

Testimony of
William Beeman
1st Vice President and Secretary
Dairylea Cooperative Inc.

Pursuant to the Federal Order Hearing
Considering Changes to Class I and II Price Formulas

Pittsburg, PA

December 12, 2006

Exhibit	17
Witness	
Date	Rptr.
Powers Garrison & Hughes	

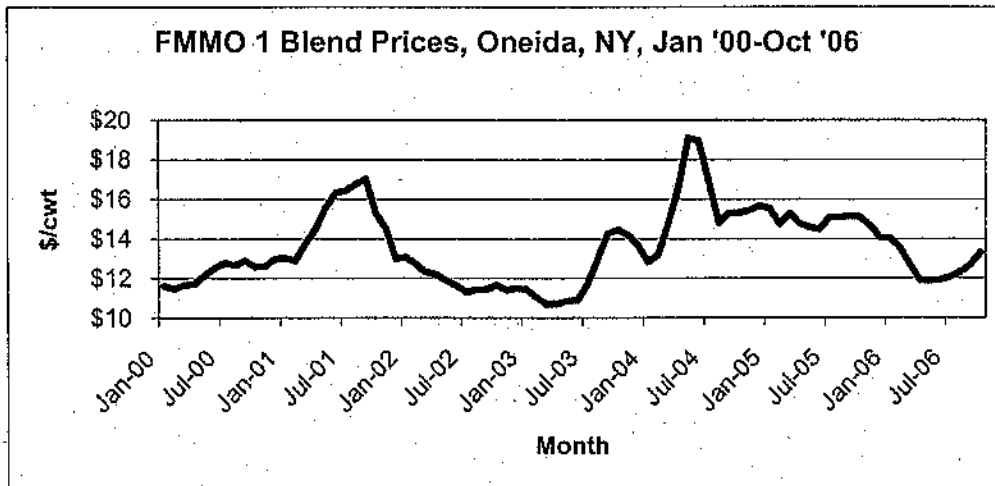
Hello, my name is William Beeman. My wife and I operate an 80 cow dairy farm in Susquehanna County, Pennsylvania. We are members of Dairylea Cooperative Inc. and I serve on its Board of Directors as its 1st Vice President and Secretary. My business address is RR2, Box 131, Kingsley, Pennsylvania.

I appear here today on behalf of the 2,400 members of Dairylea Cooperative to urge the Secretary to implement the National Milk Producers Federation (NMPF) proposal to update the Class I mover. This is needed due to increased costs of production and other factors. Dairylea also supports the changes to Class II pricing as proposed by NMPF. Additionally, Dairylea requests that a Decision be implemented on an emergency and expedited basis.

Dairylea is a member of NMPF and supports its testimony. Dairylea also supports the testimony of the Association of Dairy Cooperatives of the Northeast, for which Dairylea is a member.

Dairylea extends its gratitude to Secretary Johanns for quickly responding to letters from Dairylea, NMPF, other cooperatives and individual farmers and calling this hearing.

Since Federal Order Reform was implemented in 2000, there has been a boom and bust cycle in milk prices. The following graph shows the monthly blend price from January 2000 through October 2006, for Order No. 1, adjusted to the Central New York area (i.e., minus \$.75 per hundredweight from Boston). The Order No. 1 blend price is the base price received for Dairylea's membership.



During this time period there were record high blend prices in 2001 and 2004 and very strong blend prices in 2005. The other years, milk prices have been very low.

It has been my experience, and in general the experience of the Dairylea members, that 2001 prices allowed myself and Dairylea members to make up for losses and increased borrowings from the low prices of 2000. The 2004 and 2005 price levels helped members get back to even for the long price depression during most of 2002 and 2003. The low prices of 2006 have again put my farm and other Dairylea members in a hole and forced farmers to significantly increase debt levels to make up for operating losses. On my farm, the Milk Income Loss Payments (MILC) have helped but have not added enough revenue to make up for the low blend prices.

This pricing cycle is much worse than those in the past because of the significant increase in a number of key input prices that have resulted in a much higher cost of producing milk. On my farm, higher energy related prices have dramatically increased prices for such things as diesel fuel, utilities, fertilizer and corn drying costs. Additionally, just about everything we buy has a fuel surcharge added to it. Additionally, interest rates, hired labor wage rates and health, workers comp, fire, auto and liability insurance costs have increased. Presently, my cost of production is \$16.51 per hundredweight. This is \$3.21 higher than it was in 2002. The combination of these higher costs and low milk

prices have made this down cycle much worse than any in the past – far worse than in 2002 and 2003.

I believe that the resulting financial crisis that is occurring due to high input prices and low milk prices is affecting dairy farmers across the country. Attached is a table from the United States Department of Agriculture's Economic Research Service. It identifies U.S. milk production costs since Federal Order Reform. Between 2002 and 2005, total operating costs have risen by \$1.56 per hundredweight and Total costs listed increased by \$2.43. On my farm, cost of production increased even further during 2006, as I suspect it did on most farms throughout the country.

