

Before the Secretary
United States Department of Agriculture

Regarding Milk in the Northeast and Other Marketing Areas
Proposed Amendments to Orders

Docket Nos. AO-14-A74, et al. and DA-06-01

January 22, 2007

Exceptions and Comments to Tentative Final Decision

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Land O'Lakes (LOL) is a dairy cooperative with more than 3,000 dairy farmer member-owners. The cooperative has a national membership base, whose members are pooled on six different Federal orders. Land O'Lakes owns three cheese plants and a butter/powder plant which are regulated by the Federal orders. An environment of increasing costs at cooperative's manufacturing plants caused LOL to request and to give testimony at the January 24, 2006 Hearing. LOL wrote a brief in support of our position and joined with the Proponent Cooperatives in briefing the Reopened Hearing. Land O'Lakes' butter, powder and cheese plants continue to incur losses that are a result of the outdated manufacturing costs currently contained in the FMO class price formulas. The relief granted in the Tentative Final Decision is inadequate to alleviate those losses.

Land O'Lakes Takes Exception to November 22, 2006 Tentative Final Decision and Offers the Following Comments

The record of the January 24th and the Reopened Hearing provided overwhelming evidence that manufacturers of butter, powder and cheese are not being adequately compensated through the current make allowances. The Department misinterpreted the testimony and evidence provided in the hearings, which resulted in (1) the unjustified discarding of the Rural Business Cooperative Service (RBCS) survey and (2) an arbitrary and

precedent-breaking cost-volume weighting methodology. The Department wrote a Tentative Final Decision (TFD) that provides inadequate relief to plants that receive regulated milk and manufacture butter, powder and cheese.

The Department Arbitrarily Dismissed the Results of the RBCS Survey

For six years the Department has relied on the RBCS to estimate the costs of manufacturing butter, powder and cheese for purposes of determining make allowances. USDA adopted the survey during the informal rule making procedures of Federal Order Reform. Loosened from the constraints of ex parte rules, AMS personnel were free to interact with RBCS personnel, so to fully familiarize themselves with the RBCS methodology and to feel comfortable with representativeness of the survey. During the May 2000 Class III/IV Hearing, the Department reiterated its support for the RBCS survey of cooperative plants as the representative sample of the cost of manufacturers, operating in the Federal Order environment. The Secretary rejected a cost study of proprietary cheese plants offered by the National Cheese Institute during that hearing. Only after Cornell University approached the Department “three or four years ago,” (NT, September 14, 2006, pg. 114) did the Department make any effort to replace the RBCS Survey. Yet, the Cornell Program on Dairy Markets and Policy (CPDMP) Cost Study was not available for the January 24th hearing.

Land O’Lakes supports the Department’s use of the best survey data available to estimate the costs of manufacturing butter, powder and cheese. However, LOL does not support a blind adherence to consistency that forces the Department to utilize an inferior cost survey for an individual commodity. Land O’Lakes agrees that the Cornell Cost Study is superior to the RCBS Survey for estimating the cost of converting milk into cheese and whey. For the last three years Cornell has developed its survey of cheese plants. Dr. Stephenson stated that Cornell had collected its data from cheese plants for more than a year. On the other hand, Cornell’s data collection for butter/powder plants was more recent and more problematic. Dr. Stephenson noted that the survey results for butter and powder were negatively affected by the abbreviated time period (NT, September 14, 2006, pg. 43-4) and he noted that he would be “nervous” using the results of the butter survey.

The TFD lists four issues with the RCBS Survey which precluded its use for determining the costs of manufacturing dairy products:

1. The RCBS Survey did not demonstrate that plant size is a major determinate of plant costs and that larger plants have significantly lower costs.
2. The RCBS Survey only included costs from cooperatively owned plants and the RCBS costs were collected on an unaudited and voluntary basis.
3. The costs of natural gas and electricity are not clearly represented in the RCBS cost survey.
4. Data collection in the CPDMP study is superior to the RCBS cost survey.

