straight forward update of current manufacturing allowances. We believe that the Department should therefore issue an interim emergency decision relative to Agri-Mark's proposal using 2004 RBCS and CDFA survey data adjusted for 2005 energy costs and then provide a more thorough comment and review period before issuing a decision for the on-going adjustor proposed by NMPF.

IMPACT OF PROPOSED MANUFACTURING ALLOWANCES ON CLASS AND COMPONENT PRICES

The make allowances proposed by Agri-Mark include a moderate 2005 energy adjustor. Those allowances are also shown in Table 7. The impact of the energy adjuster is approximately a quarter of a cent per pound for cheese and butter and one cent per pound for NFDM and whey powder.

The proposed manufacturing allowances are $0.181 for cheese, $0.154 for butter, $0.197 for NFDM and either $0.216 or $0.222 for whey powder. The butterfat price falls $0.047 cents per pound, the protein price falls $0.003 cents per pound and the NFDM price falls $0.056 cents per pound. The other solids price falls either $0.058 per pound or $0.064 per pound. The Class III price falls either $0.51 or $0.54 per cwt. while the Class IV price falls $0.65 per cwt.

IMPACT OF PROPOSED MANUFACTURING ALLOWANCES ON DAIRY FARMER PRICES

There is no way to avoid Proposal #1 having a negative impact on producer blend prices announced under the Federal Orders. This has been of great concern to Agri-mark as our cooperative is owned and controlled by its dairy farmer members. In the past, Agri-Mark has played significant roles in successful efforts to increase dairy farmer income. These efforts included the Northeast Regional Cooperative Marketing Agency (RCMA), many individual state price setting programs such as in Maine, Federal Order pricing in 2000, the Northeast Dairy Compact, the Milk Income Loss Contract (MILC) program and the Cooperatives Working Together (CWT) program. Any proposal that lowers regulated producer milk prices is not done lightly. However, it is our belief that if this manufacturing allowance distortion from reality is not corrected, the income of Agri-Mark members and all dairy farmers will fall even more than the amount resulting from our proposal. If not corrected, not only will dairy farmer net earnings continue to fall, severely disorderly marketing conditions will result and jeopardize the existence of local outlets for producer milk in many areas of the country.

The impact of Agri-Mark members of not correcting this problem has already been discussed. Our members can not keep bearing millions of dollars in losses indefinitely. The only reasonable alternative if nothing is done is to consider closing and/or severely down-sizing all our plants. Three times in the past Agri-Mark members have stepped forward and kept cheese plants open that were about to close. Our members have invested tens of millions of dollars of their own money in these plants as well as in our Massachusetts butter/powder market balancing plant. They have done this so they have local, orderly markets for their own milk and that of their neighbors. Agri-Mark is the only organization in the Northeast that has actually increased its plant ownership in the past decade.

As already discussed, many dairy manufacturing plants in the Northeast have already shut their doors and others are taking less milk. This has affected the local demand for milk in the region. Whereas national supply and demand conditions drive national dairy product and national basic milk prices, local supply and demand conditions drive over-order premiums. The recent closings of so many plants have placed great pressure on premiums paid by all handlers. With fewer plants buying milk, producers have lost bargaining power in dealing with the handlers that remain. Class I premiums have fallen by $0.20 per cwt in the past year and will likely fall further if this situation is not corrected.

In additional, as dairy manufacturing facilities close and eliminate local outlets for producer milk, producer paid hauling costs to more distant plants rise and disorderly marketing conditions appear as more milk is displaced and must find an immediate home. Allied Cooperative Federation based in northern New York expressed similar concerns in their original letter to USDA supporting Agri-Mark's hearing request. As a result of additionally hauling costs and/or plant operation losses many large cooperative in the Northeast reduced their member producer price differentials (ppd) by $0.10 to

$0.25 beginning in the summer of 2005. Agri-Mark reduced our member ppd's by $0.15 in July 2005.

In its notice on January 5, 2006 announcing this hearing, USDA included an economic analysis of the impacts of changing Federal order make allowances. The analysis concluded that producer blend prices would likely fall from $0.05 to $0.13 per cwt, on average over the next five years. As markets adjust and dairy product prices rise, this impact will fall to the $0.03 to $0.09 range. The impact on average all-milk prices is likely to be even more modest because, as I noted above, producers' bargaining power will be improved if losses are reduced for manufacturing plants and if cooperative manufacturers are able to recover costs for the benefits of producer-owners of plants.

