UNITED STATES DEPARTMENT OF AGRICULTURE
BEFORE THE SECRETARY OF AGRICULTURE

IN RE:	
MILK IN THE NORTHEAST AND OTHER MARKETING AREAS; Class III/IV MAKE ALLOWANCES	**Dockets: AO-14-A77 DA-07-02**
72 Fed. Reg. 6179 (Feb. 9, 2007) 72 Fed. Reg. 7753 (Feb. 20, 2007) 72 Fed. Reg. 13219 (Mar. 21, 2007)	

Reconvened Hearing
Indianapolis, Indiana
April 9 – 13, 2007

ADVANCE SUBMISSION IN EXHIBIT FORM OF HEARING STATEMENTS IN SUPPORT OF PROPOSALS SPONSORED BY AGRI-MARK, ET AL.

Proponents of Proposals 1, 2, 10, 11, and 14 in the hearing notice published February 9, 2007, submit in advance of the reconvened hearing in Indianapolis the attached statement of Robert Wellington, of Agri-Mark, in support of Proposal No. 14. This advance statement is provided for the convenience of other parties, and may be edited or modified prior to presentation in Indianapolis during the week of April 9 – 14.

Also submitted in advance of the reconvened hearing in Indianapolis is the attached statement (declaration) of Tim Greenway, Foremost Farms, which was previously made available to interested parties at the Strongsville, Ohio, hearing segment. Mr. Greenway has now arranged his schedule to be available in Indianapolis on the afternoon of Tuesday, April 10, 2007, to respond to questions on cross-examination concerning his statement.

Class III and IV pricing issues in this hearing include manufacturing costs to convert milk into manufactured milk products (make allowance proposals 1, 2, 3, and 17), as well as yield factors, and product price survey references to be used in federal milk order Class III and IV milk price formulas. Manufacturing cost/make allowance testimony from 2006 hearings is relevant to manufacturing cost/make allowance issues in this hearing. Agri-Mark, et al., will therefore offer as evidence the following statements and associated exhibits received in the course of the hearings during January and September 2006, in Docket No. AO-14-A74, which are reproduced on the Dairy Programs' hearings webpage < http://www.ams.usda.gov/dairy/proposals/classIII_IV_make_all_exh.htm > for exhibits

marked in the course of prior make allowance hearing. Witnesses sponsoring these exhibits may again be cross-examined concerning their statements of 2006, to the extent witnesses are available. If any witness from the prior proceeding is unavailable at the Indianapolis proceeding, the prior recorded testimony may be received in accordance with 7 C.F.R. §§900.8(d), 5 U.S.C. §556(d), and consistent with Rules 804(b)(1) and 807 of Federal Rules of evidence.

Docket No. AO-14-A74

Exhibit Numbers	Sponsoring witness	Subject Matter of Evidence
18	Charles Ling, USDA	Testimony, manufacturing costs survey '04
19	Charles Ling	1998 Cost survey report
20	Charles Ling	1998 report revised to exclude Calif plants
21	Kelly Krug, CDFA	California Dept of Food & Agric survey
22	Venetta Reed, CDFA	Details on CDFA plant cost survey procedures.
23	Krug and Reed	CDFA plant cost survey report for 04
24	Krug and Reed	CDFA 04 survey report, corrected.
25	Krug and Reed	Corrected 04 report with cover letter
26	Krug and Reed	Energy costs in CDFA plant cost survey
29	Wellington, Agri-Mark	Agri-Mark plant costs and Northeast market factors.
35	Charles Ling	List of plants in Ling cost survey
40	R. Langworthy, Agri-Mark	Agri-Mark manufacturing costs, whey handling and transportation.
41	D. Schad, Land O' Lakes	LOL manufacturing costs.