Hearing Exhibit 18 Shows Economies of Scale in RCBS Testimony

In at least two citations in the TFD, the Secretary commented that the RCBS cost survey was defective because the witness representing the RCBS failed to recognize that “. . . larger plants have lower per unit costs than smaller plants.” The TFD further stated, “The fact that economies of scale are evident in the CPDMP study is a marked improvement which can be used to support using these costs of processing dairy products over the RCBS survey costs.”

Presumably the Secretary drew this conclusion from the following exchange between the AMS Marketing Specialist and Dr. Ling:

- Q. In your plant cost analysis, did you notice that larger plants tend to have lower production costs than the smaller plants in the population of plants that you were looking at?
- A. Without looking at the data, I wouldn't be able to give you that general statement because there are so many factors going into, you know, price and cost.
- Q. So that it is not just eminently apparent from looking at the data and from remembering this morning?
- A. No, I mean, from my memory, I don't - -
- Q. Okay. Thank you very much, Doctor. That's my questions. Thank you.

Source: NT, Day 2, pg 131-2.

This exchange hardly provides the smoking gun of Dr. Ling's economic heresy.

Irrespective of whether Dr. Ling understood the questions or whether he chose not make a "general statement" based on "the population of plants," Dr. Ling consistently shied away from drawing any conclusions from the RBCS data. He defined his role, ". . . my job is to present the effects and I don't pass judgment on the numbers (that) I present." (NT, January 24, pg 127.)

Nevertheless, while Dr. Ling's testimony may, at best be, inconclusive, his cost survey data is not. Page 4 of Exhibit 18 lists the simple and weighted average plant costs for each commodity. The simple average plant cost is derived by summing the cost of each item and dividing that aggregate cost by the number of plants. In a simple average all plants, irrespective of size, have equal weightings. However, the weighted average cost is derived by using each plant's product pounds as a weighting factor, so that a larger plant will have more influence on the weighted average cost than a smaller plant.

For each product in Exhibit 18, the Total Weighted Average Cost is lower than the Total Simple Average Cost. This can only be possible if the plants with higher volume report lower costs. Irrespective of DR. Ling's verbal ambivalence, the only conclusion that can be drawn from Dr. Ling's data is that "larger plants tend to have lower production costs than smaller plants."

The RBCS, CDFA and CPDMP Surveys are Similar

The TFD noted that the RBCS Survey only included cost data from cooperatively owned plants and the data were collected on a voluntary basis. Because the CPDMP Cost Survey was more like the CDFA (California Department of Food and Agriculture) survey, the Secretary concluded that the CPDMP results were superior. As conceded earlier, LOL believes the CPDMP the plant sampling process for cheese and whey is superior to the RBCS Survey.

That said, the three cost surveys are similar concerning butter and powder plants. All three are voluntary plant surveys. (Ling, Day 1, pg 91; Krug, Day 1, pg 153; Stephenson, Exhibit 76, pg 3) While CDFA personnel inspect primary plant documents to provide each plant its cost of production,

both the CPDMP and RBCS rely on generating plant cost averages from secondary reports provided by plant personnel. While the CDFA witness testified that the cheese plants in the California survey included proprietary plants, the hearing record does not reveal the ownership of the butter and powder plants. Dr. Stephenson declined to answer whether the eight powder and four butter plants included in the CPDMP Cost Study were cooperatively owned. (NT, September 14, 2006, pg. 190)

RBCS Survey Adequately Reports Energy Costs

Since the Secretary declined to include a provision to adjust the electricity and gas components of the commodities' make allowances in the TFD, an accurate breakout of these costs is irrelevant. The TFD states that the cost of fuels is not clearly represented in the RBCS Survey. It is true that some of the plants in the RBCS Survey combined energy costs with other utilities, but it is also true that both the CDFA and CPDMP combine gas and electric costs in the "Processing Non-Labor" category. CDFA and CPDMP state that this category includes utilities, repairs, maintenance, supplies, depreciation and rent. (Exhibit 23 and Exhibit 76, pg. 6)

The discussion of the specificity of energy costs would have been germane had the Secretary chosen to include an energy adjustment to the make allowances. As it is, all three surveys provide an adequate measure of aggregated manufacturing costs.

