



**BEFORE THE UNITED STATES DEPARTMENT
OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE**

**In the Matter of Milk in California;
Notice of Hearing on a Proposal to
Establish a Federal Milk Marketing
Order**

**7 CFR Part 1051
Docket No.: AO-15-0071;
AMS-DA-14-0095**

Clovis, California, September 22, 2015

**Testimony of Elvin Hollon
(Third statement)**

**In Support of Proposal 1 of California Dairies, Inc.,
Dairy Farmers of America, Inc., and Land O'Lakes, Inc.**

**Proposal to Establish a Federal Milk Marketing Order for the
State of California**

Cooperatives' Exhibit 7

I. Background

A key component of our proposal for a California Federal Order is the inclusion of a transportation credit system to assist in moving milk from the most dense production locations distant from the added value fluid use plants. The transportation credit system we propose is necessary for a California FMMO because the Federal Order Class I differential structure, standing alone, is not adequate to accomplish this goal. Our proposal would further the goal by providing a credit to handlers to offset the increased transportation costs required to move milk. Since all producers share in the higher valued uses through the marketwide pooling process, it is reasonable, that through pooling all producers will share a portion of the responsibility for supplying and balancing that segment of the market.

This testimony will examine the market conditions that compel the conclusion that a transportation credit system is necessary, describe the current California Department of Food and Agriculture (CDFA) transportation allowance, compare hauling costs with the FMMO differential and describe the details of the construction and operation of the transportation credit system we propose.

II. Market Description

A brief description of the market strongly supports the point that an intra-market transportation credit system is necessary for a California Federal Milk Marketing Order (FMMO.) According to preliminary 2014 Census data, California is the most populous state in the United States, its 38.8 million residents accounting for 12.2% of the 2014 total US population of 318.9 million persons. **(Cooperatives Table 7.A Annual Estimates of the Population for the United States: April 1, 2010 to July 1, 2014)** The United States Department of Agriculture's February 2015 *Milk Production* report, the annual summary issue, shows that

California is also the largest milk producing state with 2014 milk production of 42.3 billion pounds produced or 20.6% of the U.S. total production of 206 billion pounds, a position it has held for many years. (**Cooperatives Table 7.B – U.S. Milk Production by State 2014**)

Within the state, population is heavily slanted towards the coastal counties and aggregated mostly in the southern portion of the state. **Cooperatives Table 7.C (California Population Estimates by County 2014)** and **Cooperatives Table 7.D (California Population by County and Principal City 2014)** demonstrate that of California's 58 counties 76% of the population resides in 12 of them – encompassing most of the major urban areas. 26.2% of the population lives in Los Angeles County and 47.9% live in what would be generally considered the Los Angeles metropolitan area in the counties of Los Angeles, Orange, Riverside, San Bernardino and Ventura. 16.0% of the population lives in the general San Francisco metro area in the counties of San Mateo, San Francisco, Contra Costa, Alameda and Santa Clara. The San Diego metropolitan area (San Diego County) accounts for 8.3% of the population and the Sacramento metropolitan area (Sacramento County) accounts for 3.8%.

The population distribution is depicted graphically in **Cooperatives Map 7.E. (California Population by County, Census Bureau, 2014)** The above designated large population counties are depicted by the shades of blue – and concentrated around the Los Angeles, San Francisco, San Diego, and Sacramento metropolitan areas.

The milk shed areas in California are generally some distance from the population centers. **Cooperatives Table 7.F (California Total Milk Production: 1995, 2000, 2005, 2014)** details data provided by the California Department of Food and Agriculture (CDFA) on California county milk production for selected years from 1995 to 2014. Notably, total production has increased 67 percent over the 19 year span. Additionally, milk production has

become more concentrated. In 1995 the top five milk production counties were Tulare, San Bernardino, Merced, Stanislaus, and Riverside producing 66% of the state's total. In recent years the urbanization of San Bernardino and Riverside counties has dropped them out of the list entirely, now ranking them ninth and tenth and producing 5.0% of the state's total instead of 22.3%.

