Class I skim milk testimony

Testimony Presented By:
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Prairie Farms Dairy supports National Milk Producers Federation (NMPF) Proposal Update the Milk Component Factors in the Skim Milk Price Formulas.

My name is Chris Hoeger. This testimony is presented in support of Proposal 1: Update the milk component factors in the skim milk price formulas as Proposed by National Milk Producers Federation (NMPF). This testimony is presented on behalf of Prairie Farms Dairy, Inc. (Prairie Farms), a Capper-Volstead cooperative. My career in the dairy industry covers over 22 years working in various roles from Sales Representative to several Executive level roles. I currently serve in the role as Vice President of Procurement and Member Services. I have served on various committees within many different dairy industry organizations. I have been on the NMPF Federal Order Task Force the last two years and have been an active member of the NMPF Economic Policy Committee for the last decade.

As of June 30, 2023, Prairie Farms membership is 668 conventional dairy farms located in Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Ohio and Wisconsin Prairie Farms has 680 members that make up our supply of milk. Prairie Farms is the 2nd largest fluid milk bottler in the U.S. with bottling plants located throughout the Midwest. Through wholly owned subsidiaries or joint ventures, we operate 30 pool-distributing plants that are located throughout the Midwest from the Canadian border to the Mexican border and the Gulf of Mexico. We also operate over 20 other manufacturing facilities that produce cheese, ice cream and cultured products. Prairie Farms purchases about 20 percent to 30 percent of its raw milk from other entities and under various arrangements. Prairie Farms has pool-distributing plants in six Federal Milk Market Orders (FMMOs), but the majority of our plants and milk supply are located in FMMO 32.

The nonfat solids, i.e., protein and other solids, components along with the butterfat component in milk have increased steadily over the last 20-plus years. Other witnesses have previously testified in detail about these increases. In the multiple component pricing (MCP) FMMOs, the increased components have meant some increased revenue for producers because a portion of the producer milk payment is based on the pounds of various dairy components contained in the producers' milk.

The formulas used to calculate skim milk prices have not been updated despite obvious and well-documented increases in the dairy components contained in producer milk. Because the nonfat solids components have not been updated in over 20 years, the Class I skim milk price has lost comparative value and producers have lost much needed income. Producers in the four FMMOs using skim-butterfat pricing have lost even more value than the producers in the MCP orders because a skim price is calculated for each of the four classes of milk, not just Class I as is done in the FMMO's with MCP.

FMMO 32 is a reasonable proxy for the FMMO system because its milk utilization is similar to the national average. Updating the nonfat solids components would impact the Class I skim milk price the

same for all eleven FMMOs. However, the impact on each associated PPD would vary because of the relationship of the Class I skim value and the total pooled milk volume by FMMO.

In April 2023, the announced FMMO 32 Class I skim milk price was $11.66 per hundredweight. This price was calculated by averaging the Advanced Class III and Class IV Skim Milk Prices, then adding the fixed differential of $.74 per hundredweight:

Advance Class III skim: **(5.9*$.2297)+(3.1*$2.2925)=$8.46**
Advance Class IV skim: **9*$1.0414=$9.37**
Class I skim milk price mover**: (($8.46+$9.37)/2)+$.74=$9.66**
Order 32 Class I skim price: **$9.66+$2.00= $11.66**

By substituting into the calculation the proposed updated nonfat solids component values, the April 2023 Order 32 skim milk price increases appropriately:

Advance Class III skim: **(6.02*$.2297)+(3.39*$2.2925)=$9.15**

Advance Class IV skim: **9.41*$1.0414=$9.80**
Class I skim milk price mover**: (($9.15+$9.80)/2)+$.74=$10.21**
Order 32 Class I skim price: **$10.21+$2.00= $12.21**

From this example, the updated component formula would add $.55 per hundredweight to the April 2023 Class I skim milk price. In April 2023, there were 340,868,325 pounds of Class I skim milk pooled on FMMO 32. By properly valuing the Class I skim milk, $1,874,755 in additional producer revenue was added to the pool. The updated nonfat solids component values also would have added $.12 per hundredweight to the PPD.

Without going into the stepwise details, the results from May 2023 would have been similar. The updated nonfat solids component values would have added $.63 per hundredweight to the May 2023 FMMO32 Class I skim price. The pool value would have increased the pool value by $2,190,925 and added $.16 per hundredweight to the PPD.

The updated nonfat solids components would also be beneficial to producers whose milk is pooled on FMMOs utilizing skim milk and butterfat pricing. As an example, using the $.55 per hundredweight Class I skim milk price increase for April 2023, the FMMO 7 pool value would have increased by $1,100,031. This would result in a $.35 per hundredweight increase in the uniform skim milk price, increasing it from $12.44 per hundredweight to $12.79 per hundredweight. Similarly, the May 2023 Class I skim milk price increase of $.63 per hundredweight would have added $1,314,952 in pool revenues. This would result in a $.44 per hundredweight increase in uniform skim milk price, increasing it from $13.00 per hundredweight to $13.44 per hundredweight.

Fairness and Equity in Accounting for Components

By using the proposed updates for nonfat solids components, the pounds of calculated components in Class I skim are closer to the actual components in the Class I skim milk. This is especially important in MCP FMMOs where the value of the total component pounds is subtracted from the total pool dollars in Class I, II, III, and IV. As an example in May 2023, FMMO 32 reported 11,633,532 pounds of protein and 20,969,034 pounds of other solids for a total of 32,602,566 pounds of nonfat solids in Class I.

