



## **Methodology of Price Impact Estimates**

The Department has calculated the estimated impacts to the Class 4b price, the pool price, and the monthly revenue from the pool for each Alternative Class 4b Whey Pricing. The Department compared the previous Class 4b pricing formula that was in place prior to the October 2007 hearing and the proposed alternatives in order to estimate these differences.

Some of the proposed alternatives presented possible variations. Therefore, the Department where noted had to make the following assumptions :

**Sub-Committee: Branagh, Paris, Schiek, Souza, and Wegner**

Alternative 1a: Uses the midpoint of the Western Dry Whey price as the commodity in this proposal.

Alternative 1b: Uses the “lower of Western Dry Whey and WPC-34” as the commodity in this proposal as explained in point #5 under Alternative 1.

Alternative 2: Estimates based on the formula stated by the Sub-Committee.

Alternative 3a: Uses the NASS Dry Whey price as the whey price.

Alternative 3b: Uses the “lower of dry whey and WPC-34” as the whey price based upon dry whey having 12% protein content.

**Sub-Committee: Hofferber, Jeter, Tollenaar, and Vanden Heuvel**

Alternative 4: Estimates only the price impacts between the previous Class 4b pricing formula and the Federal Order Class III minus \$0.50. In calculating the pool price, the Department assumed the price difference is found all on the solids-not-fat component of the class price.

The Department was unable to estimate the impact of the de-pool option as described by this proposal.

Alternative 5: Estimates based on the formula stated by the Sub-Committee.

Alternative 6: Estimates based on the formula stated by the Sub-Committee.

Alternative 7: The Department used the \$0.2003 per pound cost for non-fat dry milk plus \$0.085 as described in note A of this proposal as the basis for the proposed make allowance. The \$0.2003 per pound cost comes from page 4 of the Department's Manufacturing Cost study released in September 2007 and represents the high cost group (4 plants).

Alternative 8a: Uses the proposed formula with a snubber as described in note B so that the whey value never drops below zero or rises above \$0.50.

Alternative 8b: Uses the proposed formula with a snubber as described in note B so that the whey value never drops below zero or rises above \$1.00.

Alternative 8c: Uses the proposed formula with a snubber as described in note B so that the whey value never drops below \$0.25 or rises above \$1.25.