The new top five counties producing 72.8 percent of the state's production are made up of Tulare, Merced, Stanislaus, Kings and Kern counties. Interestingly enough, if these were the only counties in the state producing milk, California would still be the largest milk producing state in the country. **Cooperatives Map 7.G (California Milk Production by County, CDFA, 2014)** plots the milk production by county from **Cooperatives Table 7.F** and demonstrates graphically, the concentration of production. **Cooperatives Map 7.H (California Milk Production and Population, 2014)** combines the population and production data. Population density is noted by red dots and demonstrates the high population concentrations on the coastal counties while production density, noted by solid color shading, is most focused in the central regions of the state. Clearly milk is more concentrated in areas where people are not located.

A listing of plants and the products they produce is maintained and published by CDFA. **Cooperatives Tables 7.J.1 and 2 (CDFA Listed Plants with FMMO Class I & II Use Class)** were taken from the 2015 listing. Additionally, **Cooperatives Map 7.I (California Class I Plants and Milk Production by County, CDFA, 2015)**, using the same milk production grid, plots the state's higher use value Class I plants. The table depicts plants understood to be primarily California State Order Class 1 fluid milk processing plants and those that are CSO Class 2 / 3, primarily soft manufactured and frozen products but not cheese and whey or butter

and powder processing facilities. Note that for this purpose all plants we could determine having CSO Class 2 and 3 definitions are noted as Class 2 operations. Of the 82 plants on this list, 35 plants are FMMO Class I plants and 47 are FMMO Class II plants. Of the Class I plants, 23 are in the high population zones we have outlined. Of the 47 Class II plants 26 of them are in the high population zones. The CSO listing is located at

http://www.cdffa.ca.gov/ahfss/Milk_and_Dairy_Food_Safety/index.html#Plants.

Cooperatives Map 7.I visually depicts that the majority of the higher value Class I use plants are in the metropolitan areas where the population density is the greatest.

Cooperatives Map 7.K (California Class II Plants and Milk Production by County, CDFA, 2015) with data taken from the same listing, plots Class II operations and the conclusion is the same. Clearly, Class I and II plants are generally located in areas closer to population centers than to concentrations of milk production.

III. Description of the Existing California Department of Food and Agriculture Transportation Allowance System

CDFA has operated a system of transportation allowances since 1983. The system offsets a portion of the transport cost for moving milk to designated plants located within designated areas and meets certain class usage definitions. Allowances are established by CDFA and are based on milk movements between designated supply points to designated sales points. The resulting rates are paid out of the producer milk pool.

As noted in the CDFA witness's statement, the locations for which the CDFA system provides an allowance does not include supplies from every county in the state nor deliveries to every CSO Class 1, 2 or 3 plant. Deliveries to plants located within the largest milk supply regions, generally the same regions we noted above, are not afforded an offsetting payment because those locations are able to acquire a milk supply at a lower transport cost. Conversely,

deliveries to plants more distant to the largest milk supply regions are able to equalize the transportation component of their procurement costs by the use of the transportation allowance.

IV. Comparison Haul Costs versus Federal Order Differential

CDFA publishes summary statistics for their transportation allowance program. (http://cdfa.ca.gov/dairy/uploader/docs/Haul%20Exhibit%20-%20RP%20Area%20April%202013_Oct%202014.pdf) The data is provided by milk sellers to CDFA. It notes the source, destination, number of loads, mileage data and cost data for that movement. Their data is compiled for destinations to all plants from each farm and not just those receiving a payment and not just for shipments to Class 1, 2 or 3 plants. We have taken representative locations from the report for the period October 2014 from **Cooperatives Table 7.M.1 & 2 (California Ranch-to-Plant Hauling, by Area, April 2013 – October 2014)** representing significant milk movements from various designated Haul Regions to identified demand points and compared the haul cost reported by CDFA with the difference in location adjustment allowed by the Federal Order Class I differential price surface. **Cooperatives Table 7.L (Class I Differentials California Marketing Area)** is a summary of the existing Federal Order Class I differentials. The Haul Regions, depicted in **Cooperatives Map 7.N (CDFA Haul Regions)** are defined as generally portions of counties and frequently cross county boundaries.

