



**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

Fresno, California, November 2015

Testimony of Dennis Lund

California Producer Handlers Association

Valuation of Exempt Quota

My name is Dennis Lund, and I am Foster Dairy's Director of Cost Accounting. I appear before you today on behalf of all of the exempt quota holders, and the California Producer Handlers Association for the limited purpose of addressing a question raised by Judge Jill Clifton regarding valuation of exempt quota. It remains the position of CPHA that we would like to preserve the exempt quota treatment along with the preservation of any quota system in a California Federal Milk Marketing Order. We do not want to sell our exempt quota or have it cashed out. We offer this valuation only in the event that it is the only method the Secretary deems to value the quota system in California.

If Quota is to be diminished through a purchase of some sort, CPHA understands that Lon Hatamiya has presented testimony that establishes the regular quota value. The testimony in these proceedings is uncontroverted that exempt quota has a value above and beyond that of regular quota. I am here to offer one way to recognize and value exempt quota.

For purposes of valuing the exempt quota, we adopt the valuation method proposed by Ted DeGroot discussed last week. Exempt quota has a value above and beyond regular quota that can be measured as the difference in price between Class 1 and Quota. Class 1 prices are set differently in Southern California than they are in Northern California, so the valuation of exempt quota is slightly different between these two regions.

Attachment 1 to my testimony shows the monthly cwt values for Class 1 prices in Northern and Southern California. I use the Class 1 price for each region and subtract the Quota price for each corresponding month. The calculated difference between the two determines the additional value of exempt quota over regular quota for each month from October 2010 through September 2015. I averaged the exempt quota value for those last five years. I took that exempt quota

value and divided it by the quota premium of \$1.70/cwt to determine the ratio of exempt quota value above and beyond that of regular quota.

Using this methodology, I calculated the ratio of the values of exempt quota to regular quota for Northern California to be 1:1.96. The ratio of the values of exempt quota to regular quota for Southern California is 1:2.12. In Northern California, every pound of exempt quota is the equivalent in value to 1.96 pounds of regular quota. In Southern California, every pound of exempt quota is the equivalent to 2.12 pounds of regular quota.

Using \$525 per pound of Quota valuation, that would mean that each exempt quota pound in Northern California is equal to \$1,029 per pound and each exempt quota pound in Southern California is equal to \$1,113 per pound.

According to the California Department of Food and Agriculture, there is a total of 57,914.10 pounds ^{of exempt} SNF quota as of August 2015 (CDFA Exhibit 61, Table AC). Of the total SNF exempt quota, 40,244.51 pounds of SNF exempt quota are produced in Northern California, which equates to a value of \$41,411,600.79. There are 17,669.59 pounds of SNF exempt quota in Southern California, which equates to a value of \$19,666,253.67. If exempt quota were to be purchased, these amounts reflect what should be paid to the farms who own the exempt quota.

	Northern California	Southern California	Total
Regular Quota : Exempt Quota	1 : 1.96	1 : 2.12	
EQ = Ratio x \$525/SNF	\$1,029 / pound EQ SNF	\$1,113 / pound EQ SNF	
Exempt Quota SNF	69.49% (40,244.51)	30.51% (17,669.59)	57,914.10
Total	\$41,411,600.79	\$19,666,253.67	\$61,077,854.46

Thank you for allowing me to testify before you today.

