

FMMO Pricing Hearing Recommended Decision

Issued July 1, 2024

Proposed Base Class I Skim Milk ESL Adjustment

➤ How would the ESL adjustment work?

- For milk used in ESL products, the base Class I skim milk price will be the Class I mover plus an ESL adjustment.
- The ESL adjustment would be announced simultaneously with the Class I mover - on or before the 23rd of the prior month.

➤ How would the ESL adjustment be computed?

Equation:

$$\begin{aligned} & \text{Current month AO} \\ & + [\text{HO} - \text{AO}], \text{ for each of the preceding 13-36 months, averaged} \\ & - \text{Current month HO} \\ & = \text{Class I Skim Milk ESL Adjustment} \end{aligned}$$

Average-of (AO) = average of the advanced Class III and Class IV skim milk pricing factors.

Higher-of (HO) = higher of the advanced Class III and Class IV skim milk pricing factors.

➤ Where would the ESL adjustment be found in the regulations?

- Proposed order language would be found in 7 CFR 1000.50(r) and can be computed as follows:
 - Class I ESL adjustment = (r)(1) + (r)(2) - (r)(3)
- In other words:
 1. **(r)(1):** Compute the simple average of advanced Class III and Class IV skim milk pricing factors for the current month.
 2. **(r)(2):** Add the results of (r)(1) to the following:
 - (r)(2)(i): Determine the higher of the advanced Class III or Class IV skim milk pricing factors for each of the preceding 13 to 36 months;
 - (r)(2)(ii): Compute the average of the advanced Class III and Class IV skim milk pricing factors for each of the preceding 13 to 36 months;
 - (r)(2)(iii): For each of the preceding 13 to 36 months, subtract (r)(2)(ii) from (r)(2)(i);
 - (r)(2)(iv): Compute the average of the results from (r)(2)(iii).
 3. **(r)(3):** From the result of (r)(2), subtract the higher-of the advanced Class III and advanced Class IV skim milk pricing factors for the current month.

January 2023 Example

- Advanced Class III skim milk pricing factor was \$9.54 per cwt
- Advanced Class IV skim milk pricing factor was \$11.62 per cwt
- The higher-of for the month was \$11.62 per cwt

Steps:

1. (r)(1): $(\$9.54 + \$11.62)/2 = \$10.58$ per cwt, **plus**

Preceding 13-36 Months to January 2023

Year	Month	Advanced Class III Skim Milk Pricing Factor 1000.50(q)(1)	Advanced Class IV Skim Milk Pricing Factor 1000.50(q)(2)	Higher-of Advanced Class III or IV Skim Milk Pricing Factors 1000.50(r)(2)(i)	Average-of Class III and IV Skim Milk Pricing Factors 1000.50(r)(2)(ii)	Difference (Higher- of - Average-of) 1000.50(r)(2)(iii)
2020	January	12.65	9.28	12.65	10.97	1.69
	February	9.90	9.54	9.90	9.72	0.18
	March	10.47	9.68	10.47	10.08	0.40
	April	10.04	8.85	10.04	9.45	0.59
	May	8.93	7.03	8.93	7.98	0.95
	June	6.68	5.99	6.68	6.34	0.35
	July	13.29	6.46	13.29	9.88	3.42
	August	18.08	7.12	18.08	12.60	5.48
	September	17.43	7.13	17.43	12.28	5.15
	October	11.01	7.45	11.01	9.23	1.78
	November	16.07	8.00	16.07	12.04	4.04
	December	20.07	8.21	20.07	14.14	5.93
2021	January	10.25	8.33	10.25	9.29	0.96
	February	10.68	8.57	10.68	9.63	1.06
	March	11.10	8.66	11.10	9.88	1.22
	April	10.19	8.33	10.19	9.26	0.93
	May	10.75	8.88	10.75	9.82	0.93
	June	12.73	9.42	12.73	11.08	1.66
	July	10.59	9.83	10.59	10.21	0.38
	August	10.04	9.67	10.04	9.86	0.18
	September	9.68	9.75	9.75	9.72	0.04
	October	9.90	9.93	9.93	9.92	0.02
	November	11.45	10.53	11.45	10.99	0.46
	December	11.40	11.52	11.52	11.46	0.06
Average/Rolling Adjuster 1000.50(r)(2)(iv)						1.58

2. (r)(2): $\$10.58 + \$1.58 = \$12.16$ per cwt

3. (r)(3): $\$12.16 - \$11.62 = \mathbf{\$0.54}$ **Class I ESL adjustment** for January 2023

➤ The Class I skim price applicable for ESL products would be the base Class I skim mover, plus the Class I Skim Milk ESL adjustment. The adjustment can be positive or negative.