Cooperatives Table 7.O. (Comparison CDFA Published Haul Cost with Federal Order Differential Allowance, California Milksheds and Markets October 2014) (4 pgs.) recaps the movements and costs extracted in **Cooperatives Table M.1 & 2.**

- Column A denotes the CDFA labeled milkshed;
- Column B the number of loads that moved between the supply point and the demand point;
- Column C the counties that make up the principal geography of the supply area;

- Column D the Federal Order Class I differential¹ for the specific supply zone counties;
- Column E the CDFA labeled plant zone;
- Column F the principal counties that comprise the plant zone;
- Column G the Federal Order Class I differential for the specific plant zone counties;
- Column H the CDFA computed haul rate;
- Column I the smallest non-negative value difference between Class I differentials in the counties composing the supply zone and the counties composing the plant zone;
- Column J the largest value difference between Class I differentials in the counties composing the supply zone and the counties composing the plant zone;
- Column K the percent of the CDFA calculated haul rate covered by the smallest differential difference;
- Column L the percent of the CDFA calculated haul rate covered by the largest differential difference;
- Column M the percent of the total volume hauled represented by this set of source and destinations;

The data in **Cooperatives Table 7.O** represents 57,549 loads of milk or 97.3% of the data in the CDFA October 2014 report. The average transport rate in the sample was 75 cents

¹ Federal Order provisions establish a Class I differential value for every county in the United States. The differential is designed in part to represent the cost to attract a milk supply to demand locations. The price surface was established during the Federal Order Reform hearing process that culminated in the Final Decision - Milk in the New England and Other Marketing Areas; Decision on Proposed Amendments to Marketing Agreements and to Orders (64 Fed. Reg. 16026, et seq. (1999)). In general the Hearing Record gathered supply, demand, processing cost, raw milk transport and dairy product distribution cost data for the entire United States and developed a supply / demand least cost model to fill all demands at the least cost for processing, milk transport and dairy product distribution. A listing of these differentials can be found at 7 CFR Part 1000.52.

per hundredweight. In the observations selected, transport costs from CDFA range from \$0.35 per hundredweight to \$1.82. These representative observations indicate that the differential value in every case is well below the cost to transport and covers too small a percentage of the cost to be useful or equitable without additional cost offset provisions.

The three supply - demand locations that have the largest recovery percentage are the Chino-Area 1 to Los Angeles-Area 3 (73% recovery if all the milk were in the largest differential spread locations) accounting for 2% of the total observations; the South San Joaquin Valley - Area 7, 8, 9 to South San Joaquin Valley - Area 7, 8, 9 (56% recovery if all the milk were in the largest differential spread locations) accounting for 50% of the observations; and South San Joaquin Valley - Area 7, 8, 9 to Los Angeles - Area 3 (47% recovery if all the milk were in the largest differential spread locations) accounting for 8% of the observations. But even these observations are below a reasonable and equitable relationship for cost recovery. Furthermore, some of the hauls in each of these areas may take place from points that would have a lesser or no differential value difference to possibly offset the transport cost.

These three observations collectively account for 60 percent of all observations. The remaining 40% show a much smaller contribution from the differential value differences to offset a transport cost; and in many cases the differential value is zero.

Cooperatives Table 7.P (California Population (2015), Milk Production (2014), Federal Order Differential and State Pooling Designation) details each county, its Federal Order Class I differential, population, population percentage, designation by CDFA as a Northern California county for pricing purposes (1) or Southern California county for pricing purposes (2), the population weighting for the county as a CDFA pricing designation and the 2014 milk production for the county. The data summary by FMMO zone is recapped below and

Cooperatives Map 7.Q (FMMO Class I Differential and Summary Statistics, Population and Milk Production, 2014) depicts this graphically.

Cooperatives Table 7.P - Summary

Summary - California Population and Milk Production by FMMO Zone

FO Zone	Population	%	Milk Production	%
\$1.60 Zone	1,773,354	5%	20,706,758,017	49%
\$1.70 Zone	4,757,982	12%	14,088,251,341	33%
\$1.80 Zone	13,179,809	34%	6,190,253,835	15%
\$2.00 Zone	2,491,870	6%	1,030,515,055	2%
\$2.10 Zone	16,511,710	43%	44,427,920	0%
	38,714,725	100%	42,060,206,168	100%

To summarize, the \$1.60 zone has 5% of the population and 49% of the milk production; in the \$1.70 zone those ratios are 12% and 33%; in the \$1.80 zone 34% and 15%; in the \$2.00 zone 6% and 2%, and in the \$2.10 zone 43% and less than 1% of the milk production. Clearly the milk production and population centers are not in the same counties.