The RBCS Survey is a Proven Cost Survey Instrument

For the last twenty years Dr. Ling has provided surveys to requesting cooperatives that bench mark their manufacturing plants against industry norms. While the manufacture of cheddar cheese is dominated by proprietary interests, the manufacture of butter and powder continues as a predominantly cooperatively-owned enterprise. USDA reports that 85-percent of dry milk products and 71-percent of butter are marketed by cooperatives. (Cooperatives in the Dairy Industry, USDA, RBCS, September, 2005, p.23) RBCS surveys only cooperatively owned plants and as noted previously, there is no record evidence that the CDFA or CPDMP surveys included any proprietary butter or powder plants in their cost studies.

Dr. Ling has gained considerable experience in the complexities of dairy manufacturing during his twenty years of providing cost surveys for the dairy industry. As a result of his expertise in dairy cost economics, one butter and two powder plants were excluded from the survey due to “incompatible data.” (Ling, Day 1, pg 95) While the current Department of Agriculture budget precludes Dr. Ling from recent visits to dairy plants, his long tenure has allowed him to inspect many dairy plants over the years.

The TFD implies that the CPDMP cost study is superior because the Cornell researchers were able to visit each plant, however such plant access did not prevent the CPDMP survey from mis-allocating energy expenses in a condensed skim/powder plant. (NT, September 14, 2006, pg. 109-10) This error was found only after the plant owner received a copy of his plant report and discovered the error. Under cross examination, the Cornell witness admitted, while he corrected the NFDM average cost, the butter cost allocation may also be in error. (NT, September 14, 2006, pg. 114) Land O’Lakes participated in the CPDMP cost study with data from its Kiel cheddar cheese plant and its Carlisle butter/powder plant. LOL has repeatedly requested copies of the results of its plants’ reports. While we submitted to Cornell a report on our Kiel plant in January 2006 and our Carlisle plant in July 2006, LOL has yet to receive a response from the researcher. In contrast, LOL has worked with Dr. Ling for many years on the RBCS survey; we have completed the questionnaires and received the plant benchmarking results. Dr. Ling provided a copy of the individual plant reports and the averages to each participant prior to his testifying at the January hearing to ascertain the accuracy of his study. LOL finds the RBCS survey useful and believes it presents a fairer picture of the manufacturing costs at our plants.

AMS Should Reconsider the Use of the CPDMP Data to Set Butter and Power Make Allowances

In its notice to reconvene the hearing, the Department wrote,

The data being collected by Cornell University represents a cross-section of the entire dairy industry—large, medium and small plants from various geographical regions. Because of the significance of make allowance factors in the Class III and Class IV pricing formulas on the dairy industry, the Department wants to be certain that the best

possible data is available in making a decision concerning any possible changes. (Fed. Reg., 367151, July 28, 2006)

While the CPDMP cost study for cheese lived up to its advance billing, the survey for butter and powder fell far short. Dr. Stephenson wanted to include ten butter plants in his cost study, but could get only four usable responses. In answer to a question, he said that “he would feel a lot better if I had eight of them anyway. I think that gives me a number that I feel much more comfortable with than the four.” (NT, September 14, 2006, pg. 194) The four butter plants accounted for only 13-percent of the NASS reported butter manufactured, outside of California in 2005. Dr. Stephenson declined to give any detail of the plants; the record provides no answers to whether they are owned by cooperatives or private entities, nor their geographic location. (NT, September 14, 2006, pg. 194) Additionally, we can only deduce that one plant is larger relative to the other three. (NT, September 14, 2006, pg. 194) We do know, however, that only one of the four butter plants (representing just 31-percent of the sample’s volume) enjoyed processing costs less than the current \$0.115 per pound make allowance. (Exhibit 76, page 11) The CPDMP butter survey was neither a cross-section nor comprehensive survey of butter plants. Consequently, its results have little value in determining the important make allowance factors.