The Agri-Mark proposal incorporates manufacturing allowances changes for cheese and butter that are very near the lower end of the three scenarios discussed. However due to energy and other costs increases during the past six or seven years, our proposal has a greater change than USDA assumed for NFDM and whey powder.

I believe that the impact of our proposal will likely fall in the range between scenarios 2 and 3. This implies a $0.09 to $0.13 impact over five years and a $0.03 to $0.06 longer term impact. However if this manufacturing costs issue is not resolved quickly, the impact on dairy farmers will be far greater than those amounts. Once a company decides to close a plant, that producer milk demand is usually gone forever.

We would ask the Department to provide a similar economic analysis in the final decision to document the likely impact if of our proposal is enacted.

EMERGENCY DECISION NEEDED THIS WINTER!

An emergency decision is needed this winter so that order provisions can be amended by early spring. All Class III and IV manufacturers that operate plants using Federal Order milk are losing large sums of money each and every day that goes by. USDA has implemented amendments within sixty days after the hearing in the past. Similar expedition is justified in this case.

Agri-Mark members take on the risk and responsibility of balancing the Class I market and providing local outlets for their milk and the milk of their neighbors. Enactment of Proposal #1 means that approximately $700,000 per month in plant margin loses can be avoided. Each day that goes by without a decision means more than $22,000 to Agri-Mark members.

It is particularly important that the amended manufacturing allowances be in place in early spring. As already noted in Table 1, April, May and June are usually the peak months when Class III and IV plants do the most balancing for the Northeast federal order. Of those three months, May is the most important from a balancing perspective. As losses to Class III and IV plants keep mounting, those plants will likely be willing to

take less and less milk, which will likely result in disorderly marketing conditions and lower prices to dairy farmers.

Agri-Mark is one of the key balancers of milk in the Northeast Order. Table 9 shows the seasonality of component usage at our four plants. It is also important to consider milk component usage instead of just milk usage since the growth in sales of lower fat Class I products and high fat Class II products create their own seasonality. For example, the average butterfat test for producer milk falls as summer heats begins in late June. At the same time, butterfat demand rises to meet Class II frozen dessert needs. Table 9 shows that July Class IV butterfat usage at our West Springfield plant was only 77% of the annual monthly average. As summer heat continued to take its toll on butterfat tests and ice cream sales increased at the same time, butterfat usage at our plant was only 28% of the annual monthly average in August 2005.

Nonfat solids supply and demand also shows large seasonally fluctuations that need substantial balancing. Nonfat solids usage remains strong in June and July as schools go out of session and Class I sales decline. July 2005 nonfat solids usage at our NFDM plant was 138% of the annual monthly average in July, however that rate fell to 90% in August and then 50% in September 2005 as schools came back into session.

Class III component usage at our cheese plants also balance seasonal changes in producer milk production that Class I and II plants can not or will not balance due to the perishable nature of their sales. Generally, our cheese plants use about 105% of the annual monthly average in the spring flush months of March through May compared to about 92% in September and October. Although less than Class IV volume swings, our Class III plants do handle milk swings in excess of 12 million pounds per month. This is the equivalence of the monthly milk producer of about 80 dairy farmers.

If Class III and IV manufacturing plants under Federal orders are to continue to perform their crucial roles in balancing Class I milk and milk component needs as well as providing orderly local markets for dairy farmers, those plants must have Class prices that truly reflect the value of the milk to their operations. The Agri-mark proposal aligns Federal Order manufacturing allowances with the average costs of manufacturing and will allow such plants to continue as outlets for producer milk and providers of key market balancing services.

We urge the Department to quickly review this hearing record and issue a final interim decision as soon as possible so this severe problem can be corrected no later than this spring. Thank you for this opportunity to present our concerns and proposed solution for your consideration.

