



Commonwealth of Pennsylvania

Milk Marketing Board
2301 North Cameron Street
Harrisburg, PA 17110-9408

717/787-4194
717/783-6492

WEB SITE: http://www.sites.state.pa.us/PA_Exec/Milk/

E-mail: RA -PMMB@.state.pa.us

Official General
Order No. A-915

Posted: December 11, 2001
Effective: January 1, 2002

OVER-ORDER PREMIUM

NOW, this 11th day of December 2001, 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 January 1, 2002, and will expire at 12:00 midnight on June 30, 2002.

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 will include an over-order premium of \$1.40 until February 19, 2002, at which time the \$.25 per hundredweight fuel adjustment will terminate pursuant to Official General Order A-908. At the time the \$.25 per hundredweight fuel adjustment terminates, the calculation for Class I milk produced, processed, and sold in Pennsylvania will include an over-order premium of \$1.65 until June 30, 2002.

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

SECTION III

All parts of Official General Order A-893 not inconsistent with this order shall continue in effect. This official general order supersedes Official General Order A-914 Amended.

PENNSYLVANIA MILK MARKETING BOARD

Beverly R. Minor, Chairwoman

Luke F. Brubaker, Member

Barbara A. Grumbine, Consumer Member

Dated: December 11, 2001

FINDINGS OF FACT AND CONCLUSIONS OF LAW
OVER-ORDER PREMIUM HEARING
NOVEMBER 28, 2001

FINDINGS OF FACT

1. On November 28, 2001, the Pennsylvania Milk Marketing Board (Board) convened a hearing for all milk marketing areas to receive testimony and evidence concerning the continuation of the over-order premium that is scheduled to expire on December 31, 2001, and whether an adjustment should be made to the level of the current over-order premium established by Official General Order (OGO) A-914 Amended.
2. Notice of the hearing was published at 31 Pennsylvania Bulletin 5767 on October 13, 2001, and was mailed to those on the Board's interested parties list by means of Bulletin No. 1310 dated October 2, 2001. (PMMB Exhibits 1 and 2)
3. At the conclusion of the hearing, a briefing schedule was set. Principal letter briefs were due on December 4, 2001, and reply letter briefs were due on December 5, 2001.
4. C. Arthur Zug, a dairy farmer from Juniata County, testified on behalf of the Pennsylvania State Grange ("Grange"). The Grange supports the continuation of the over-order premium of \$1.40 per hundredweight plus the \$.25 adjustment fuel add-on. (N.T. 25) Mr. Zug testified that he did not know the Grange's position to increase the over-order premium to \$1.65 per hundredweight if the \$.25 fuel add-on was terminated during the period of this over-order premium; however, Mr. Zug offered his personal opinion that the over-order premium should be increased to \$1.65 upon the removal of the fuel add-on. (N.T. 27) Mr. Zug based these recommendations on the fact that milk production in Pennsylvania is down 1.5 percent from last year's production and the total number of milk cows in Pennsylvania has decreased by 22,000 over the last twelve months. (N.T. 17) Mr. Zug further testified that, although many farmers enjoyed a good harvest in most parts of the state, some areas have had a dry season resulting in a corn production decrease of 26 percent below last year and an alfalfa hay crop decrease of 13 percent over last year. (N.T. 18) Mr. Zug also testified that production costs have either remained constant or have increased while economists are predicting milk prices at the farm level for 2002 to be approximately \$3 to \$4 per hundredweight less. (N.T. 18-19)
5. Joel Rotz, testified on behalf of the Pennsylvania Farm Bureau as an expert in dairy economics, that "the most reliable source of projected prices under the current milk pricing system for the first six months of 2002 is developed by using current Class III and IV futures from the Chicago Mercantile Exchange." (N.T. 37) According to Mr. Rotz's testimony, the monthly projected prices would indicate that the average price paid to Pennsylvania producers for the first six