The Department had much more confidence in the butter survey than did Dr. Stephenson. He stated that “Butter plant participation was not as strong as hoped for.” (NT, September 14, 2006, pg. 40) When asked whether the “shortened time period for collecting butter information affected the number of participating plants.” Stephenson answered, “I believe it did.” (NT, September 14, 2006, pg. 44) Elementary statistics allows a researcher to test whether the mean of a sample fairly represents the hypothesized mean of the population from which the sample is drawn. This test is expressed as a confidence interval. When asked to comment on extremely wide range in the butter survey 95-percent confidence interval, Dr. Stephenson answered, “I would be very nervous. . . . I think the butter are the weakest numbers that we have.” (NT, September 14, 2006, pg. 45)

The butter plant survey is a subset of the powder plant survey, that is to say, all of the butter plants surveyed had a complementary plant included in the powder survey. All of the exceptions noted for the use of the CPDMP butter survey are also valid for the powder survey. Dr. Stephenson had an abbreviated time schedule in which to prepare his survey. The only plant

that received a copy of its report prior to the hearing stated that the energy cost allocation between powder and condensed skim was incorrect.

While Dr. Stephenson stated that his sample plants were randomly selected, it can be concluded that the CPDMP butter and powder plant groupings overrepresented larger plants. His eight powder plants accounted for 65-percent of the NFDM produced outside of California. The average annual production of the CPDMP plant survey was 55 million pounds compared to the population average size of a powder plants located outside of California at 18 million pounds annually. The CPDMP survey only represented 13-percent of the butter manufactured outside of California and the sampled average plant size was 31 million pounds, compared to a national average of 17 million pounds.¹ The plant size comparison is even more striking when one compares the CPDMP sample groups to the butter and powder plants, located outside of California and also not included in the Cornell sample groups. From NASS statistics it can be determined that the average production of the non-California, non-CPDMP butter plants was 16 million pounds, while the average production of the non-California, non-CPDMP NFDM plants was 8 million pounds per year.

Since the CPDMP sample group butter volume is twice as large as non-sampled population and the Cornell powder is sample group volume is seven times as large as non-sampled population, the Cornell data comes from an obviously stratified sample. And since a weighted average from the CPDMP data will be skewed to the costs of the larger plants of the population and since economic theory states that plant costs decline with increases in plant size, it is reasonable to conclude that CPDMP butter/powder costs grossly understate the costs of converting milk to butter and NFDM for Federally regulated milk.

Land O'Lakes respectfully requests that the Secretary reconsider the use of CPDMP survey and use the RBCS survey for butter and powder for the following reasons:

1. The RBCS offers the best estimate of the cost of making butter and NFDM outside of California, since the vast majority of butter and NFDM is marketed by cooperatives, which the RBCS explicitly covers.

¹ During 2005 NASS reported that 37 plants located outside of California produced 68 million pounds of NFDM for an annual average of 18 million pounds. Also in 2005 NASS reported that 55 plants located outside of California produced 939 million pounds for an annual average of 17 million pounds.

2. Contrary to AMS allegations, the RBCS survey data clearly shows economies of scale within the sample plants.
3. While the total volume of the RBCS and CPDMP NFDM surveys are comparable, the RBCS survey's 6 additional plants provide a more robust and representative sample.
4. The CPDMP butter survey, which includes only 13-percent of the non-California butter production, is too small of a volume to use to represent the cost of making butter outside of California.
5. The RBCS survey represents twice as much butter production than the CPDMP and the data from 7 plants is much closer to the Cornell threshold of an 8 plant survey.
6. The Cornell butter/powder surveys were rushed, incomplete and, unlike the RBCS survey, most participants were unable to review their plant survey results for accuracy prior to the hearing.

