

## Cost Comparison of Transportation Allowances

[Revised based on requests made at the May 22, 2003 Workshop.]

[The tables are as presented at the workshop. The speaker notes have been inserted.]

- 1) Analyses based on historic milk movements that occurred monthly during 2002
- 2) Figures were generated by putting in different “filters” as proposed in the petition and alternative proposal, including
  - a. Changing supply counties
  - b. Changing counties in the receiving areas
  - c. Changing the plant eligibility requirements
- 3) Costs were calculated by using the proposed rate schedules
- 4) “LOL” and “MPC” are abbreviations for Land O’ Lakes and Milk Producers Council.

**Table 1. Monthly Average Cost of Transportation Allowances by Receiving Area, 2002**

|              | <u>Current</u> | <u>LOL</u> | <u>MPC</u> | <u>LOL Less</u><br><u>Current</u> | <u>MPC Less</u><br><u>Current</u> |
|--------------|----------------|------------|------------|-----------------------------------|-----------------------------------|
| Sacramento   | \$33,863       | \$33,863   | \$27,130   | \$0                               | -\$6,733                          |
| Bay Area     | \$233,839      | \$233,839  | \$202,121  | \$0                               | -\$31,718                         |
| Southern Cal | \$673,029      | \$396,428  | \$414,497  | -\$276,600                        | -\$258,532                        |
| Solano       | \$52,548       | \$52,548   | \$76,899   | \$0                               | \$24,350                          |
| All Other    | ---            | ---        | \$106,680  | ---                               | \$106,680                         |
| Total        | \$993,278      | \$716,678  | \$827,326  | -\$276,600                        | -\$165,952                        |

### Notes for Table 1:

- San Diego and Shasta Receiving Areas were inactive during 2002
- “All Other” is an aggregate of plants that qualify for transportation allowances under the MPC alternative proposal that do not qualify under current regulations.
- LOL proposed changes that would affect only the Southern California Receiving Area. In that vein, most of the cost difference between the current and the LOL proposal is the result of changes in the supply counties and not the proposed changes to the rates.
- The MPC alternative proposal decreases costs for the Sacramento, Bay Area and Southern California Receiving Areas, the result of the proposed rate structure. Alternatively, the increased cost for the Solano Receiving Area is the result of the proposed rate structure.
- Under the MPC alternative proposal, some plants that currently qualify for transportation allowances by virtue of the volume of Class 2 and 3 products processed would no longer qualify.
- Regarding the “All Other” category, about 10 plants are processing some Class 1 that would qualify for transportation allowances under the MPC alternative proposal. All of these plants processed at least 25% of their volume into Class 1 products, and most of the plants processed at least 60% of their volume into Class 1 products.

**Table 2. Cost Distribution of Transportation Allowances by Receiving Area, 2002**

|               | <u>Current</u> | <u>LOL</u> | <u>MPC</u> |
|---------------|----------------|------------|------------|
| Sacramento    | 3%             | 5%         | 3%         |
| Bay Area      | 24%            | 33%        | 25%        |
| Southern Cal. | 67%            | 55%        | 50%        |
| Solano        | 5%             | 7%         | 10%        |
| All Other     | ---            | ---        | 13%        |
| Total         | 100%           | 100%       | 100%       |

**Notes for Table 2:**

- Shows the average monthly cost distribution of transportation allowances among the various receiving areas.
- The Southern California Receiving Area accounts for about two-thirds of the cost of transportation allowances under the current system.
- Cost distribution is fairly consistent month to month; the Southern California Receiving Area is the most variable month to month.
- The “All Other” category, who receive no allowance currently, would represent about 13% of the total monthly cost of the system.