Exhibit Numbers	Sponsoring witness	Subject Matter of Evidence
42	D. Schad	Make allowance calculations and LOL Carlisle monthly % of capacity production.
43	N. Gulden, AMPI	AMPI, manufacturing costs
44	Joe Weis, Foremost Farms	Foremost, manufacturing costs
45	John Davis, Davisco	Davisco, manufacturing costs.
47	Scott Burleson, WestFarm	Westfarm, whey handling, transportation and processing costs testimony.
48	Scott Burleson	Tables and detail on whey make costs.
49	Craig Alexander, O-At-Ka	O-At-Ka manufacturing costs and Northeast market manufacturing needs.
52	Dan McBride, NDA	NDA manufacturing costs.
55	Gulden, AMPI	Energy, utility costs in manufacturing
60	Roger Cryan, NMPF	Manufacturing costs and make allowance policies.
66	Sue Taylor, Leprino	Leprino, manufacturing costs.
67	Bob Yonkers, NCI	Manufacturing costs and application to make allowance policies.
75	Mark Stephenson, CPDMP	Cornell plant manufacturing cost surveys for 04-06 cost period, testimony.
76	Mark Stephenson	Report on Cornell cost survey.
77	Roger Cryan, NMPF	Energy, utility costs in manufacturing and indexing of such costs in make allowance.

Additional statements and testimony in opposition or response to proposals of other parties will be prepared after Agri-Mark, et al, and counsel have had the opportunity to review statements and testimony of such other parties.

Respectfully submitted,

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March 30, 2007

EXHIBIT # _____

Testimony of
Robert D. Wellington of Agri-Mark Dairy Cooperative
Regarding Proposals 10 and 11
At Federal Order Hearing
(Docket No. AO-14-A77, et al.; DA-07-02)
February 26, 2007 in Strongsville, Ohio
And April 9, 2007, in Indianapolis, Indiana

My name is Robert D. Wellington. I testified during the first week of this hearing on proposals 1, 2, 10, and 11 and now wish to do so regarding Agri-Mark proposals 14.

PROPOSAL #14

This proposal seeks to amend the Class III and Class IV product price formulas by using a combination of the weekly NASS (National Agricultural Statistical Service) and CME (Chicago Mercantile Exchange) cheese price series to determine the cheese price to be used in the Class III and Class IV product price formulas.

CME VS NASS CHEESE PRICES

U.S. cheese manufacturers use the CME market prices as a basis to set the cheese prices they charge in the marketplace. In addition, California uses the CME price series to set its state mandated milk price for milk used to make cheese (Class 4b). However, USDA uses a different price series in its price determination.

USDA uses the NASS cheese price survey to determine the cheese prices that in turn are used to determine Class III prices each month. While the NASS and CME are closely linked, that relationship usually involved a two week lag.

The two week lag between NASS and CME prices became a serious problem in 2004 when CME cheese prices changed so quickly from week to week that the monthly average between the two price series fluctuated dramatically. In fact the two prices varied by more than ten cents per pound in seven of the twelve months of 2004. The lag remains a problem today whenever cheese prices move significantly at the CME.

The following table shows the simple regression results estimating the relationship between the NASS and the CME for both block and barrel cheese prices. The table shows the relationships based on having no lag as well as one week, two weeks and three week lags. The time periods considered is from January 2000, when the Orders were amended to use NASS pricing, to

February 2007. Specifically, there are 372 weeks going from January 22, 2000 through February 24, 2007. The initial weeks of January 2000 were not included in the regression analysis due the assumption of a three week lag as one of the scenarios.

As seen in the table, a two week lag in the CME relative to NASS prices shows the best relationship. In fact during the past seven year period, the CME price series accounted for between 97% and 98% of the variation in the NASS price series.

NASS VERSUS CME WEEKLY CHEESE PRICE RELATIONSHIP REGRESSION ANALYSIS: R Squared Values

	BLOCK PRICES	BARREL PRICES
CURRENT NASS VS CME	88%	91%
1 WEEK LAG NASS VS CME	95%	97%
2 WEEK LAG NASS VS CME	98%	97%
3 WEEK LAG NASS VS CME	95%	92%

The attached chart shows the weekly time line for the monthly cheese price used in the Class III and Class I price calculations. Using the month of April as an example, the top of the table shows that the NASS cheese prices for the four weeks of April are used to calculate the Class III price that month. The April NASS prices are correlated with the CME price for the last two weeks of March and the first two weeks of April, but no adjustment is currently done to relate the two.