Land O'Lakes sees no analytical, statistical or rational basis for why the Department does not use one cost survey for some products and another justifiable survey for another group of commodities. Land O'Lakes agrees with the Secretary's goal to use "the best possible data" to consider changes in make allowances. LOL respectfully submits that that goal is best served by using RBCS data to determine the cost of manufacturing butter and NFDM.

AMS Arbitrarily Changed Methodology for Weighting California and Federal Order Cost Factors

Since Federal Order Reform, the Secretary has set the commodity make allowances through a weighted average calculation of the RBCS survey and the CDFA survey. The weighting factors in all make allowance decisions has been the relevant sample volumes. Exhibit 42, pages C and E (Appendix) illustrates the methodology used by the Secretary in Final Decision in 2002. For example, the Secretary chose to determine NFDM Make Allowances for the Federal Orders in 2002 by taking a weighted average of the two-lower cost California NFDM groups and combining that result with the RBCS weighted average. (Fed. Reg., 67,921, November 7, 2002) Exhibit 42, Page E clearly illustrates that the Secretary used the sample volumes of the two California groups and the sample volume of the RBCS survey as the weighting factors in the make allowance calculation.

In the current TFD, the Secretary, with no explanation or justification, proposes a radical change in the weighting factor methodology. He arbitrarily proposes to combine a population volume with sample weighted average costs to determine a weighted average Federal order make allowance. For example, while the TFD states that the medium sized California plant survey should be combined with the CPDMP powder survey, the Department actually used the entire California volume, not the Group II survey volume, as the weighting factor. (Table 1, Economic Analysis of Tentative Final Decision)

To arrive at this new weighting methodology, the Secretary implicitly concluded that the sample average equaled the mean of the population for the CPDMP and CDFA surveys. For example, the Secretary disregarded the statistically valid extrapolation of the CPDMP cheese sample, proposed by Dr. Stephenson, to estimate the weighted average FMO cheese cost for all plants outside of California. Yet, the Secretary weighted the average of the admittedly stratified sample by the volume of all of the cheddar cheese manufactured outside of California. (Table 1, Economic Analysis of Tentative Final Decision) In a more onerous example, the Secretary chose to weight the average of the four-plant CPDMP butter survey, representing only 13-percent of the butter produced outside of California in 2005, by the volume of all butter produced outside of California. The Secretary came to this conclusion in spite of the fact that the Cornell researcher stated that the 95-percent confidence interval of the CPDMP butter surveyed ranged between a negative nine cents (-0.0921) and a positive 39 cents (0.3905) per pound of butter. This change in weighting methodology is neither statistically valid nor economically reasonable.

This arbitrary change in weighting methodology resulted in understatement of the Make Allowances for all of the commodities. Notwithstanding Land O'Lakes' objection to the change from the RBCS survey to the CPDMP survey for butter and powder, below are the TFD Make Allowance calculations for butter, NFDM, cheese and whey had the Secretary chose to follow weighting precedent from the 2002 Final Decision.

Calculation of Weighted Average Cost Using 2002 Methodology

Butter	Volume	Wtd. Cost		Cheese	Volume	Wtd. Cost	
CDFA	407,872	\$ 0.1368	55,797	CDFA	817,065	\$ 0.1769	144,539
Cornell	125,600	\$ 0.1108	13,916	Cornell	963,568	\$ 0.1638	157,832
	533,472		69,713		1,780,633		302,371
			\$ 0.1307				\$ 0.1698
Marketing Allowance			\$ 0.0015	Marketing Allowance			\$ 0.0015
Butter Make Allowance			\$ 0.1322	Cheese Make Allowance			\$ 0.1713
NFDM	Volume	Wtd. Cost		Whey	Volume	Wtd. Cost	
CDFA	238,532	\$ 0.1733	41,338	CDFA	93,271	\$ 0.2673	24,931
Cornell	440,528	\$ 0.1423	62,687	Cornell	568,728	\$ 0.1941	110,390
	679,060		104,025		661,999		135,321
			\$ 0.1532				\$ 0.2044
Marketing Allowance			\$ 0.0015	Marketing Allowance			\$ 0.0015
NFDM Make Allowance			\$ 0.1547	Dry Whey Make Allowance			\$ 0.2059