For most of 2006, I could purchase feed at relatively inexpensive prices. For instance, last spring I was buying feed for \$208 per ton. Now my feed bill is \$262 per ton – a 26% increase. I am anticipating much higher feed prices for 2007 due to the growth in ethanol production – which is being promoted and subsidized by the Federal government. At the same time, I am not expecting input prices for other factors to decline very much.

Although the price forecasts I have seen show improved milk prices for 2007 of about \$2.00 per hundredweight, the increases do not appear to be large enough to cover the increased costs and at the same time make up for the losses in 2006.

Compounding this will be a lower blend price that will occur due to the implementation of the increased Federal Order make allowances. Ed Gallagher, Dairylea's Vice President of Economics and Risk Management, has estimated that the make allowance will lower Order 1 blends by \$.23 per hundredweight during 2007. This would be an additional \$3,100 decline in revenues on my farm for 2007. For Dairylea members in total, it would be a \$12.4 million loss in revenue.

Dairylea respectfully requests the Secretary to adopt the NMPF proposal on an expedited basis to offset the higher costs in producing milk to serve the Class I market.

Thank you for allowing me to testify today.

U.S. milk production costs and returns per hundredweight sold, 2000-2005 1/

Item	2000	2001	2002	2003	2004	2005
	dollars per cwt sold					
Gross value of production:						
Milk	12.63	15.36	12.47	12.86	16.58	15.64
Cattle	1.05	1.12	1.03	1.17	1.35	1.40
Other Income 2/	0.57	0.74	0.60	0.69	0.75	0.86
Total, gross value of production	14.25	17.22	14.10	14.72	18.68	17.90
Operating costs:						
Feed--						
Feed grains	1.22	1.27	1.47	1.61	1.28	1.22
Hay and straw	1.51	1.87	1.69	1.67	1.71	1.89
Complete feed mixes	1.43	1.50	1.53	1.62	1.87	1.63
Liquid whey and milk replacer	0.06	0.05	0.07	0.08	0.11	0.11
Silage	1.09	1.08	0.95	0.94	0.97	1.67
Grazed pasture and cropland	0.08	0.08	0.08	0.08	0.11	0.08
Other feed items 3/	1.06	1.12	1.22	1.27	1.42	1.28
Total, feed costs	6.49	6.75	7.01	7.18	7.47	7.66
Veterinary and medicine	0.65	0.66	0.66	0.68	0.69	0.73
Bedding and litter	0.16	0.16	0.16	0.16	0.17	0.18
Marketing	0.27	0.27	0.27	0.28	0.26	0.30
Custom services	0.53	0.54	0.53	0.55	0.55	0.57
Fuel, lube, and electricity	0.48	0.47	0.46	0.51	0.56	0.61
Repairs	0.53	0.60	0.56	0.57	0.57	0.65
Other operating costs 4/	0.01	0.01	0.01	0.01	0.01	0.01
Interest on operating capital	0.26	0.16	0.09	0.05	0.08	0.19
Total, operating cost	9.36	9.58	9.74	9.99	10.38	11.30
Allocated overhead:						
Hired labor	1.14	1.19	1.25	1.30	1.35	1.37
Opportunity cost of unpaid labor	3.54	3.58	3.71	3.75	3.78	3.87
Capital recovery of machinery and equipment 5/	3.23	3.41	3.42	3.42	3.60	3.92
Opportunity cost of land (rental rate)	0.06	0.06	0.06	0.06	0.09	0.07
Taxes and insurance	0.18	0.18	0.18	0.18	0.19	0.20
General farm overhead	0.49	0.50	0.51	0.52	0.64	0.67
Total, allocated overhead	8.64	8.92	9.13	9.23	9.45	10.00
Total costs listed	18.02	18.50	18.87	19.22	19.83	21.30
Value of production less total costs listed	-3.77	-1.28	-4.77	-4.50	-1.15	-3.40
Value of production less operating costs	4.87	7.64	4.36	4.73	6.30	6.60
Supporting information:						
Milk cows (head per farm)	93	95	95	96	96	96
Output per cow (pounds)	19,974	20,003	19,992	20,032	20,076	20,045
Milking frequency greater than twice per day (percent of farms)	3.38	3.50	3.50	3.56	3.66	3.67
Homegrown feed cost (percent of total feed cost) 6/	34	34	34	34	34	35
Milk cows injected with bST (head per farm)	17	17	17	17	18	18

1/ Developed from survey year base, 2000.

2/ Income from renting or leasing dairy stock to other operations; renting space to other dairy operations; co-op patronage dividends associated with the dairy; assessment rebates, refunds and other dairy-related resources; and the fertilizer value of manure production.

3/ Cotton seed meal, protein supplements, protein byproducts, vitamin or mineral supplements, nonprotein byproducts, alfalfa cubes or pellets, green chop, corn stalks, and antibiotics and other medicated additives.

4/ Manure disposal fees, permits, and licenses, and odor control costs.

5/ Machinery and equipment, and housing, manure handling, and feed storage structures, and dairy breeding herd.

6/ Percent of feed cost from charge for homegrown feed. Homegrown feed items are charged at their market price to reflect the opportunity cost of using the feed items in milk production.