The Federal Order differential structure alone is not adequate enough to move milk from supply to demand points and the marketing system will need additional cost recovery assistance to function in an orderly manner and incent milk to move to the higher use Classes. Without an inside the marketing area transportation credit system many of the Class I and II handlers would be at a competitive disadvantage to certain similarly situated use Class I and II handlers located in the more densely supplied milkshed areas.

The proposed California Order includes a marketwide pool. Our proposal will pay every producer the same basic pooled blend price, adjusted for quota where appropriate, in essence

assuring that all producers share equally in the pools returns. The full cost of the transportation credit system will be borne by the blend price pool assuring that all producers share equally in the cost of serving the higher valued market. Only the reimbursable transportation costs that actually occur are deducted from the pool. Class I handlers will be billed according to their location but all the monies will be blended into the producer pool. Thus there is no reason to adjust the transport reimbursement rate by the difference in differential value.

V. Cooperatives' Transportation Credit Payment Construction

A. General Description

The Cooperatives' proposal is both mileage and transaction based. For each haul trip that meets the criteria for a payment, an established rate will be paid. Miles for which reimbursement is paid will be based from each producer location to the destination of the route multiplied by the pounds picked up from that producer. Reimbursements will be limited to only 225 miles and will be paid only on milk actually delivered and will be increased or decreased by a fuel adjustor. Handlers will receive transportation credit payments on shipments to plants that are located in designated areas meeting specifically defined milk use parameters. The cap of 225 miles reflects data from the CDFA study on the maximum number of miles that milk is transported and is a reasonable distance to set the cap limit. This will limit the disorderly application of the reimbursement rate.

B. Development of the Rate Estimating Equations

To preserve the confidentiality of the data in developing the rate reimbursement formula, the proponents requested assistance from the staff of the Pacific Northwest Market Administrator's office to analyze delivery costs and derive equations to estimate a cost function. The Cooperatives submitted data on source point, destination point, miles travelled, volume

transported and rates paid (including if applicable per hundredweight rates, mileage rates, stop charges and fuel adjustments) for all deliveries to FMMO Class I and II plants (CDFA Class 1, 2 or 3 plants) for May and October 2013. The data was based on each producer and each delivery and was similar in form to the data submitted to CDFA that is used to compile the CDFA quarterly recap haul cost publication. For each record thirty cents per hundredweight was deducted from the cost. Based on our experience across all the milksheds, a rate of thirty cents per hundredweight is a typical “local” haul rate. This amount represents the charge for delivery to the local market or the producer’s responsibility for a portion of the cost of a longer distance haul to meet a demand order. Observations with haul rates less than thirty cents per hundredweight were not included.

The supply and destination points were defined as follows:

Transportation Zone 1 – deliveries to plants located in the counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura originating from dairy farms located in the counties of Riverside or San Bernardino. These are represented as “So Cal (R/SB)” in **Cooperatives Table 7.R (Descriptive Data Resulting from the Market Administrator Transport Study – California Data May and October 2013.)**

Transportation Zone 2 – deliveries to plants located in the counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura originating from dairy farms located in all other counties within the marketing area except Riverside and San Bernardino. These are represented as “So Cal (-R/SB)” in **Cooperatives Table 7.R.**

Transportation Zone 3 - deliveries to the counties of Alameda, Contra Costa, Marin, Napa, Sacramento, Santa Clara, Santa Cruz, San Francisco, San Mateo, Solano, and Sonoma

originating from dairy farms located in all other counties within the marketing area. These are represented as “Not So Cal” in **Cooperatives Table 7.R**.

We selected these combinations as most representative of the market’s procurement patterns for areas where transportation credit assistance was necessary. They represent payments from narrowly defined procurement areas in the case of Transportation Zone 1. Our experience is the milk assembly and delivery conditions are different from that region when compared to the general situations in Transportation Zone 2 and Transportation Zone 3 which represent longer transport mileages.

Additionally as demonstrated earlier, the destination points selected reflect areas of increased population and the predominance of fluid use plants. There are plants that will not receive transportation credit assistance. Those plants are located in the areas of high milk production having shorter hauls and thus lower procurement costs. Only counties located in the marketing area would be eligible for a transportation credit.