Land O'Lakes Table. Sources: Weighted Average Costs are from TFD, Table 1 Economic Analysis of Tentative Final Decision, and Product Volumes are cited from Exhibits 23 and 76.

Summary of Changes

	Current	TFD	LOL
Cheese	\$.1650	\$.1682	\$.1713
Dry Whey	\$.1590	\$.1956	\$.2059
NFDM	\$.1400	\$.1570	\$.1547

Butter	\$.1150	\$.1202	\$.1322
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Had the Secretary applied the same weighting methodology that he used in the 2002 Final Decision, the class price effect would be a decrease of \$0.34 in Class III and \$.20 decrease in the Class II and IV prices from the 2002 Final Decision formulae.

The Secretary Should Use the CDFA Whey Costs to Determine the Whey Make Allowance

After declaring the CDFA cost study methodology the gold standard for cost measurement surveys, AMS offhandedly states in the TFD, “Three of CDFA’s dry whey plants have a manufacturing cost variance so large that it would be unreasonable to combine the total combined CDFA value with the 12 plant CPDMP sample.” This statement begs the question, “On what standard does the Department judge reasonableness?” How can the Secretary conclude that a CPDMP butter survey sample that represents only 13-percent of the population provide a meaningful statistic, while the CDFA whey survey that represents 79-percent of the California whey production be discarded as unreasonable. (Exhibit 23, pg 6) Manufacturing costs outside of California, as measured by the CPDMP, are consistently lower than CDFA costs, and the relative difference between the costs in the two surveys varies:

	CPDMP	CDFA	CPDMP/CDFA
Butter	\$.1108	\$.1368	81%
NFDM	\$.1423	\$.1733	82%
Cheese	\$.1638	\$.1769	93%
Whey	\$.1941	\$.2673	73%

The Secretary does not apply a consistent standard in determining when to include the manufacturing costs from one survey and when to disregard the costs from another survey. For instance, the Secretary provides no minimum sample size participation threshold. Presumably a 13-percent sample provides statistical validity, while a sample, representing 79-percent of the population, does not. Additionally, the Secretary defines no weighted average cost variability threshold between CDFA and CPDMP that would warrant exclusion from the calculation. Is the difference between the butter cost variability and whey variability so great to exclude the CDFA whey

cost? Given that Dr. Stephenson modeled his instrument from the CDFA survey and he states that he would expect comparable plants, surveyed by CDFA and CPDMP, to have comparable costs, (Exhibit 76, p.5) it is unreasonable to exclude a weighted average cost from either survey.

Land O'Lakes respectfully requests that the Secretary reconsider his population based weighting methodology and follow the precedent established in previous Make Allowance decisions and weight CDFA and outside of California cost surveys based on sample weights. Further, LOL requests that the Secretary include the CDFA whey costs, weighted to its sample volume, when calculating the make allowance for whey powder.

Conclusions and Recommendations

Land O'Lakes respectfully submits that the Secretary reconsider the TFD and make the following changes:

1. The Secretary should reconsider the use of the CPDMP survey for the calculation of the butter and NFDM make allowances. RBCS survey data explicitly recognizes economies of scale and provide a more valid statistical sample of butter and NFDM plant costs.
2. The Secretary should include the CDFA whey survey in the make allowance calculation.
3. Irrespective whether LOL's arguments concerning the merits of the RBCS survey for butter and powder make allowances are accepted, the Secretary should revise the weighting methodology to reflect sample weights.
4. The Secretary should apply the same weighting methodology that was employed in the previous 2002 Final Decision on Make Allowances.