**Table 3. Annual Summary of Milk Moved and Cost by Mileage Bracket Using 2002 Data, Current**

| <i>Sacramento</i>   | <u>Cost</u> | <u>% Cost</u> | <u>Pounds</u> | <u>% Pounds</u> |
|---------------------|-------------|---------------|---------------|-----------------|
| <15 Miles           | \$ 7,623    | 1.9%          | 8,469,791     | 2.0%            |
| 15 to 49 Miles      | \$ 321,979  | 79.2%         | 357,754,593   | 83.1%           |
| 50 to 74 Miles      | \$ 66,708   | 16.4%         | 55,739,682    | 13.0%           |
| 75 to 99 Miles      | \$ 6,889    | 1.7%          | 5,741,170     | 1.3%            |
| 100 to 124 Miles    | \$ 1,994    | 0.5%          | 1,661,514     | 0.4%            |
| 125 Miles and over  | \$ 1,149    | 0.3%          | 957,412       | 0.2%            |
| <i>Total</i>        | \$ 406,342  | 100.0%        | 430,324,162   | 100.0%          |
| <br>                |             |               |               |                 |
| <i>Bay Area</i>     | <u>Cost</u> | <u>% Cost</u> | <u>Pounds</u> | <u>% Pounds</u> |
| <15 Miles           | \$ -        | 0.0%          | 0             | 0.0%            |
| 15 to 49 Miles      | \$ 42,001   | 1.5%          | 17,500,596    | 1.6%            |
| 50 to 74 Miles      | \$ 476,070  | 17.2%         | 198,362,708   | 17.8%           |
| 75 to 99 Miles      | \$1,641,380 | 59.2%         | 683,908,533   | 61.3%           |
| 100 to 124 Miles    | \$ 482,121  | 17.4%         | 172,186,151   | 15.4%           |
| 125 Miles and over  | \$ 130,054  | 4.7%          | 43,351,218    | 3.9%            |
| <i>Total</i>        | \$2,771,627 | 100.0%        | 1,115,309,206 | 100.0%          |
| <br>                |             |               |               |                 |
| <i>Southern Cal</i> | <u>Cost</u> | <u>% Cost</u> | <u>Pounds</u> | <u>% Pounds</u> |
| <15 Miles           | \$ -        | 0.0%          | 5,206,102     | 0.1%            |
| 15 to 49 Miles      | \$ -        | 0.0%          | 1,699,969,302 | 45.9%           |
| 50 to 74 Miles      | \$ -        | 0.0%          | 450,429,970   | 12.2%           |
| 75 to 99 Miles      | \$ 139,404  | 1.7%          | 67,058,060    | 1.8%            |
| 100 to 124 Miles    | \$ 771,403  | 9.5%          | 179,396,146   | 4.8%            |
| 125 Miles and over  | \$7,247,521 | 88.8%         | 1,301,327,967 | 35.1%           |
| <i>Total</i>        | \$8,158,328 | 100.0%        | 3,703,387,547 | 100.0%          |

**Table 3, Continued. Annual Summary of Milk Moved and Cost by Mileage Bracket Using 2002 Data, Current**

| <i>Solano</i>      | <u>Cost</u> | <u>% Cost</u> | <u>Pounds</u> | <u>% Pounds</u> |
|--------------------|-------------|---------------|---------------|-----------------|
| <15 Miles          | \$ -        | 0.0%          | 0             | 0.0%            |
| 15 to 49 Miles     | \$ 34,463   | 5.5%          | 22,975,038    | 7.8%            |
| 50 to 74 Miles     | \$ 68,970   | 11.0%         | 34,484,951    | 11.6%           |
| 75 to 99 Miles     | \$ 293,022  | 46.7%         | 146,511,162   | 49.5%           |
| 100 to 124 Miles   | \$ 217,515  | 34.7%         | 87,005,919    | 29.4%           |
| 125 Miles and over | \$ 12,889   | 2.1%          | 5,155,629     | 1.7%            |
| <i>Total</i>       | \$ 626,859  | 100.0%        | 296,132,699   | 100.0%          |

**Notes for Table 3:**

- Tables 3, 4 and 5 compare annual costs and pounds of milk moved by mileage bracket and by receiving area.
- The figures listed for “Current” are the same as the LOL proposal except for the Southern California Receiving Area.
- For the Sacramento Receiving Area:
  - Most of the milk is less than 50 miles from the qualifying plants.
  - About 83% of the milk, representing 79% of the cost, falls into the 15 to 49 miles bracket. Clearly, the mileage bracket that accounts for the most milk also represents the majority of the cost. Later, this apparently simplistic fact will be shown not be universally true.
- For the Bay Area Receiving Area:
  - Most of the milk is less than 100 miles from the qualifying plants.
  - About 79% of the milk, representing 76% of the cost, is located 50 to 100 miles from the qualifying plants. Again, the mileage brackets that account for the most milk also represent the majority of the cost.
- For the Southern California Receiving Area:
  - A much different look than the previous two.
  - About half of the milk is less than 50 miles from the qualifying plants.
  - More than half of the milk shipped into the qualifying plants has a rate of \$0.00.
  - The current rate and mileage bracket structure results in 41% of the milk getting 100% of the transportation allowances.
  - The Southern California Receiving Area accounts for the most milk moved using transportation allowances and the most milk moved by a factor of three.
- For the Solano Receiving Area:
  - More variation in distribution of milk moved by mileage bracket and associated costs than Sacramento Receiving Area.
  - About 82% of the cost and 79% of the milk falls between 75 to 124 miles from the qualifying plants.