Underneath the current April Class III pricing time line is an alternative time line showing the weeks to be used in a new proposal that links the cheese price used to calculate the Class III price (referred to as "the Class III cheese price") with the market CME prices. The proposal uses the actual CME weekly prices for April adjusted by the difference between the NASS cheese prices for the last two weeks of March/first two weeks of April and the CME cheese prices for the four weeks of March.

This proposal essentially uses all the weekly observations of all NASS and CME prices. Over a number of months, the CME current month price series and the previous month CME prices series cancel one another out, leaving only the NASS price series as the average price indicator overtime. This proposal allows the USDA to use up-to-date CME prices needed by the

industry while making the appropriate adjustment in those prices to assure that the NASS price is the primary determinant of cheese prices used overtime. If the CME is manipulated in such as a way as to diverge from true NASS prices, this proposal adjusts those CME prices to the actual NASS prices to correct the situation.

The second half of the time line chart shows how the cheese prices for the Class I price determination can also be changed to use the more current CME price series, while also adjusting back to NASS prices. This part of the proposal allows the use of actual CME prices for the second and third weeks of March to determine the Class I cheese price instead of the current first two weeks of NASS pricing. This part of the proposal does use a different set of weeks than currently used so it may not come back entirely to the NASS pricing on a historical basis. However it does relate back to the NASS price series.

Class III cheese pricing

Under the change in the scenario, the changes in the average cheese price used to calculate the Class III price and the resulting Class III prices are very small. The change should tend toward zero over time.

The following table shows the NASS cheese price and the hybrid cheese price being proposed for each calendar year of 2003 through 2006. In 2003, there was no difference in average cheese prices used in the Federal order Class III calculation. Individual annual changes did occur in the subsequent three years, but over the entire four year period, the change averaged $0.003 cents per pound higher than the current price. The table also shows that the Class III averaged $0.03 per hundredweight higher.

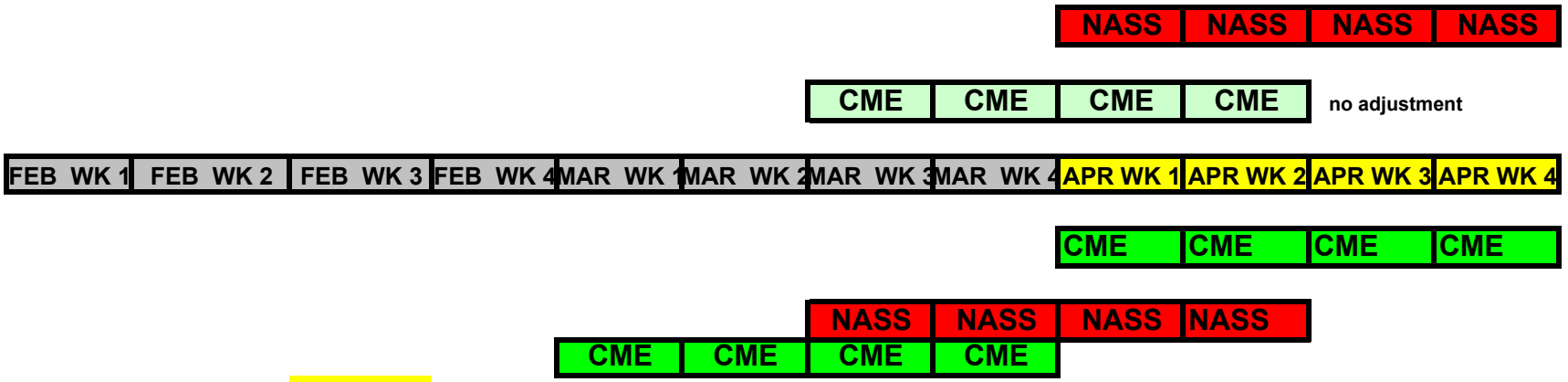
ACTUAL AND PROPOSED CHEESE PRICES USED TO DETERMINE
THE CLASS III PRICE AS WELL AS THE RESULTING CLASS III PRICES.

