



Commonwealth of Pennsylvania
Milk Marketing Board
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Official General
Order No. A-995

Posted: September 14, 2016
Effective October 1, 2016

OVER-ORDER PREMIUM

NOW, this 14th day of September 2016, the Commonwealth of Pennsylvania, Milk Marketing Board (Board) adopts and issues this official general order pursuant to the authority conferred by the Milk Marketing Law, 31 P.S. §§ 700j-101 – 700j-1204. This order will become effective at 12:01 a.m. on October 1, 2016, and will expire at 12:00 midnight on March 31, 2017.

SECTION I

The attached findings of fact and conclusions of law are incorporated herein by this reference as though fully set forth in this order.

SECTION II

(a) In all milk marketing areas the calculation of the Class I price for milk produced, processed, and sold in Pennsylvania shall include an over-order premium of \$1.75 per hundredweight effective 12:01 a.m. on October 1, 2016, through midnight on January 31, 2017.

(b) In all milk marketing areas the calculation of the Class I price for milk produced, processed, and sold in Pennsylvania shall include an over-order premium of \$1.60 per hundredweight effective 12:01 a.m. on February 1, 2017, through midnight on March 31, 2017.

(c) Milk dealers shall show by line item on their monthly statements to independent producers and cooperatives the specific amount of the Pennsylvania Milk Marketing Board's over-order premium being paid.

SECTION III

All parts of Official General Order A-893 not inconsistent with this order shall continue in effect.

PENNSYLVANIA MILK MARKETING BOARD

Luke F. Brubaker, Chairman

Lynda J. Bowman, Consumer Member

James A. Van Blarcom, Member

Date: September 14, 2016

**FINDINGS OF FACT AND CONCLUSIONS OF LAW
OVER-ORDER PREMIUM HEARING
March 1, 2016**

FINDINGS OF FACT

1. On September 7, 2016, the Pennsylvania Milk Marketing Board (“Board”) held a hearing for all milk marketing areas to receive testimony and evidence concerning the level and duration of the over-order premium.
2. Notice of the hearing was published at 46 Pennsylvania Bulletin 4309 on July 30, 2016, and was mailed to those who have requested mailed notice of Board hearings by means of Bulletin No. 1523, dated July 21, 2016.
3. Dean Ellinwood testified on behalf of the Pennsylvania Association of Dairy Cooperatives (“PADC”) as an expert in raw milk marketing, procurement from producers, and sales to handlers. PADC members include Dairy Farmers of America, Inc., Dairy Marketing Services, LLC, Lanco Dairy Farms Co-Op, Inc., Land O’Lakes, Inc., and Maryland and Virginia Milk Producers’ Cooperative Association, Inc. Mr. Ellinwood presented evidence supporting a PADC request to set the over-order premium at \$1.60 per hundredweight. Mr. Ellinwood further testified, though, that as PADC monitored harvest conditions and the impact of drought conditions on farmers’ harvests it might request an expedited hearing later in the year. He testified that the corn harvest, at the time of preparing his initial testimony, was still a question mark.
4. Mr. Ellinwood testified that the Northeast had had an ample milk supply but that schools and colleges are now back in session, requiring additional milk volumes compared to the summer months. He also testified that plant expansions in the Northeast would continue that would draw upon the area milk supply. However, Mr. Ellinwood also testified that many PADC farmers were concerned about a lack of rain for their crops and were talking about reduced silage tonnage for their cows.
5. Mr. Ellinwood testified that the July 2016 USDA Milk Production Report showed an estimated increase in milk production in the 23 selected states of 1.4% compared to July 2015. However, the Pennsylvania increase from July 2015 to July 2016 was 0.3 percent. The first six months of 2016 compared to the first six months of 2015 showed an increase of 1.16 percent for the 23 selected states, with Pennsylvania increasing 0.36 percent over that time frame. Mr. Ellinwood also testified that over the past year over 260 dairy farms marketed by PADC members had sold their cows and discontinued producing milk.
6. John Rutherford testified on behalf of PADC as an expert in agricultural economics. Mr. Rutherford testified in support of PADC’s request to set the over-order premium at \$1.60 per hundredweight for a six month period.