- The Solano Receiving Area moves the least amount of milk using the transportation allowance system of all of the receiving areas currently operating.

**Table 4. Annual Summary of Milk Moved and Cost by Mileage Bracket Using 2002 Data, Land O'Lakes Proposal**

| <i>Southern Cal</i> | <u>Cost</u>        | <u>% Cost</u> | <u>Pounds</u>        | <u>% Pounds</u> |
|---------------------|--------------------|---------------|----------------------|-----------------|
| <15 Miles           | \$ -               | 0.0%          | 5,404,629            | 0.2%            |
| 15 to 49 Miles      | \$ -               | 0.0%          | 1,397,482,706        | 51.4%           |
| 50 to 74 Miles      | \$ -               | 0.0%          | 436,923,357          | 16.1%           |
| 75 to 99 Miles      | \$ -               | 0.0%          | 25,818,753           | 0.9%            |
| 100 to 124 Miles    | \$ 313,971         | 6.6%          | 74,167,292           | 2.7%            |
| 125 Miles and over  | \$4,443,165        | 93.4%         | 779,571,381          | 28.7%           |
| <i>Total</i>        | <i>\$4,757,136</i> | <i>100.0%</i> | <i>2,719,368,118</i> | <i>100.0%</i>   |

**Notes for Table 4:**

- Compared to the current system (see data on Page 3), the differences in costs are largely attributable to changes in supply counties and, to a lesser degree, changes in rates.
- About 1 million pounds of milk less (compared to current system) would qualify for transportation allowance under the LOL proposal, again the result of restricting the supply counties.
- About 67% of the milk moved in 2002 would have received a rate of \$0.00.

**Table 5. Annual Summary of Milk Moved and Cost by Mileage Bracket Using 2002 Data, Milk Producers Council**

| <i>Sacramento</i>  | <u>Cost</u>       | <u>% Cost</u> | <u>Pounds</u>      | <u>% Pounds</u> |
|--------------------|-------------------|---------------|--------------------|-----------------|
| <15 Miles          | \$ 5,129          | 1.6%          | 8,455,268          | 2.9%            |
| 15 to 49 Miles     | \$ 271,369        | 83.4%         | 250,261,986        | 84.7%           |
| 50 to 74 Miles     | \$ 35,214         | 10.8%         | 28,938,374         | 9.8%            |
| 75 to 99 Miles     | \$ 2,861          | 0.9%          | 5,535,196          | 1.9%            |
| 100 to 124 Miles   | \$ 4,304          | 1.3%          | 1,567,305          | 0.5%            |
| 125 Miles and over | \$ 6,683          | 2.1%          | 882,583            | 0.3%            |
| <i>Total</i>       | <i>\$ 325,560</i> | <i>100.0%</i> | <i>295,640,712</i> | <i>100.0%</i>   |