In conclusion, LOL would like to impress upon the Secretary that all stakeholders in these make allowance and class price setting hearings must feel that this is a fair and unbiased process. The Department must play the ball where it lands. Tilting the field by arbitrarily choosing to include some costs and not others, changing weighting factors from the precedents of previous decisions or ignoring valid statistical techniques to extrapolate from sample to population averages is counter productive. How long will efficient plants, operating in an environment of increasing costs, choose to

participate in voluntary cost surveys when they perceive that the result will inadequately address their raw milk costs?

California proactively takes responsibility for determining manufacturing costs for its product price formulae. California auditors go to the state's manufacturing plants and inspect primary cost and production documents. The creditability of classified pricing requires that USDA take a greater role in plant cost surveys, either through contracting the survey work out or through its market administrator auditing staff. While it may not be feasible for USDA to survey the entire population of butter, NFDM, dry whey and cheese plants that receive federally regulated milk, the Department must, however, assure that manufacturing costs from a representative sample of plants and volumes are obtained before the next hearing is called. If a volume of a commodity is less than the population volume, then the Department must utilize valid statistical extrapolation techniques to estimate population averages.

Finally, the Secretary, like the CDFA Secretary, should clearly identify a target percentage of volume of product covered by and a target percentage of plants covered by each of the proposed make allowances. For example, the CDFA has stated, "As a general rule, the acceptable level of coverage [by the manufacturing cost (make) allowances] ranges from 50 to 80 percent of the product processed." (CDFA Panel Report, 2/20/05, pg 12) By explicitly considering the volume covered by proposed make allowances, the Secretary will make a more informed decision and offer the industry a clearer sense of the impact of the proposed changes.

Appendix

The following (Exhibit 42, pg. C) illustrates the methodology and sample weighting utilized in the 2002 Class III/IV Final Decision for butter.

LOL Exhibit 42, Page C

Calculation for Final Rule Butter Make Allowance from Page A

			Average Plant Size	Extension
Wt Ave RCBS (inc California plants)		\$0.1062		
Add Marketing Credit	\$0.0015			
Add ROI	\$0.0080			
Add Administrative	\$0.0130			
Packaging Cost				
Subtract RCBS	-\$0.0277			
Add CDFA	\$0.0080			
Total		\$0.1090		
 Volume	7 plants	166,782,343	23,826,049	\$18,182,611
 Average CDFA Group III		\$0.1250		
Add Marketing Credit		\$0.0015		
Administrative Cost	\$0.0130			
ROI	\$0.0080			
Total		\$0.1265		
 Volume	4 plants	83,272,000	20,818,000	\$10,533,908
		250,054,343		\$28,716,519
 Weighted Average		\$0.1148		

The following (Exhibit 42, pg. E) illustrates the methodology and sample weighting utilized in the 2002 Class III/IV Final Decision for NFD.

LOL Exhibit 42, Page E

Calculation for Final Rule NFD Make Allowance from Page A

			Average Plant Size	Extension
Wt Ave RCBS (inc California plants)		\$0.1271		
Add Marketing Credit		\$0.0015		
Add ROI		\$0.0175		
Add Administrative		\$0.0069		
Total		\$0.1530		
Volume	7 plants	271,870,431	38,838,633	\$41,586,530
Average CDFA Group I		\$0.1320		
Add Marketing Credit		\$0.0015		
Administrative Cost		\$0.0060		
ROI		\$0.0210		
Total		\$0.1335		
Volume	4 plants	345,643,000	86,410,750	\$46,143,341
Average CDFA Group II		\$0.1330		
Add Marketing Credit		\$0.0015		
Administrative Cost		\$0.0090		
ROI		\$0.0090		
Total		\$0.1345		
Volume	3 plants	143,127,000	47,709,000	\$19,250,582
		760,640,431		\$106,980,452
Weighted Average		\$0.1406		