Month	Year	Class 1 Northern California \$/CWT			Class 1 Southern California \$/CWT			Class 1 North/South CA Difference	Annual Average (Northern CA)	Annual Average (Southern CA)	Average of last 5 yrs (N CA)	Average of last 5 yrs (S CA)	N CA Valuation Differential Ratio	S CA Valuation Differential Ratio
		Quota CWT	Difference A-B	Quota CWT	Difference C-B									
<i>Calculation</i>														
Sept	2015	\$18.08	\$16.68	\$1.40	\$18.35	\$16.68	\$1.67	\$1.54	\$1.68	\$1.95	\$1.63	\$1.90	1.96	2.12
Aug	2015	\$17.66	\$16.33	\$1.33	\$17.93	\$16.33	\$1.60	\$1.47					\$ 525	\$ 525
July	2015	\$18.42	\$16.02	\$2.40	\$18.70	\$16.02	\$2.68	\$2.54					\$ 1,029	\$ 1,113
June	2015	\$17.47	\$16.34	\$1.13	\$17.74	\$16.34	\$1.40	\$1.27						
May	2015	\$17.06	\$15.94	\$1.12	\$17.34	\$15.94	\$1.40	\$1.26						
Apr	2015	\$16.94	\$15.55	\$1.39	\$17.21	\$15.55	\$1.66	\$1.53						
Mar	2015	\$16.66	\$15.52	\$1.14	\$16.93	\$15.52	\$1.41	\$1.28						
Feb	2015	\$17.08	\$15.53	\$1.55	\$17.36	\$15.53	\$1.83	\$1.69						
Jan	2015	\$19.49	\$15.85	\$3.64	\$19.76	\$15.85	\$3.91	\$3.78						
Dec	2014	\$23.72	\$18.22	\$5.50	\$23.99	\$18.22	\$5.77	\$5.64	\$2.11	\$2.38				
Nov	2014	\$24.33	\$20.70	\$3.63	\$24.60	\$20.70	\$3.90	\$3.77						
Oct	2014	\$26.09	\$23.19	\$2.90	\$26.36	\$23.19	\$3.17	\$3.04						
Sept	2014	\$25.39	\$24.15	\$1.24	\$25.66	\$24.15	\$1.51	\$1.38						
Aug	2014	\$25.28	\$23.34	\$1.94	\$25.55	\$23.34	\$2.21	\$2.08						
July	2014	\$25.13	\$22.53	\$2.60	\$25.40	\$22.53	\$2.87	\$2.74						
June	2014	\$25.10	\$22.75	\$2.35	\$25.37	\$22.75	\$2.62	\$2.49						
May	2014	\$25.88	\$22.77	\$3.11	\$26.15	\$22.77	\$3.38	\$3.25						
Apr	2014	\$24.88	\$24.04	\$0.84	\$25.15	\$24.04	\$1.11	\$0.98						
Mar	2014	\$25.38	\$24.17	\$1.21	\$25.65	\$24.17	\$1.48	\$1.35						
Feb	2014	\$23.11	\$23.39	-\$0.28	\$23.38	\$23.39	-\$0.01	-\$0.15						
Jan	2014	\$22.84	\$22.53	\$0.31	\$23.11	\$22.53	\$0.58	\$0.44						
Dec	2013	\$21.73	\$20.98	\$0.75	\$22.00	\$20.98	\$1.02	\$0.89	\$1.15	\$1.42				
Nov	2013	\$21.74	\$20.31	\$1.43	\$22.01	\$20.31	\$1.70	\$1.57						
Oct	2013	\$20.79	\$19.80	\$0.99	\$21.06	\$19.80	\$1.26	\$1.13						
Sept	2013	\$20.28	\$19.44	\$0.84	\$20.56	\$19.44	\$1.12	\$0.98						
Aug	2013	\$20.21	\$19.01	\$1.20	\$20.48	\$19.01	\$1.47	\$1.34						
July	2013	\$19.59	\$18.55	\$1.04	\$19.86	\$18.55	\$1.31	\$1.18						
June	2013	\$20.84	\$18.78	\$2.06	\$21.12	\$18.78	\$2.34	\$2.20						
May	2013	\$19.39	\$19.13	\$0.26	\$19.66	\$19.13	\$0.53	\$0.40						
April	2013	\$19.49	\$18.99	\$0.50	\$19.77	\$18.99	\$0.78	\$0.64						
March	2013	\$19.33	\$18.03	\$1.30	\$19.60	\$18.03	\$1.57	\$1.44						
Feb	2013	\$19.83	\$18.36	\$1.47	\$20.10	\$18.36	\$1.74	\$1.61						
Jan	2013	\$20.24	\$18.30	\$1.94	\$20.51	\$18.30	\$2.21	\$2.08						
Dec	2012	\$23.08	\$18.97	\$4.11	\$23.35	\$18.97	\$4.38	\$4.25	\$1.73	\$2.00				
Nov	2012	\$23.17	\$20.19	\$2.98	\$23.44	\$20.19	\$3.25	\$3.12						
Oct	2012	\$20.55	\$20.17	\$0.38	\$20.82	\$20.17	\$0.65	\$0.51						
Sept	2012	\$19.34	\$18.42	\$0.92	\$19.61	\$18.42	\$1.19	\$1.06						
Aug	2012	\$18.01	\$17.48	\$0.53	\$18.28	\$17.48	\$0.80	\$0.67						
July	2012	\$17.60	\$16.14	\$1.46	\$17.87	\$16.14	\$1.73	\$1.60						
June	2012	\$16.81	\$15.67	\$1.14	\$17.08	\$15.67	\$1.41	\$1.28						
May	2012	\$16.94	\$15.35	\$1.59	\$17.21	\$15.35	\$1.86	\$1.73						
Apr	2012	\$17.21	\$15.80	\$1.41	\$17.48	\$15.80	\$1.68	\$1.55						
Mar	2012	\$17.60	\$16.28	\$1.32	\$17.87	\$16.28	\$1.59	\$1.46						
Feb	2012	\$18.52	\$16.29	\$2.23	\$18.79	\$16.29	\$2.50	\$2.37						
Jan	2012	\$19.88	\$17.25	\$2.63	\$20.15	\$17.25	\$2.90	\$2.77						