C. Descriptive Data

Cooperatives Table 7.R
Descriptive Data Resulting from the Market Administrator Transport Study - California Data
May and October 2013

	A	B	Pounds	C	D	E	F
	Records	Pounds	Per Record	Weighted Miles	Weighted Average Rate	Average Rate Per Mile	Rate Per Loaded Mile
All Data	1,073	835,880,529	779,013	112.1	\$ 0.6294	\$ 0.0056	\$ 2.88
Month							
May	526	416,461,767	791,752	109.3	\$ 0.6199	\$ 0.0057	\$ 2.94
October	547	419,418,765	766,762	114.9	\$ 0.6389	\$ 0.0056	\$ 2.88
Demand Area							
So Cal (R/SB)	282	133,215,115	472,394	47.3	\$ 0.1837	\$ 0.0039	\$ 2.01
So Cal (-R/SB)	429	501,034,837	1,167,913	146.3	\$ 0.8183	\$ 0.0056	\$ 2.88
Not So Cal	362	201,630,577	556,991	70.1	\$ 0.4545	\$ 0.0065	\$ 3.35

All records were reduced by 30 cents which is representative of a typical local haul rate.

Any record with a resulting haul rate less than zero was eliminated.

The data was extracted from confidential business records of the Cooperatives.

For analysis purposes the data, both source and destination point, were grouped as described above for Transportation Zones 1 – 3. **Cooperatives Table 7.R (Data Resulting from the Market Administrator Transport Study – California Data, May and October 2013)** details descriptive information concerning the data submitted. The data was sorted by month and by demand area. There were 1,073 records representing 835,880,529 pounds delivered in May and October. Submitted deliveries in May represented 416,461,767 pounds and in October 419,418,765 pounds. Those months were chosen to be representative of a flush and short milk supply situations. The average load travelled a weighted average 112.1 miles. Pounds used in the predicted equations represent 78 percent of the pounds in each of the two months that received a transportation allowance from CDFA.

D. Study Results

Analysis was performed in order to:

- 1) Develop a representative equation to estimate the cost per hundredweight per mile for each of the Transportation Zones;
- 2) Generate a credit to the handler that closely approximates the actual cost of delivery less 30 cents per hundredweight; and
- 3) Reflect the approximate cost of supplying each of the Transportation Zones.

The equations estimating costs resulting from the analysis of the data, **Cooperatives Table 7.S (Regression Summary from the Market Administrator Transport Study – California Data, May and October 2013)**, were in the form of an intercept plus a coefficient or constant, which is multiplied by the miles driven. The proposal includes separate equations for cost determination for each of the three demand areas. The equations showed good predictive ability and met the three objectives outlined above. Variations in predicted versus actual involve

chiefly differences in farm size and density in the various milksheds, peculiarities in road networks within the different delivery points and differences in the mileages necessary to deliver to each market. For example, delivery into a market may require more miles while delivery into another market may require more tolls and be in a high traffic area.

For the combined three regions, for the Cooperatives and both months, the equations resulted in a calculated payment of \$5.205 million versus an actual payment of \$5.261 million. For the month of May the equations resulted in a calculated payment of \$2.516 million dollars versus an actual payment of \$2.582 million and for October, a calculated payment of \$2.689 million versus an actual payment of \$2.679 million.

Cooperatives Table 7.5

**Regression Summary from the Market Administrator Milk Transport Study - California Data
May and October 2013**

		Intercept	Coefficient	Adjusted R-Square	Records	Pounds	Wted Ave Miles
Demand Area	Transportation Zone						
So Cal (R/SB)	1	0.04497	0.00318	0.792	282	133,215,115	47.3
So Cal (-R/SB)	2	0.00485	0.00546	0.976	429	501,034,837	146.3
Not So Cal	3	0.05441	0.00571	0.992	362	201,630,577	70.1

E. Fuel Adjustor

Diesel fuel is one of the key components of the cost of milk transport. The proposal includes a fuel cost adjustor. Historically diesel fuel prices are marked by periods of volatility. Price volatility makes it difficult to negotiate the full value of frequent fuel cost changes; thus a

fuel adjustor is an important mechanism in the regulated transport cost recovery system. Its inclusion serves to fairly and accurately reflect fuel cost changes, thus maintaining the reimbursement cost formula in line with actual costs and preventing either underpayment of costs or making windfall payments if fuel costs were to decline significantly. Additionally the inclusion of a fuel adjustor should reduce the frequency of hearings to adjust the transport reimbursement rate and has been included other FMMO transportation credit systems in the Southeastern Orders.