TABLE 1. CLASS III AND IV AND PRODUCER RECEIPT MONTHLY MILK VOLUMES AND PERCENT OF ANNUAL AVERAGE VOLUMES* FOR THE NORTHEAST FEDERAL ORDER, 2005

	CLASS III		CLASS IV		TOTAL PRODUCER RECEIPTS	
	(mil lbs)	(%annual avg)	(mil lbs)	(%annual avg)	(mil lbs)	(%annual avg)
JAN	462.6	103%	245.9	101%	2,000.5	101%
FEB	396.8	98%	222.6	101%	1,807.4	101%
MAR	467.9	105%	239.6	98%	2,023.2	102%
APR	439.8	102%	314.1	133%	2,009.0	104%
MAY	480.5	107%	353.7	145%	2,141.9	108%
JUN	454.0	105%	295.3	125%	1,997.1	104%
JUL	467.2	105%	299.5	123%	1,988.1	100%
AUG	426.4	95%	188.1	77%	1,937.8	98%
SEP	435.9	101%	118.0	48%	1,866.1	97%
OCT	409.7	92%	172.7	71%	1,904.3	96%
NOV	401.4	93%	172.4	71%	1,836.8	95%
DEC	435.7	97%	250.9	103%	1,952.9	98%
AVG	439.8	100%	239.4	100%	1,955.4	100%

* adjusted by number of days in month.

SOURCE: Northeast Milk Market Administrator's Office, USDA

TABLE 2. CLASS III AND IV AND PRODUCER RECEIPT ANNUAL MILK VOLUMES AND PERCENT UTILIZATIONS FOR THE NORTHEAST FEDERAL ORDER, 2001-2005

	CLASS III	CLASS IV	TOTAL PRODUCER RECEIPTS	CLASS III	CLASS IV
	(billion pounds)			(utilization percentage)	
2001	7.7	2.1	24.5	31.4%	8.6%
2002	7.8	2.5	25.4	30.7%	9.8%
2003	6.8	2.1	24.0	28.3%	8.8%
2004	5.3	2.2	22.7	23.3%	9.7%
2005	5.4	2.9	23.6	22.9%	12.3%

SOURCE: Northeast Milk Market Administrator's Office, USDA

TABLE 3. IMPACTS OF CURRENT FMMO MANUFACTURING ALLOWANCES ON AGRI-MARK OPERATIONS FOR 2004

	Pounds of Cheese Made	Cost per lb.	Pounds of Butter made	Cost per lb.	Pounds of NFDM made	Cost per lb.	Est. Pounds of Whey Powder	Cost per lb.
Middlebury	51,574,541	$0.169					30,944,725	
Chateaugay	37,504,437	$0.218					22,502,662	
Cabot	24,600,924	$0.251					14,760,554	
W Springfield			35,893,289	$0.176	22,258,790	$0.174		
Total	113,679,902						68,207,941	
Wt. Avg		$0.203						
ROI		$0.014		0.0083		$0.019		
Admin		$0.008		0.0198		$0.014		
Mktg		$0.004		0.0074		$0.005		
Total		$0.228		$0.211		$0.212		$0.206
FMMO Manuf Allowance		$0.165		0.115		$0.140		$0.159
Difference		$0.063		$0.096		$0.072		$0.047
Total $ Impact		**$7,192,274**		**$3,459,395**		**$1,609,756**		**$3,185,311**
GRAND TOTAL		**$15,446,736**						

SOURCE: Agri-Mark Dairy cooperative 2004 information: whey information estimated.