Using the current nonfat solid component values, generates 10,780,744 pounds of protein and 20,518,189 pounds of other solids for a total of 31,298,933 pounds of nonfat solids. Using the proposed nonfat solids component updates, there would be 11,789,264 pounds of protein and 20,935,508 of other solids for a total of 32,724,772 pounds of nonfat solids. These results are shown in the table below, which clearly shows updating the component values in the class formulas yield results that are much closer to reality than the current nonfat solids component factors.

May-23	Fat	Protein	Other Solids	Non Fat Solids
Class I	7,695,710	11,633,532	20,969,034	32,602,566

	Class IV	Class III		
Current formula Calculated				
	Non Fat Solids	Protein	Other Solids	
	31,298,933	10,780,744	20,518,189	31,298,933

	Class IV	Class III		
Proposed formula Calculated				
	Non Fat Solids	Protein	Other Solids	
	32,724,772	11,789,264	20,935,508	32,724,772

Reduce Negative PPD in MCP Orders

Using the proposed updated nonfat solids component factors in the formula to calculate the Class I skim value will, as shown above, result in a higher price. This price increase will help alleviate the impact caused by negative PPD's. The PPD for FMMO 32 for the 24-month period from June 2021 through May 2023 averaged $.81 per hundredweight. This period was chosen since the disruptions created by COVID-19 had started to ease. During this same time period, there were two months with a negative PPD and five months that the PPD was positive and below $.30 per hundredweight. So for seven months or about 30% of the time the monthly PPD was well below the average.

Other MCP FMMOs show results similar to FMMO 32. The PPD for FMMO 30 (Upper Midwest) averaged $.24 per hundredweight for the 24-month period from June 2021 through May 2023. During this period there was one month when the PPD was negative and three months when the PPD was positive and under $.15 per hundredweight. In FMMO 51 (California), the PPD averaged $.91 per hundredweight for the same 24-month period. During this period there was one month when the PPD was negative and five months when the PPD was positive and under $.50 per hundredweight. For five months of the 24, i.e., June 2021, September 2021, October 2021, May 2022, and April 2023 all three FMMOs had low or negative PPD's. Updating the component values used in the Class I skim milk price formulas would help address the low or negative PPD's that lead to milk sales revenues to be depooled. While depooling is permissible in FMMOs, this activity adds to disorderly marketing when it becomes pervasive. The more milk participating in the pool, the fewer incidences of disorderly marketing will occur.

Attracting Milk from Other Uses to Serve the Class I Market

Updating the component formula used to calculate the Class I skim milk price will result in an increased Class I skim milk price. This increased price would be reflected as an increase in the FMMO PPD or Uniform Skim Milk Price.

The Class I price and the PPD are adjusted based on the plant location. As an example, in FMMO 32, the base zone is Kansas City with a $2.00 per hundredweight Class I differential. The FMMO 32 Class I differentials range from $1.70 per hundredweight in Sioux Falls, South Dakota (the low) to $2.60 per hundredweight in central Oklahoma (the high). Fluid plants in Colorado have a either a $2.45 per hundredweight or $2.55 per hundredweight Class I differential. The Class I differential in the Iowa/Nebraska area ranges from $1.75 per hundredweight in Dubuque to $1.85 per hundredweight in Omaha. The Class I differential in the St. Louis, Missouri area is $2.00 per hundredweight. This gives Sioux Falls a price that is $.30 per hundredweight lower than Kansas City. Based on the 24-months from June 2021 through May 2023, the Sioux Falls price, in and of itself, would not be sufficient to attract additional milk for fluid use about 30 percent of the time. The same is true for the distributing plant in Dubuque, Iowa. The price there is $.25 per hundredweight lower than Kansas City, so it is in a $.05 per hundredweight better position than Sioux Falls. But the Dubuque plant is located in a milk shed that has numerous manufacturing plants that are very price competitive. Milk from northeast Iowa and surrounding areas have become a reserve supply for the St. Louis market (which has the same Class I differential as Kansas City). The Class I value at St. Louis is $.25 per hundredweight higher than Dubuque, but that price advantage is quickly absorbed by the extra freight required to get the milk to St. Louis. This leaves distributing plants in the St Louis area with a lower Class I price than the price necessary to attract reserve supplies if the additional freight costs are considered.

The Class I skim milk price formula does not create difficulties in only FMMO 32; Similar examples can be found in other FMMOs. And the problem is not only found in the MCP FMMO, and in fact, it is even worse in FMMOs using skim-butterfat pricing. Non-MCP FMMOs end up trying to attract milk from surrounding areas with MCP. FMMO 7 pulls reserve supplies from FMMO 126, and FMMO 5 depends on milk being shipped from FMMOs 1 and 33. The skim and butterfat pricing used in FMMOs 5 and 7 compete poorly with the component values available in the MCP orders. The Class I price with the current formula results in FMMO prices that, adjusted for distributing plant location, do not adequately compensate the reserve supply for pulling milk out of manufacturing plants and delivering that milk for fluid use instead. This price misalignment can be partially solved by updating the nonfat solids component values used in calculating the Class I skim milk price.

The current skim milk component factors contribute to the difficulty, of attracting milk for fluid use. The Class I price is simply not adequate to “pull” the milk from reserve supply manufacturing uses.

Prairie Farms expresses its appreciation to the Secretary of Agriculture and the Dairy Division for holding this hearing. We strongly recommend the Secretary to adopt Proposal 1 from NMPF: Update the milk component factors in the skim milk price formulas. This will promote orderly marketing of milk along with ensuring an adequate supply of milk for Class I operators to serve their markets.

Respectfully submitted,

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