Our proposal for a fuel cost adjustor is based on current experience in the California market. Our format to compute an adjustor is:

- 1) Determine a price series for fuel;
- 2) Determine a base period for measuring fuel cost change;
- 3) Compute the difference between the base period and the current period;
- 4) Divide the difference by a standard miles per gallon to arrive at an adjustment factor per mile;
- 5) Divide the dollar cost by a typical load size and then by 100 to express the value in a cost per hundredweight per mile;
- 6) Multiply the result by the number of hundredweights hauled and the miles travelled.

For the current price measure to adjust diesel fuel costs, our proposal will use the most recent 8 weeks average of the Diesel (on Highway) – All Types Price per gallon as reported by the Energy Information Administration of the United States Department of Energy for California from the price series Weekly Retail Gasoline and Diesel Prices. This data is published weekly and prices from January 2011 – July 2015 are outlined in **Cooperatives Table 7.T (California No. 2 Diesel Retail Prices (Dollars per Gallon))** and depicted in **Cooperatives Chart 7.U (E.I.A. - California No. 2 Diesel Retail Prices January 2011 – July 2015.)**

This file can be found at:

[http://tonto.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=EMD_EPD2D_PTE_SCA_DPG
&f=M](http://tonto.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=EMD_EPD2D_PTE_SCA_DPG&f=M)

Using the most recent prior eight weeks average price allows for short term spikes or troughs such as a weather event or a short term “market shock” incident to be averaged out. We propose using the period April 2013 – November 2013 to establish the base. This period overlaps by a month on each end of the period for which the Cooperatives’ actual data was collected for the rate study. The eight month base rate diesel price was \$4.110 per gallon. For the purposes of this example the most recent eight week average diesel price is \$3.094 per gallon. (06/22/2015 – 08/010/2015)

This base would be used by the Market Administrator each month to compute the fuel adjustor. It would remain in place until changed in a subsequent Hearing. For implementation of a Final Decision, the most recent eight week period would be set by the Market Administrator in accordance with the process described above.

Cooperatives Table 7.V (Combination Truck Fuel Consumption and Travel) is abstracted from the Highway Statistics as published by the U.S. Department of Transportation for combination trucks. The Highway Statistics Series consists of annual reports containing analyzed statistical information on motor fuel, motor vehicle registrations, driver licenses, highway user taxation, highway mileage, travel, and highway finance. This information has been published annually since 1945. The data for 2013, the most recent data available, show an average of 5.8 miles per gallon as the national average. This also reflects the experience of our hauling operations in California and this data series has been used in other FMMO hearings.

Cooperatives Table 7.V				
Combination Truck Fuel Consumption and Travel				
	2010	2011	2012	2013
Number registered (thousands)	2,553	2,452	2,469	2,471
Vehicle-miles traveled (millions)	175,789	163,791	163,358	168,436
Fuel consumed (million gallons)	29,927	28,181	27,926	28,794
Average miles traveled per gallon	5.9	5.8	5.8	5.8

Sources

1965-94: U.S. Department of Transportation, Federal Highway Administration, *Highway Statistics Summary to 1995*, FHWA-PL-97-009 (Washington, DC: July 1997), table VM-201A, available at <http://www.fhwa.dot.gov/policyinformation/statistics.cfm> as of Mar. 23,

1995-2012: Ibid., *Highway Statistics* (Washington, DC: Annual issues), table VM-1, available at <http://www.fhwa.dot.gov/policyinformation/statistics.cfm> as of Mar. 4, 2014.

There are several software programs that can establish a mileage matrix composed of mileages from every farm in the state to every plant in the state. Both CDFA and other FMMO offices use them now. This table would be determined and maintained by the Market Administrator. The fuel adjustor requires a truck tank size as a part of the calculation. The Cooperatives' experience is that an average size load of 51,500 pounds is typical for the market. A sample computation for the fuel adjustor per hundredweight per mile is:

Cooperatives Table 7.W

California Order Fuel Adjustor Sample

Sample Month

A	B	C	D	E	F
		Miles	Load Cost	Tank Size	Dollars per CWT / Mile
	DOE/EIA	1	\$ (0.175172)	51,500	\$ (0.000340)
Eight Week Average Current Fuel - (\$/gal)	\$ 3.094				
Established Base Fuel - (\$/gal)	\$ 4.110				
Current Fuel less Base Fuel - (\$/gal)	\$ (1.016)				
Adjustment Factor (miles per gallon)	5.8				
Rate per Mile (\$ per mile)	\$ (0.175172)				

\$3.094 is the eight week average for June 22, 2015 - August 10, 2015.