TABLE 4: FEDERAL ORDER MAKE ALLOWANCE ANALYSIS UNDER THE AGRI-MARK PROPOSAL

WORKSHEET	CHEESE RBCS all CDFA all	BUTTER RBCS all CDFA all	POWDER RBCS all CDFA med		
RBCS Costs					
Product vol (mil lbs)	414.4	254.1	439.0		
Weighted Average cost/lb	**$0.151**	**$0.166**	**$0.168**		
Electricity	$0.004	$0.009	$0.012		
Fuels	$0.008	$0.009	$0.038		
-Butter pkg		$0.028			
+CA Butter pkg (avg)		$0.010			
+CA Butter pkg (high)					
add CDFA ROI	$0.008	$0.007	$0.010		
add CDFA Admin	$0.020	$0.015	$0.014		
ADJ RBCA COSTS	**$0.180**	**$0.170**	**$0.192**		
CDFA Costs					
Product vol (mil lbs)	817.1	382.9	745.4		
Low costs	628.6	288.1	468.0		
Medium costs			238.5		
High costs	188.5	94.8	38.9		
Average cost/lb	**$0.177**	**$0.137**	$0.154		
Low costs	$0.171	$0.123	$0.137		
Medium costs			**$0.173**		
High costs	$0.196	$0.179	$0.241		
CDFA COSTS	**$0.177**	**$0.137**	**$0.173**		
Wtg Average RBCS/CDFA	**CHEESE**	**BUTTER**	**NFDM**	**WHEY (1.9)**	**WHEY(2.5)**
Total product volume	1,231.4	637.0	677.6		
Average cost/lb	$0.178	$0.150	$0.185		
add marketing	$0.0015	$0.0015	$0.0015		
2004 Average Costs	**$0.1794**	**$0.1515**	**$0.1867**	**$0.2057**	**$0.2117**
Fuel Costs Adjuster 2004/05					
Electricity 6.0%	$0.0003	$0.0005	$0.0007		
Fuels 23.8%	$0.0018	$0.0023	$0.0091		
Wtg Average RBCS/CDFA	**CHEESE**	**BUTTER**	**NFDM**	**WHEY (1.9)**	**WHEY(2.5)**
2005 Average Costs	**0.1815**	**0.1543**	**0.1965**	**$0.2155**	**$0.2215**
with energy adjustor					
Current Make Allowances	***0.1650***	***0.1150***	***0.1400***	**$0.1590**	**$0.1590**

SOURCE: RBCS 2004 AND CDFA 2005 PLANT COST SURVEYS.

TABLE 5. AVERAGE PRODUCT VOLUME PRODUCED PER PLANT, RBCS AND CDFA 2004 MANUFACTURING COST SURVEYS

	CHEESE	BUTTER	NFDM	WHEY POWDER
	(million pounds per year)			
RBCS (all)	**69**	**36**	**31**	60
CDFA (all)	**117**	**48**	75	31
High cost	47	24	13	
Mediun Cost			**60**	
Low cost	210	72	156	

*numbers in bold represent plant groups used in Agri-Mark proposal

SOURCE: RBCS 2004 AND CDFA 2005 PLANT COST SURVEYS.

TABLE 6. AGRI-MARK AND CDFA 2004 RETURN ON INVESTMENT, ADMINISTRATIVE COSTS AND MARKETING COSTS

	Return on Investment (ROI)			Administrative Costs			Marketitng Costs		
	Agri-Mark*	CDFA	Difference	Agri-Mark	CDFA	Difference	Agri-Mark	FMMO	Difference
CHEESE**	$0.0141	$0.0082	$0.0059	$0.0077	$0.0203	-$0.0126	$0.0036	$0.0015	$0.0021
BUTTER***	$0.0083	$0.0066	$0.0017	$0.0198	$0.0151	$0.0047	$0.0074	$0.0015	$0.0059
NFDM***	$0.0189	$0.0099	$0.0090	$0.0144	$0.0136	$0.0008	$0.0054	$0.0015	$0.0039
WHEY**	$0.0772	$0.0398	$0.0374	$0.0116	$0.0026	$0.0090	$0.0053	$0.0015	$0.0038

* uses a 5% rate of return
**Agri-Mark cheese and whey product costs are for its Middlebury, Vt. plant
***Agri-Mark butter and NFDM costs are for its West Springfield, Ma plant

SOURCE: CDFA 2005 Report and Agri-Mark information

TABLE 7: AGRI-MARK PROPOSAL
IMPACT ON CLASS AND COMPONENT PRICES

MAKE ALLOWANCES	Current	2004 SURVEY DATA ONLY	2004 SURVEY ADJ TO 2005 ENERGY
CHEESE	$0.165	$0.179	$0.181
BUTTER	$0.115	$0.151	$0.154
NFDM	$0.140	$0.187	$0.197
WHEY POWDER			
(NFDM+$.019)	$0.159	$0.206	$0.216
(NFDM+$.025)		$0.212	$0.222
CHANGE IN COMPONENT VALUES			
BUTTERFAT		-$0.044	-$0.047
PROTEIN		$0.000	-$0.003
NONFAT SOLIDS		-$0.046	-$0.056
OTHER SOLIDS			
(whey=NFDM+$.019)		-$0.048	-$0.058
(whey=NFDM+$.025)		-$0.054	-$0.064
CHANGE IN CLASS PRICES			
CLASS III			
(whey=NFDM+$.019)		-$0.43	-$0.51
(whey=NFDM+$.025)		-$0.46	-$0.54
CLASS IV		-$0.55	-$0.65

SOURCE: Calculations based upon Table 4 and Federal Order Class III & IV price formulas.