7. Mr. Rutherford testified that the financial situation on Pennsylvania farms was one of much slimmer margins than in 2014. Margins were also lower when compared to those experienced in 2015. Mr. Rutherford testified that the margin over feed costs was 39.9 percent lower in 2015 compared to 2014. He further testified that the margin in the first half of 2016 was 7.2 percent lower than in the first half of 2015.
8. Mr. Rutherford testified that the August World Agricultural Supply and Demand Estimates from the USDA predicted higher milk prices and lower feed costs in late 2016 and early 2017. Mr. Rutherford testified that futures prices indicated that the Pennsylvania all-milk price would be back in the \$18.50-\$19.00 range for October 2016 through March 2017, but that would still be \$0.50-\$1.00 below what Pennsylvania farmers have averaged over the last 10 years.
9. Mr. Rutherford testified that there was slight improvement of the cost side for dairy farmers. He testified that for October 2016 through March 2017 farmers should expect a similar to possibly higher corn price, a similar soybean or soybean meal price, and possibly a lower price for alfalfa hay. He testified that taken together these expectations would add some improvement to dairy farm margins.
10. Mr. Rutherford testified that the feed situation was susceptible to being adversely affected by dry weather conditions. He testified that as days continue to pass without rainfall, there is a growing potential for damage to crop quality and/or yield. In that case, higher feed prices would offset at least a portion of the expected increases in milk prices. Mr. Rutherford testified that since he had prepared his testimony at the beginning of August the situation had changed such that conditions in the future were more likely to be worse than better.
11. Glenn Stoltzfus testified on behalf of Pennsylvania Farm Bureau. Mr. Stoltzfus is Chairman of Pennsylvania Farm Bureau's Dairy Committee and is a member of the Farm Bureau State Board of Directors. Mr. Stoltzfus operates Pennwood Farms in partnership with his three brothers. Pennwood Farms milks almost 600 Holsteins and raises all of its own heifer calves. Mr. Stoltzfus and his brothers farm approximately 1,300 acres. Pennwood Farms also does custom crop work and genetics work. Mr. Stoltzfus recommended that the over-order premium be set at \$1.90 per hundredweight for six months.
12. Mr. Stoltzfus testified that he estimated that his cost of production for 2016 would be similar to his 2015 cost of \$21.60 per hundredweight. He testified that his income over feed costs decreased from \$8.37 per hundredweight in January 2016 to \$6.63 per hundredweight in June 2016. Mr. Stoltzfus testified that his income over feed costs had decreased further since June 2016. He testified that insurance costs had increased. Mr. Stoltzfus testified that the tight margins had been tough for his farm and that he and other farmers are facing extremely difficult conditions.
13. Mr. Stoltzfus further testified that there were serious questions about what impact this year's weather conditions would have on feed crop production in Pennsylvania. He

testified that some farmers are facing low to no corn and hay yields, leading to increased expenses for replacement feed and forage.