$\$(0.175172) = (\$1.106 / 5.8)$ rounded to six places.

$\$(0.000340) = \$(0.175172 / (515/100))$.

51,500/100

The result of this calculation for this time period is that \$.000340 per hundredweight per mile is deducted from the rate calculation (or constant) derived from the regression equations described in **Cooperatives Table 7.S** for the month the calculation was made. Should the fuel adjustor result in a positive number it would increase the rate calculation.

F. Step-by-Step Calculation of Rate Payment

The calculation is computed as follows:

Cooperatives Table 7.X

Computation of Transportation Payment

				Oct-14 Transportation Zone 1	Oct-14 Transportation Zone 2	Oct-14 Transportation Zone 3
1051.55 (b) (1)	A	Zones		(i)	(ii)	(iii)
	A	(from the CDFA recap sheets)		Average Chino / LA	Average SSj / LA	Average NSj / N Bay
1051.55 (b) (1)	A	Pounds		49,992	50,005	50,069
1051.55 (c) (1) (i)	B	Miles		32	143	90
1051.56 (a) (1)	C	EIA Diesel Price - round 3 places		3.094	3.094	3.094
1051.56 (a) (2)	C	<u>Diesel base</u>		<u>4.110</u>	<u>4.110</u>	<u>4.110</u>
1051.56 (a) (2)	C	Subtraction	\$3.094 - \$4.110	\$ (1.016)	\$ (1.016)	\$ (1.016)
1051.56 (a) (3)	C	Truck MPG base		5.8	5.8	5.8
1051.56 (a) (3)	C	<u>Divide - round 6 places</u>	(\$1.016) / 5.8	<u>\$ (0.175172)</u>	<u>\$ (0.175172)</u>	<u>\$ (0.175172)</u>
1051.56 (a) (4)	C	<u>Typical Tank CWT</u>		<u>51,510</u>	<u>51,510</u>	<u>51,510</u>
1051.56 (a) (4) (5)	C	<u>Divide - round 6 places</u>	(\$0.175172) / (51,500 / 100)	<u>\$ (0.000340)</u>	<u>\$ (0.000340)</u>	<u>\$ (0.000340)</u>
1051.56 (a) (6) (a)	D	Intercept		0.044970		
1051.56 (a) (6) (b)	D	Intercept			0.004850	
1051.56 (a) (6) (c)	D	Intercept				0.054410
1051.56 (a) (6) (a)	D	Mileage Coefficient		0.003180		
	D	Plus Fuel Adjustment	\$0.00318 + (\$0.000340)	0.002840		
1051.56 (a) (6) (b)	D	Mileage Coefficient			0.005460	
	D	Plus Fuel Adjustment			0.005120	
1051.56 (a) (6) (c)	D	Mileage Coefficient				0.005710
	D	Plus Fuel Adjustment				0.00537
1051.56 (a) (6)	E	Factor per cwt for the miles driven	\$0.04497 + (\$0.002840 * 32)	\$ 0.135850	\$ 0.737010	\$ 0.537710
1051.5 (c) (ii)	F	Payment to load (rate X cwts hauled)	\$0.135850 * 49,992 /100	\$ 67.91	\$ 368.54	\$ 269.23

G. Proposal Text²

§1051.55 Payment for transportation credits.

(a) Payments for transportation credits to handlers, including cooperative associations, shall be made as follows:

(1) On or before the 16th day (except as provided in § 1000.90) after the end of each month the market administrator shall pay to each handler, including cooperative associations acting as handlers that delivered and reported pursuant to § 1051.30(c), milk directly from producers' farms as specified in paragraph (b) (1) to plants as specified in (b) (1) and (2) of

² The presence of Italics, **Bold** and Underline indicate changes from the proposed language.

this section, an amount determined pursuant to paragraph (c) of this section.