TABLE 8. IMPACT OF PROPOSED FMMO MANUFACTURING ALLOWANCES ON AGRI-MARK OPERATIONS FOR 2004

	Pounds of Cheese Made	Cost per lb.	Pounds of Butter made	Cost per lb.	Pounds of NFDM made	Cost per lb.	Est. Pounds of Whey Powder	Cost per lb.
Middlebury	51,574,541	$0.169					30,944,725	
Chateaugay	37,504,437	$0.218					22,502,662	
Cabot	24,600,924	$0.251					14,760,554	
W Springfield			35,893,289	$0.176	22,258,790	$0.174		
Total	113,679,902						68,207,941	
Wt. Avg		$0.203						
ROI		$0.014		0.0083		$0.019		
Admin		$0.008		0.0198		$0.014		
Mktg		$0.004		0.0074		$0.005		
Total		$0.228		$0.211		$0.212		$0.206
FMMO Manuf Allow		$0.179		0.1515		$0.187		$0.206
Difference		$0.049		$0.060		$0.026		$0.000
Total $ Impact		$5,555,284		$2,149,290		$570,270		$0

AGRI-MARK 2004 IMPACT SUMMARY

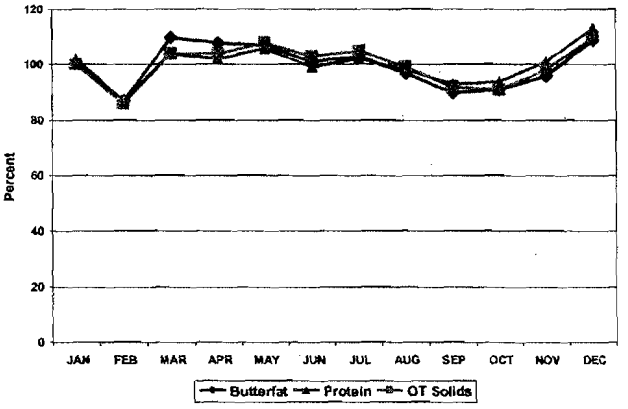
	MAKE ALLOWANCES		DIFFERENCE	
	CURRENT	PROPOSED	TOTAL	PER MONTH
CHEESE	$7,192,274	$5,555,284	$1,636,991	$136,416
BUTTER	$3,459,395	$2,149,290	$1,310,105	$109,175
NFDM	$1,609,756	$570,270	$1,039,485	$86,624
WHEY	$3,185,311	$0	$3,185,311	$265,443
TOTAL	$15,446,736	$8,274,844	$7,171,892	$597,658
Member Milk Volume	2.4 billion	2.4 billion	2.4 billion	200 million
Cost/cwt.	$0.64	$0.34	$0.30	$0.30

SOURCE: Agri-Mark Dairy Cooperative 2004 information: whey information estimated.

Table 9: 2005 Class III & IV Component Usage at Agri-Mark Plants

	Class III			Class IV	
2005	BUTTERFAT	PROTEIN	OT SOLIDS	BUTTERFAT	N'FAT SOLIDS
JAN	101%	102%	100%	140%	104%
FEB	87%	87%	86%	122%	94%
MAR	110%	104%	104%	79%	63%
APR	108%	102%	104%	166%	151%
MAY	107%	106%	108%	173%	150%
JUN	101%	99%	103%	97%	133%
JUL	103%	102%	105%	77%	138%
AUG	97%	98%	99%	28%	90%
SEP	90%	93%	92%	52%	50%
OCT	91%	94%	91%	87%	80%
NOV	96%	101%	98%	67%	55%
DEC	109%	113%	110%	111%	93%
Monthly Ave.	100%	100%	100%	100%	100%

Agri-Mark 2005
Class III Component Usage
As A Percentage of the
Monthly Average for the Year



Agri-Mark 2005
Class IV Component Usage
As A Percentage of the
Monthly Average for the Year