	CHEESE PRICES		CLASS III PRICES	
YEAR	ACTUAL	PROPOSED	ACTUAL	PROPOSED
	($ PER POUND)		($ PER CWT.)	
2003	$1.303	$1.303	$11.42	$11.42
2004	$1.643	$1.652	$15.39	$15.48
2004	$1.488	$1.473	$14.05	$13.91
2006	$1.247	$1.265	$11.89	$12.06
AVERAGE	$1.420	$1.423	$13.19	$13.22

Additional detailed tables showing the monthly and annual impacts of each aspect of this proposal, updated through the end of 2006 will be available at or before the first day of the hearing on April 9, 2007.

CLASS III CHEESE PRICING

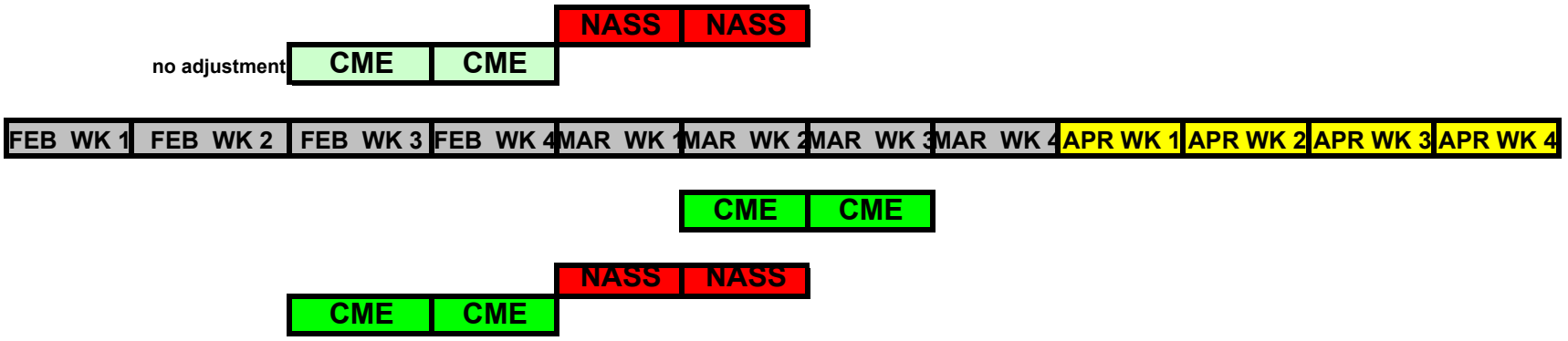
CURRENT APRIL USES NASS PRICING FOR FOUR WEEKS OF APRIL



PROPOSED APRIL USES CME PRICING FOR APRIL PLUS (NASS PRICING LAGGED 2 WEEKS MINUS CME PRICES LAGGED FOUR WEEKS)

CLASS I CHEESE PRICING

CURRENT APRIL USES NASS PRICING FOR FIRST TWO WEEKS OF MARCH



PROPOSED APRIL USES CME PRICING FOR 2nd AND 3rd WEEKS OF MARCH PLUS (NASS PRICING FOR

FIRST TWO WEEKS OF MARCH MINUS CME FOR LAST TWO WEEKS OF FEB.)

Created by Robert D. Wellington, Agri-Mark April 3, 2005 Source: CME NASS ANALYSIS USDA TIME LINE

UNITED STATES DEPARTMENT OF AGRICULTURE
BEFORE THE SECRETARY OF AGRICULTURE
Agricultural Marketing Service

NATIONAL MILK ORDER HEARING	**)**	Docket No. AO–14–A77, et al.;
Class III and IV Pricing Formulas	**)**	DA–07–02
72 Fed. Reg. 6179 (February 9, 2007)	**)**	

Strongsville, Ohio
February 26 – March 2, 2007

DECLARATION OF TIM GREENWAY

1. My name is Timothy P Greenway. I am over the age of 18 and competent to testify.

2. I am the Director of Planning & Business Services for Foremost Farms, USA. This Declaration is filed on behalf of Foremost Farms USA, P.O. Box 111, Baraboo, WI 53913-0111 to provide information relevant to the USDA Milk Order Hearing in Strongsville, Ohio, starting February 26, 2007.