- months of 2002 will be about \$13.95 per hundredweight. (N.T. 37-38, PFB Exhibit 1)
6. Mr. Rotz further testified that the Special Dairy Report published by the Pennsylvania Agricultural Statistics Services (PASS) for the third quarter of 2001 estimates that the Pennsylvania producers' average cost of production for the twelve month period ending September 2001 was \$14.43 per hundredweight of milk and Mr. Rotz sees no reason that the production cost will be lower in the near future. (N.T. 38, PFB Exhibit 2) Mr. Rotz noted that if the average price received for the succeeding months would be \$13.95 per hundredweight, the Pennsylvania producer would experience a shortfall of \$3.38 per hundredweight of milk produced. (N.T. 40)
 7. According to Mr. Rotz's testimony, Pennsylvania milk production, as well as cow numbers, are down which would seem to reflect that Pennsylvania dairy producers continue to sell their cows and even exit the business. (N.T. 41)
 8. Mr. Rotz testified that, based on the termination criteria set forth in Official General Order No. A-908, the fuel adjustment add-on of \$.25 per hundredweight will expire on February 19, 2002. (N.T. 43) Mr. Rotz indicated that even with the decline in fuel prices, drought conditions and increased production costs will add costs for many Pennsylvania producers. (Id.)
 9. Mr. Rotz testified that, based on lower federal order prices along with increased costs due to the drought, the Pennsylvania Farm Bureau recommends that the Board maintain the over-order premium at \$1.40 per hundredweight and increase the base premium level to \$1.65 upon the expiration of the fuel adjustment add-on. (N.T. 44) Mr. Rotz further testified that the over-order premium established in this order be in effect for a six-month period beginning January 1, 2002.
 10. Edward Gallagher, an expert in dairy economics and milk marketing testified on behalf of DairyLea, Dairy Farmers of America's Northeast Council, and Dairy Marketing Services that the current total over-order premium of \$1.65, including the \$.25 fuel adjustment add-on, should be maintained by the Board for the first six months of 2002 and that the over-order premium be continued at the \$1.65 rate even if the \$.25 fuel adjustment add-on terminates. (N.T. 65-66)
 11. Mr. Gallagher testified that the Milk Marketing Board's Class I mover is estimated to average \$1.00 per hundredweight less for the first six months of 2002. (N.T. 66, DMS Exhibit 1) Mr. Gallagher testified that most, if not all, analysts are predicting that the January, May, and June prices are expected to fall by more than \$1.50. (N.T. 66)
 12. According to Mr. Gallagher's testimony, voluntary premiums in surrounding states are currently at a similar level as Pennsylvania and he expects them to hold or increase. (N.T. 67) Mr. Gallagher testified that the premiums in the

surrounding states were: New York City, \$1.65; the outskirts of New York City and New Jersey, less than \$1.65; Southern Jersey is a little lower; Ohio, above \$1.65; and Maryland, \$1.40 to \$1.50. (N.T. 89)

13. Mr. Gallagher testified that the farm blend prices in the Southeastern Orders continue to exceed those in the Northeast Order, encouraging continued procurement of Pennsylvania milk production to the southeastern United States. According to Mr. Gallagher, there has been a softening of demand in the Northeast based on recessionary impacts with the majority of the softening occurring in manufactured products. (N.T. 68)
14. Mr. Gallagher's testimony reflected that of the other witnesses in that milk production decreased for the 11th straight month and continues to shrink. (N.T. 68-69, DMS Exhibit 2) Mr. Gallagher further testified that the declining cowherds continue to be a problem even though there has been an improvement in output per cow. (N.T. 69)
15. Dennis Schad, testifying on behalf of Land O'Lakes and Maryland and Virginia Milk Producers Cooperative, recommended that the Board continue the over-order premium of \$1.40 per hundredweight plus the \$.25 fuel adjustment add-on for a period of six months ending June 30, 2002. (N.T. 97) Mr. Schad further testified that, if the fuel adjustment add-on is terminated, the over-order premium should be \$1.40 per hundredweight through the first six months and the Board has the opportunity to look at the over-order premium in a couple of months if any of the conditions change to see whether the over-order premium should be set at \$1.65 per hundredweight. (N.T. 113)
16. Mr. Schad testified that the average cost of production of milk for the last twelve years ending September 2001 as reported by PASS was \$14.43 per hundredweight. (N.T. 98) Mr. Schad further testified that the simple average of the price received by Pennsylvania producers during that time period was \$16.09. (N.T. 98, LOL Exhibit 1) According to the Keystone Ag Digest, estimates of corn yields in Pennsylvania are down approximately 25 percent from last year and the alfalfa harvest was down by about ten percent from last year. (N.T. 98-99, LOL Exhibit 4) Mr. Schad testified that these increases in prices should contribute to the increased cost of production during the next six months. (N.T. 99) According to testimony offered by Mr. Schad much of Pennsylvania is currently affected by drought conditions and Land O'Lakes believes the average cost of production will increase relative to last year while dairy production will have a flat or moderate increase in dairy production. (N.T. 104)
17. Mr. Schad testified that Land O'Lakes was in agreement with the methodology of estimating future Order 1 uniform prices used by Pennsylvania Farm Bureau. (N.T. 101) Mr. Schad estimated a decline in producer prices of \$.78 per hundredweight during the first half of 2002. (N.T. 102)

CONCLUSIONS OF LAW

1. The November 28, 2001 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 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

Beverly R. Minor, Chairwoman

Luke F. Brubaker, Member

Barbara A. Grumbine, Consumer Member

Date: December 11, 2001

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