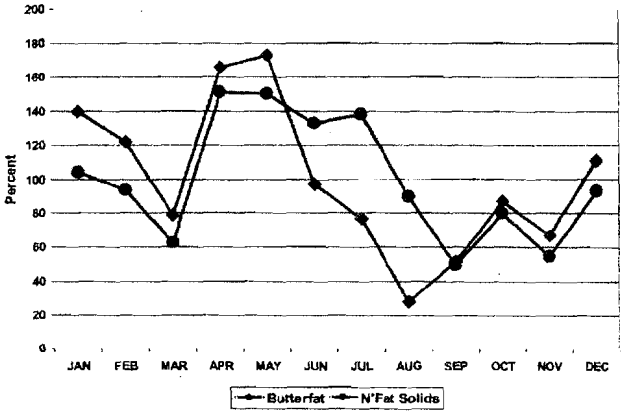


Exhibit _____

USDA Surveyed and Approved Dairy Plants*
Producing American Cheese and Dry Whey Products

Source: Jan 2006
Dairy Programs, AMS, USDA:
"Dairy Plants Surveyed and Approved for USDA Grading Service"
http://www.ams.usda.gov/dairy/grade.htm (for latest publication)

*plants identified as producing the following products, by USDA product code:
C3 (American Cheese, cheddar, Colby, granular curd or washed curd) and one or more of the following
W3 (dry whey); W4 to W24 (other dry whey and whey fraction products)
"No whey" denotes plants that do not produce dry whey products, according to USDA's report.

American Cheese Plants

(All listed plants are reported to produce American cheese. Several plants produce other cheese varieties. List does not include cheese or cheese and whey plants that produce only non-American varieties of cheese.)

				-- Products include--		
STATE	Location	Owner/ Operator	American Cheese	Dry Whey	Other Dry Whey	No Whey
Alabama	Uniontown	Southeastern Cheese	X			X
California	Tulare	Cheese Protein Int'l	X	X	X	
	Corona	DFA	X			X
	Hilmar	Hilmar Chs	X	X	X	
	Atwater	Jos Gallo	X			X
	Orland	LOL	X		X	
	Tulare	LOL	X			X
	Petaluma	Petaluma Chs	X			X
Colorado						
Idaho	Blackfoot	Blackfoot Cheese	X		X	
	Twin Falls	Glanbia	X			X
	Jerome	Jerome Cheese	X			X
	Rexburg	Nelson Ricks	X			X
	Nampa	Sorrento Lac	X		X	
Illinois	Rock City	Berner	X			X
	Lena	Kolb-Lena	X			X
Indiana	Middlebury	Deutsch K-	X			X
	Elnora	Graham Chs	X			X

			-- Products include--			
STATE	Location	Owner/ Operator	American Cheese	Dry Whey	Other Dry Whey	No Whey
Iowa	Sanborn	AMPI	X			X
	St Olaf	Swiss Valley	X		X	
	Kalona	Twin County	X		X	
Minn.	Dawson	AMPI	X			X
	Paynesville	AMPI	X		X	
	Rochester	AMPI	X		X	
	Perham	Bongard's	X	X	X	
	Litchfield	First District	X			X
	Le Sueur	Le Sueur Cheese	X		X	X
	Melrose	Melrose Dairy Protien	X		X	X
	Zumbrota	DFA	X	X	X	
	Litchfield	First District	X			X
	Le Sueur	Le Sueur	X		X	
	Melrose	Melrose Dairy Protns	X		X	
Missouri	Monett	DFA	X			X
New Mex.	Lovington	DFA	X			X
	Roswell			X		
	Clovis	SW Cheese	X			X
N Y	Chateaugay	Agri-Mark	X		X	
	Adams	Gr. Lakes	X	X		
Ohio	Middlefield	Middlefield Original Chs	X			X
	Minerva	Minerva Dairy	X			X
Oregon	Boardman	Columbia River	X		X	
	Tillamook	Tillamook County	X	X		