3. Foremost Farms USA is a dairy farmer-owned Capper-Volstead cooperative representing 2500 member-owner milk producers located in 7 states. In 2006, Foremost's member-owners located in Wisconsin, Minnesota, Iowa, Indiana, Ohio and Michigan marketed 5.2 billion pounds of milk through their cooperative.

4. Foremost owns and operates ten cheese plants located in Alma Center, Appleton, Chilton, Clayton, Lancaster, Marshfield, Milan, Richland Center, Waumandee and Wilson Wisconsin, producing 495 million pounds of cheese annually. Our Ingredient plants located in Preston, Minnesota, Waukon, Iowa, and Plover, Rothschild, Reedsburg and Sparta Wisconsin, serve the dual roles of further processing the whey solids from our cheese plants while balancing the surplus butterfat and skim solids from our member-owners milk supply by producing butter, condensed skim milk and occasionally nonfat dry milk. In addition to supplying milk to our own distributing plants in DePere and Waukesha, Wisconsin, we also supply Grade A bulk milk to distributing plant located in Federal Orders 5, 30, 32, and 33.

5. Because of prior commitments and short notice prior to the hearing, I am unable to attend in person. However, I can make myself available during the week of February 26 – March 2, 2007, to answer questions by teleconference or by email response concerning the facts stated in this declaration.

6. This Declaration is based upon my personal knowledge from my experience and responsibilities for Foremost, including data prepared for my review and analysis by employees acting under my direction and supervision. The data revealed in this declaration is collected, prepared, and maintained in business records by Foremost in the ordinary course of business.

7. My education and experience is summarized as follows:
   - I worked in a variety of positions within the family's cheese business "Summit Cheese Factory Incorporated" when in grade school, high school, and college.
   - In 1986 I received a Bachelors Degree of Science in Industrial Technology from the University of Wisconsin – Stout.
   - On January 1, 1987 I was hired as Assistant Manager at Summit Cheese with responsibilities for assisting with general operations, and the management of the office, and field service staff. I was later promoted to the position of Treasurer for the organization.
   - On October 1, 1991 Wisconsin Dairies Cooperative purchased the physical assets of Summit Cheese Factory, Inc.
   - January 1, 1992, I was hired as Budget & Analysis Manager at Wisconsin Dairies Cooperative with responsibilities for cheese plant budgeting and general business analysis.
   - On January 1, 1995 Golden Guernsey Dairy Cooperative and Wisconsin Dairies Cooperative consolidated and formed Foremost Farms USA, Cooperative. My position was changed to Manager of Analysis and Special Projects within the Accounting Department during this period. The scope of my responsibilities were broadened, taking on the management of a group of business analysts. We expanded analysis and projected management beyond cheese related business. This position was later renamed to Manager of Operational and Financial Analysis.
   - On December 6, 2002, I was promoted to Director of Planning & Business Analysis with the Cheese Division. My responsibilities since then have included operational planning to maximize returns based on market conditions, supporting marketing & cheese technology functions, key measures, and general management support for business decisions.
   - On September 1, 2006, the Cheese & Ingredient divisions merged together to form the Manufactured Products Division and my position changed to Director of Planning and Business Services. This position added a customer service group and Operational Business Systems area to my responsibilities.
   - I have attended multiple University of Wisconsin – Madison (School of Business) courses over the years including the Wisconsin Cheese Technology Short Course.

8. For purposes of this hearing, I was requested by Foremost management to prepare information concerning Foremost's production of cheese at its plant in Marshfield, Wisconsin, with particular attention to plant records showing retention of butterfat received in raw milk in cheese products that we produce.

9. The Marshfield plant is among the largest cheese plants in the Upper Midwest and produced 56,600,000 of cheese during 2006, all in standard 40# blocks.

10. 85% of the Marshfield 2006 production volume was cheddar cheese. An additional 11% of production was in other American style cheeses, such as Colby, Jack, Brick, etc. that have similar butterfat retention values.