(2) Transportation credits paid pursuant to this section shall be subject to final verification by the market administrator pursuant to §1000.77; ~~and~~

(b) Transportation credits shall apply to the following:

(1) Bulk milk delivered directly from dairy farms to pool plants described in (b) (2) in the following Transportation Zones:

(i) Transportation Zone 1 – deliveries to plants located in the counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura originating from dairy farms located in the counties of Riverside, ~~San Diego~~, or San Bernardino;

(ii) Transportation Zone 2 – deliveries to plants located in the counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura originating from dairy farms located in all counties within the marketing area except Riverside, ~~San Diego~~, and San Bernardino;

(iii) Transportation Zone 3 - deliveries to plants located in the counties of Alameda, Contra Costa, Marin, Napa, Santa Clara, San Francisco, Santa Cruz, San Mateo, Sacramento, Solano and Sonoma Counties originating from dairy farms located in all counties within the marketing area;

(2) Pool plant(s) which for the month have utilization of greater than 50% in Classes I and/or II. The utilization requirement may be met for the current month or it may be met on the basis of utilization during the preceding 12-month period ending with the current month.

(c) Transportation credits shall be calculated at the following rates:

(1) With respect to each delivery described in paragraph (b) (1) of this section, the market administrator shall:

- (i) Determine the shortest hard-surface highway mileage between the shipping farm and the receiving plant. The mileage determined by this calculation shall not be greater than 225;
- (ii) Multiply the pounds determined in § 1051.55(b) (1) by the rate for the month computed pursuant to § 1051.56(a)(6) for each Transportation Zone;

§ 1051.56 ~~Mileage rate~~ Rate for transportation credits.

(a) The market administrator shall compute the fuel adjustor rate and the hundredweight rate each month as follows:

(1) For the fuel adjustor rate compute the simple average rounded to three decimal places for the most recent 8 weeks of the Diesel (on Highway) – All Types Price per gallon as reported by the Energy Information Administration of the United States Department of Energy for the series California Number 2 Diesel Retail Prices;

(2) From the result in paragraph (a) (1) in this section subtract \$4.099 \$4.110 per gallon;

(3) Divide the result in paragraph (a) (2) of this section by 5.8, and round to three six decimal places to compute the fuel cost adjustment factor;

(4) Divide the result in paragraph (a) (3) of this section by 515 520;

(5) Round the result in paragraph (a) (4) of this section down to five six decimal places to compute the fuel adjustor rate.

(6) Compute the hundredweight rate as follows:

(i) For Transportation Zone 1 the sum of \$0.04497 plus the product of the miles determined in §1051.55 (c) (1) (i) times the sum of \$0.00318 plus the amount determined in §1051.56 (a) (5);

(ii) For Transportation Zone 2 the sum of \$0.00485 plus the product of the miles determined in §1051.55 (c) (1) (i) times the sum of \$0.00546 plus the amount determined in §1051.56 (a) (5);

(iii) For Transportation Zone 3 the sum of \$0.05441 plus the product of the miles determined in §1051.55 (c) (1) (i) times the sum of \$0.00571 plus the amount determined in §1051.56 (a) (5);

(b) The market administrator shall announce publicly on or before the 23rd day of the month (except as provided in § 1000.90 of this chapter) the fuel adjustor rate pursuant to paragraph (a) of this section for the following month.

Note that payments are calculated and paid on a per farm basis. So these examples envision the volume coming from one farm located in the source area and delivering to a plant in a demand area. A single farm could have multiple delivery points in a single month, hence multiple payments and a route could have more than one stop and each stop would be treated individually for the pounds it delivered to the plant.

Handlers will be responsible to report to the Market Administrator all necessary data needed to compute the transportation credit. Transportation credit payments will be made to handlers and handlers will be responsible to furnish information to independent producers relative to the transportation credits received on their milk deliveries.

Transportation credits will apply to shipment to pool plant(s) which for the month have utilization of greater than 50% in Classes I and/or II. The utilization requirement may be met for the current month or it may be met on the basis of utilization during the preceding 12-month period ending with the current month. Since Class I and II shipments contribute higher values to the producer blend pool we propose shipments to plants with both utilizations get transportation credit payments.

We also propose that the Market Administrator periodically publish a hauling cost study that details key cost data. Participants in the industry can request a hearing to review the cost data and determine if they wish to alter the reimbursement rates.