			-- Products include--			
STATE	Location	Owner/ Operator	American Cheese	Dry Whey	Other Dry Whey	No Whey
S. Dakota	Hoven	Cass-Clay	X		X	
	Dimock	Dimock Dairy Prod.	X		X	
	Lake Norden	Lake Norden	X		X	
Utah	Beaver	DFA	X			X
	Logan	Gossner	X			X
	Smithfield	Schreiber	X			X
Vermont	Cabot	Agri-Mark	X			X
	Middlebury	Agri-Mark	X		X	
	Grafton	Grafton Village Chs	X			X
Wash.						
	Sunnyside	Westfarm	X	X		
Wisc.	Black Creek	Alto	X			X
	Waupun	Alto	X	X	X	
	Blair	AMPI	X			X
	Jim Falls	AMPI	X			X
	Grantsburg	Burnett Dairy Coop	X		X	
	Wilson	Cady Chs	X			X
	LaValle	Carr Valley Cheese	X			X
	Plain	Cedar Grove Cheese	X			X
	Edgar	Clover Belt	X			X
	Comstock	Crrystal Lake Cheese	X		X	
	Marion	DuPont Cheese	X			X
	Ellsworth	Ellsworth Coop Cry	X			X
	Cochrane	Foremost	X		X	
	Lancaster	Foremost	X		X	
	Marshfield	Foremost	X		X	
	Richland Ctr.	Foremost	X	X	X	
	Medford	Gad Cheese	X			X
	Sheboygan Falls	Gibbsville Cheese	X			X
	Rubicon	Grande	X			X

			-- Products include--			
STATE	Location	Owner/ Operator	American Cheese	Dry Whey	Other Dry Whey	No Whey
	Kiel	Hennings Cheese	X			X
	Stanley	Hillside Dairy	X		X	
	Cashton	K&K Chs	X			X
	Greenwood	LOL	X			X
	Kiel	LOL	X	X		
	Granton	Lynn Dairy	X			X
	Milladore	Maple Grove Chs	X			X
	Muscoda	Meister Chs	X			X
	Marshfield	Mullins Chs	X		X	
	Mosinee	Mullins Chs	X		X	
	Marshfield	Nasonville Dairy Coop	X		X	
	Little Chute	Trega Foods	X		X	
	Weyauwega	Trega Foods	X		X	
	Rudolph	Wi. State Dairy Foods	X		X	

Exhibit ____

Excerpt: Page 1 and Figs. 1 – 3 from 52 page document

www.eia.doe.gov
Energy Information Administration

January 2006

Short-Term Energy Outlook

January 10, 2006 Release

Overview

In 2006 and 2007, total domestic energy demand is projected to increase at an annual rate of about 1.4 percent each year, contributing to continued market tightness and projected high prices for oil and natural gas. Prices for crude oil, petroleum products, and natural gas are projected to remain high through 2006 before starting to weaken in 2007. For example, the price of West Texas Intermediate (WTI) crude oil, which averaged $56 per barrel in 2005, is projected to average $63 per barrel in 2006 and $60 in 2007 (Figure 1. West Texas Intermediate Crude Oil Price). Retail regular gasoline prices, which averaged $2.27 per gallon in 2005, are projected to average $2.41 in 2006 and $2.33 in 2007 (Figure 2. Gasoline and Crude Oil Prices). Henry Hub natural gas prices, which averaged $9.00 per thousand cubic feet (mcf) in 2005, are projected to average $9.80 in 2006 and $8.84 in 2007 (Figure 3. Natural Gas Henry Hub Spot Prices).