14. Michael Evanish testified on behalf of Pennsylvania Farm Bureau as an expert in farm business analysis, including analysis of farm cost of production and farm income. Mr. Evanish testified in support of an increase to the over-order premium.
15. Mr. Evanish testified that while 2014 was a very positive financial year for Pennsylvania dairy farms, 2015 was not, with a substantial drop in prices from 2014 to 2015. He further testified that reports from his employees at MSC Business Services indicated that 2016 milk prices could be reduced by a further \$2.00 per hundredweight. He testified that while prices for the remainder of 2016 were not certain, it was certain that the current price being received for milk did not support current reasonably expected costs of production.
16. Mr. Evanish testified that the current state of the Pennsylvania dairy producer base was one of unprofitability. He testified that 35 percent of the dairy farms included in his averages were profitable in 2015 while 65 percent were not profitable. He further testified that while commodity prices dropped in 2015, that reduction did not help Pennsylvania dairy farmers absorb the milk price reduction experienced in 2015. Purchased feed and crop expenses for MSC client farms represented 46 percent of the average milk price in 2015, compared to 38 percent in 2014.
17. Matthew Espenshade testified on behalf of the Pennsylvania State Grange. Mr. Espenshade is a seventh generation dairy farmer in Lancaster County. Mr. Espenshade and his father milk 85 cows, raise their own replacement heifers, and farm 260 acres. Mr. Espenshade ships his milk to Mount Joy Farmers Co-Op. Mr. Espenshade is the Master of Elizabethtown Area Grange. The Grange requested that the over-order premium be set at \$1.90 per hundredweight.
18. Mr. Espenshade testified that 2014 was a year of extraordinary milk prices but that since then his blend price and income over feed costs had declined, in some cases sharply. He testified that his June 2016, July 2016, and August 2016 blend prices would be the lowest his farm has seen since January 2010. Mr. Espenshade also testified that while the price he received for his milk had dramatically decreased through summer 2016, his feed costs had increased. Mr. Espenshade testified further that while electric costs had been trending upwards for several years, he saw notable increases in 2016, with his July 2016 bill the highest he has had since he began testifying before the Board.
19. Arden Tewksbury testified on behalf of Progressive Agriculture Organization. Mr. Tewksbury testified that the Board should set the over-order premium at \$1.60 per hundredweight, but also testified that he would not object to the Board setting the premium slightly higher. Mr. Tewksbury testified that it was clear that Pennsylvania dairy farmers were losing a substantial amount of money regardless which cost of production figures one used.

20. Earl Fink testified on behalf of the Pennsylvania Association of Milk Dealers (“PAMD”) as an expert in milk marketing as defined by the ability of milk processors and fluid processors to procure milk competitively and the ability to sell packaged milk competitively and profitably and Pennsylvania Milk Marketing Board regulation and enforcement. Mr. Fink testified in support of setting the over-order premium at \$1.60 per hundredweight. He testified that Class I milk sales have been declining in recent months and remained soft. He further testified that despite lower milk prices over the last several months, milk supplies in the region were sufficient to supply the Class I market. Mr. Fink testified that a tremendous volume of milk was pooled in the Northeast during the spring and milk was dumped in Federal Orders 1 and 33.
21. Mr. Fink testified that Class I prices had risen in September and additional increases were expected through 2016 and into 2017.
22. Mr. Ellinwood testified on surrebuttal that PADC now supported setting the over-order premium at \$1.90 per hundredweight. Mr. Ellinwood testified that the support was based on conditions that he identified in his original testimony that would have prompted PADC to request an expedited hearing during the term of this order.
23. The Board finds that the over-order premium should be set at \$1.75 per hundredweight effective October 1, 2016, through January 31, 2017, and set at \$1.60 per hundredweight effective February 1, 2017, through March 31, 2017.

We believe establishing this premium structure strikes a balance among the concerns expressed by various witnesses regarding drought conditions and feed costs, the financial conditions on dairy farms, expected increases in milk prices, the effect on the Class I processing segment of the industry, and the Board’s ability to provide the highest return to Pennsylvania producers possible without endangering the market for Pennsylvania produced milk.

CONCLUSIONS OF LAW

1. The September 7, 2016, hearing on the over-order premium was held pursuant to the authority granted to the Board in sections 801 and 803 of the Milk Marketing Law (Law), 31 P.S. §§ 700j-801 and 700j-803.
2. The hearing was held following adequate notice and all interested parties were given a reasonable opportunity to be heard.
3. All parts of Official General Order No. A-893 not inconsistent with the attached order will continue in effect.
4. In accordance with Official General Order No. A-894, milk dealers shall continue to show by line item on their monthly statements to independent producers and cooperatives the specific amount of the Pennsylvania Milk Marketing Board's over-order premium being paid.
5. In accordance with Official General Order No. A-894 (Supplemental), the over-order premium will continue to apply only to Class I milk produced, processed, and sold in Pennsylvania.
6. In adopting this order, the Board considered the entire record and concludes that the order is supported by a preponderance of credible evidence and is reasonable and appropriate under sections 801 and 803 of the Law.
7. The attached order may be amended pursuant to the procedures set out in section 801 of the Law.

PENNSYLVANIA MILK MARKETING BOARD

Luke F. Brubaker, Chairman

Lynda J. Bowman, Consumer Member

James A. Van Blarcom, Member

Date: September 14, 2016

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