Month	Year	Class 1 Northern California			Class 1 Southern California			Class 1 North/South CA Difference	Annual Average (Northern CA)	Annual Average (Southern CA)	Average of last 5 yrs (N CA)	Average of last 5 yrs (S CA)	N CA Valuation Differential Ratio	S CA Valuation Differential Ratio
		Quota S/CWT	Quota CWT	Difference A-B	Quota S/CWT	Quota CWT	Difference C-B							
<i>Calculation</i>		A	B	A-B	C	B	C-B	Average(A-B,C-B)						
Dec	2011	\$20.67	\$17.80	\$2.87	\$20.94	\$17.80	\$3.14	\$3.01	\$1.45	\$1.72				
Nov	2011	\$20.26	\$19.31	\$0.95	\$20.54	\$19.31	\$1.23	\$1.09						
Oct	2011	\$21.50	\$18.91	\$2.59	\$21.77	\$18.91	\$2.86	\$2.73						
Sept	2011	\$23.56	\$19.87	\$3.69	\$23.84	\$19.87	\$3.97	\$3.83						
Aug	2011	\$23.24	\$21.23	\$2.01	\$23.51	\$21.23	\$2.28	\$2.15						
July	2011	\$22.38	\$21.24	\$1.14	\$22.65	\$21.24	\$1.41	\$1.28						
June	2011	\$21.41	\$21.19	\$0.22	\$21.68	\$21.19	\$0.49	\$0.35						
May	2011	\$20.90	\$18.97	\$1.93	\$21.17	\$18.97	\$2.20	\$2.07						
Apr	2011	\$21.66	\$18.70	\$2.96	\$21.93	\$18.70	\$3.23	\$3.10						
Mar	2011	\$19.24	\$19.01	\$0.23	\$19.51	\$19.01	\$0.50	\$0.36						
Feb	2011	\$16.88	\$18.44	-\$1.56	\$17.15	\$18.44	-\$1.29	-\$1.43						
Jan	2011	\$16.45	\$16.12	\$0.33	\$16.72	\$16.12	\$0.60	\$0.46						
Dec	2010	\$18.28	\$15.42	\$2.86	\$18.55	\$15.42	\$3.13	\$3.00	\$1.32	\$1.59				
Nov	2010	\$18.71	\$16.45	\$2.26	\$18.98	\$16.45	\$2.53	\$2.40						
Oct	2010	\$18.44	\$17.94	\$0.50	\$18.71	\$17.94	\$0.77	\$0.64						
Sept	2010	\$17.15	\$17.25	-\$0.10	\$17.43	\$17.25	\$0.18	\$0.04						
Aug	2010	\$17.33	\$16.54	\$0.79	\$17.60	\$16.54	\$1.06	\$0.93						
July	2010	\$17.14	\$15.94	\$1.20	\$17.42	\$15.94	\$1.48	\$1.34						
June	2010	\$15.68	\$15.17	\$0.51	\$15.95	\$15.17	\$0.78	\$0.65						
May	2010	\$15.37	\$14.65	\$0.72	\$15.64	\$14.65	\$0.99	\$0.86						
Apr	2010	\$14.37	\$14.33	\$0.04	\$14.64	\$14.33	\$0.31	\$0.18						
Mar	2010	\$16.44	\$14.11	\$2.33	\$16.71	\$14.11	\$2.60	\$2.47						
Feb	2010	\$16.46	\$14.81	\$1.65	\$16.74	\$14.81	\$1.93	\$1.79						
Jan	2010	\$18.22	\$15.18	\$3.04	\$18.49	\$15.18	\$3.31	\$3.18						