Hurricane Recovery

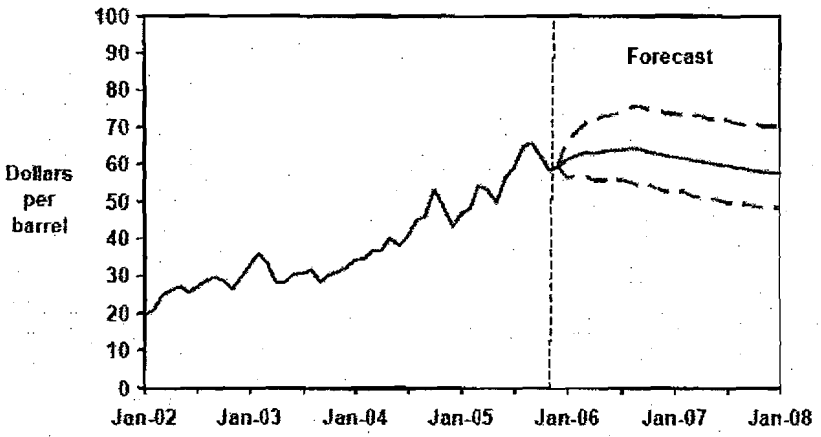
Recovery of natural gas and crude oil production and refinery output from Hurricanes Katrina and Rita continues as expected. At the beginning of January, some 27.4 percent of normal daily Federal Gulf of Mexico oil production and approximately 19.5 percent of Federal Gulf of Mexico natural gas production remain shut-in due to Hurricanes Katrina and Rita.[1] Only one crude oil refinery in New Orleans remains out of service, and it is projected to return to operation in the first quarter of 2006 (however, some refineries are still operating below normal capacity). (Figure 4. Shut-In Federal Offshore Gulf Crude Oil Production, Figure 5. Shut-In Federal Offshore Gulf Natural Gas Production, Figure 6. Shut-In Gulf Crude Oil Refinery Capacity).

[1] BP's Thunder Horse platform (250,000 barrels per day capacity) was damaged in July 2005 during Hurricane Dennis and is not expected to return to production until the second half of 2006. Thunder Horse capacity is not included in the "normal" base for comparing pre- and post-Hurricane Katrina and Rita damage.

Short-Term Energy Outlook

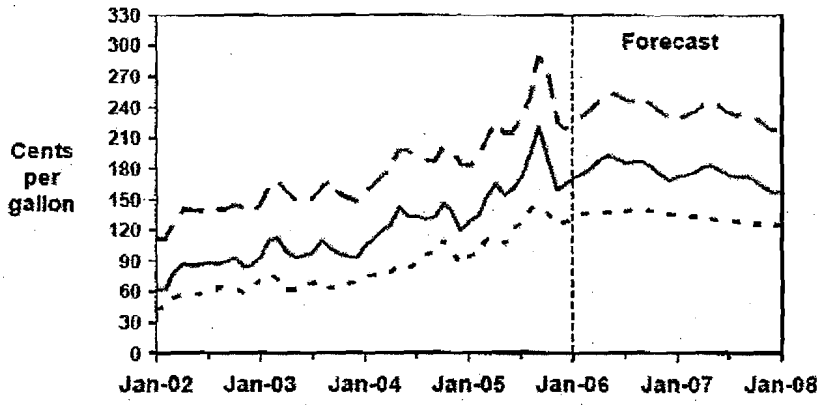
Chart Gallery for January 2006

Figure 1. West Texas Intermediate Crude Oil Price
(Base Case and 95% Confidence Interval*)



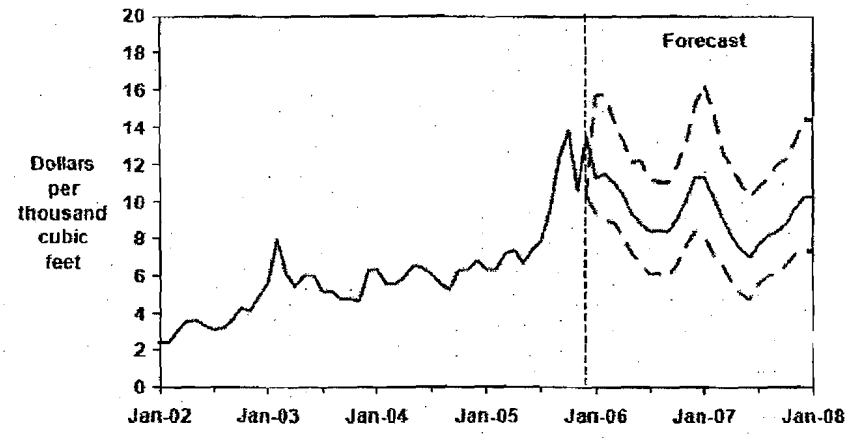
*The confidence intervals show +/- 2 standard errors based on the properties of the model.

Figure 2. Gasoline and Crude Oil Prices



Short-Term Energy Outlook, January 2006

Figure 3. Natural Gas Henry Hub Spot Prices (Base Case and 95% Confidence Interval*)



*The confidence intervals show +/- 2 standard errors based on the properties of the model.

Short-Term Energy Outlook, January 2006