11. 4% of the Marshfield 2006 cheese production was in lower fat American styles, from 25% to 75% reduced fat.

12. The Cheddar and American style cheeses produced in Marshfield are all produced utilizing traditional manufacturing procedures and materials. The plant utilizes eight Damrow Double "OO" vats, a Scherping Cheese Maker, Salter, and Block Towers to produce all cheese products.

13. The Marshfield plant does not make dry whey products or whey cream butter products. Whey Cream is sold from this location to third party buyers. Whey cream is typically sold f.o.b. Marshfield based on the CME AA Butter using a multiplier that is 14% less than for sweet cream of the same fat content. Condensed Whey is sold and shipped to whey products plants.

14. Foremost Farms continuously gathers and maintains information to track the percent of Butterfat Retained in Cheese. This data is a Key Measure reviewed by management monthly.

15. The Foremost Farms USA % Butterfat Retention Calculation Method is summarized below:
    - We utilize a mass balance approach to this key measure. Total materials received and utilized into production compared to the finished goods obtained.
    - The milk pounds recorded when receiving loads at the plant are based on scale weights for Foremost Farms USA member milk and vendor milk received.
    - The quantity of milk to production is a net value calculated from starting/ending inventories, shipped milk, and received milk.
    - Milk component values and % Butterfat are based on load samples and tested at the Baraboo milk testing laboratory utilizing the same testing process as the producer payment samples.
    - The cheese samples are obtained from a defined 40-pound block from each cheese vat production (lot).
    - A wet fat value is processed for each sample utilizing industry standard methods.
    - The total pounds of fat are determined by multiplying the lot pounds produced with the corresponding wet fat.

16. During 2006 our Marshfield location had a plant average of fat retention of 90.25%. This performance level is historically representative for this location.

17. Some fluctuation in fat retention occurs from month to month, impacted by factors such as seasonal composition of milk (% casein and fat to casein ratio), condition and handling of milk fats, product mix, operator performance, etc.

18. Attached is a spreadsheet providing a month-to-month summary of our fat retention in cheese produced at the Foremost Marshfield plant.

19. Not all of the cheese produced at our plant ends up in the sale of standard cheese in a 40-pound block. Some cheese does not meet commercial standards, for a variety of reasons, and is sold at a substantial discount (averaging 25¢ per pound below CME) as downgraded cheese. During 2006, 0.56% of our Marshfield cheese production was downgraded. Some cheese also ends up as cheese fines rather than in blocks. Cheese fines typically sold for $0.60 per pound during 2006. Of our total 2006 Marshfield cheese production, 0.70% was in cheese fines.

20. Cheddar cheese in 40-pound blocks sold from our Marshfield plant is included in the NASS survey of cheese transactions used by USDA to calculate a Class III price. Our down-graded cheese is not included in transactions reported to NASS, nor is the sale of cheese fines.

In accordance with 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct. Executed on this 26 day of February 2007.

Timothy P Greenway

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Timothy P Greenway

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Foremost Farms USA Key Measure Report
% Butterfat Retention in Cheese - Trend Summary

	12. Mo. Average	Dec-06	Nov-06	Oct-06	Sep-06	Aug-06	Jul-06	Jun-06	May-06	Apr-06	Mar-06	Feb-06	Jan-06
Marshfield													
%Butterfat Retention in Cheese	90.25%	89.63%	90.79%	89.78%	88.34%	89.26%	88.88%	89.36%	91.16%	91.43%	91.53%	92.31%	90.51%

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2/21/2007 11:09

Foremost Farms USA Key Measure Report
% Butterfat Retention in Cheese - Trend Summary

	12. Mo. Average	Dec-06	Nov-06	Oct-06	Sep-06	Aug-06	Jul-06	Jun-06	May-06	Apr-06	Mar-06	Feb-06	Jan-06
Marshfield													
%Butterfat Retention in Cheese	90.25%	89.63%	90.79%	89.78%	88.34%	89.26%	88.88%	89.36%	91.16%	91.43%	91.53%	92.31%	90.51%