**Table 5, Continued. Annual Summary of Milk Moved and Cost by Mileage Bracket Using 2002 Data, Milk Producers Council**

| <i>Bay Area</i>     | <u>Cost</u>         | <u>% Cost</u> | <u>Pounds</u>        | <u>% Pounds</u> |
|---------------------|---------------------|---------------|----------------------|-----------------|
| <15 Miles           | \$ -                | 0.0%          | 0                    | 0.0%            |
| 15 to 49 Miles      | \$ 12,160           | 0.5%          | 17,500,596           | 1.6%            |
| 50 to 74 Miles      | \$ 255,135          | 10.5%         | 197,563,705          | 18.0%           |
| 75 to 99 Miles      | \$ 1,475,237        | 60.8%         | 664,720,640          | 60.7%           |
| 100 to 124 Miles    | \$ 521,545          | 21.5%         | 172,129,151          | 15.7%           |
| 125 Miles and over  | \$ 161,374          | 6.7%          | 43,106,587           | 3.9%            |
| <i>Total</i>        | <i>\$ 2,425,452</i> | <i>100.0%</i> | <i>1,095,020,679</i> | <i>100.0%</i>   |
| <br>                |                     |               |                      |                 |
| <i>Southern Cal</i> | <u>Cost</u>         | <u>% Cost</u> | <u>Pounds</u>        | <u>% Pounds</u> |
| <15 Miles           | \$ 1,180            | 0.0%          | 2,814,276            | 0.1%            |
| 15 to 49 Miles      | \$ 1,399,697        | 28.1%         | 1,210,735,698        | 46.3%           |
| 50 to 74 Miles      | \$ 734,324          | 14.8%         | 435,489,987          | 16.6%           |
| 75 to 99 Miles      | \$ 112,910          | 2.3%          | 25,818,753           | 1.0%            |
| 100 to 124 Miles    | \$ 311,404          | 6.3%          | 70,690,720           | 2.7%            |
| 125 Miles and over  | \$ 2,414,449        | 48.5%         | 870,814,616          | 33.3%           |
| <i>Total</i>        | <i>\$ 4,973,964</i> | <i>100.0%</i> | <i>2,616,364,050</i> | <i>100.0%</i>   |
| <br>                |                     |               |                      |                 |
| <i>Solano</i>       | <u>Cost</u>         | <u>% Cost</u> | <u>Pounds</u>        | <u>% Pounds</u> |
| <15 Miles           | \$ -                | 0.0%          | 0                    | 0.0%            |
| 15 to 49 Miles      | \$ 27,557           | 3.0%          | 22,975,038           | 7.8%            |
| 50 to 74 Miles      | \$ 50,175           | 5.4%          | 34,484,951           | 11.6%           |
| 75 to 99 Miles      | \$ 438,435          | 47.5%         | 146,511,162          | 49.5%           |
| 100 to 124 Miles    | \$ 376,814          | 40.8%         | 87,005,919           | 29.4%           |
| 125 Miles and over  | \$ 29,807           | 3.2%          | 5,155,629            | 1.7%            |
| <i>Total</i>        | <i>\$ 922,788</i>   | <i>100.0%</i> | <i>296,132,699</i>   | <i>100.0%</i>   |
| <br>                |                     |               |                      |                 |
| <i>All Other</i>    | <u>Cost</u>         | <u>% Cost</u> | <u>Pounds</u>        | <u>% Pounds</u> |
| <15 Miles           | \$ 95,611           | 7.5%          | 303,131,571          | 16.9%           |
| 15 to 49 Miles      | \$ 658,743          | 51.5%         | 1,144,972,489        | 63.9%           |
| 50 to 74 Miles      | \$ 235,860          | 18.4%         | 261,618,974          | 14.6%           |
| 75 to 99 Miles      | \$ 13,714           | 1.1%          | 16,821,005           | 0.9%            |
| 100 to 124 Miles    | \$ 60,232           | 4.7%          | 22,020,793           | 1.2%            |
| 125 Miles and over  | \$ 215,999          | 16.9%         | 44,352,468           | 2.5%            |
| <i>Total</i>        | <i>\$ 1,280,160</i> | <i>100.0%</i> | <i>1,792,917,300</i> | <i>100.0%</i>   |

## Notes for Table 5:

- Review includes the four receiving areas currently operating plus the “all other” category that represents an aggregate of all plants that do not qualify currently.
- The results for the Sacramento, Bay Area and Solano Receiving Areas are similar to the current system.
  - The Sacramento and Bay Area Receiving Areas have slightly lower costs, the result of changing plant eligibility and prorating the transportation allowance based on Class 1 usage.
  - The Solano Receiving Area has slightly higher costs because the proposed rate structure allows for higher compensation in the mileage brackets in which most of the milk is being moved, i.e., the 75 to 99 mile and the 100 to 124 mile brackets.
  - The similarity in results compared to current system imply that the rate structure and plant eligibility requirements are not restrictive because the plants using the transportation allowances are high Class 1 usage plants.
- The Southern California Receiving Area:
  - 43% of the cost is allocated to the brackets covering 0 to 74 miles.
  - In the same mileage zones, there are only minor changes in the amount of milk moved.
    - This is likely the result of the changed eligibility requirements not restricting the qualification of plants and of substitution of plants (as plants that qualify under the current system become unqualified, other plants that were unqualified under the current system may qualify under the MPC alternative proposal).
  - Costs in the highest mileage bracket are reduced by 70% and the total cost of the proposed system for Southern California is reduced by 40%.
  - About 500,000 pounds of milk in the highest mileage bracket would not qualify for a transportation allowance. This is, again, the result of changes to plant eligibility.
- The “All Other” Receiving Areas:
  - Mostly local milk is moved to these plants, meaning milk that is located within 50 miles. About 80% of the milk moving to these plants is less than 50 miles out.
  - To put the cost and volume of milk moved of new areas in perspective:
    - The \$1.28 million per year is about half of the cost funding the Bay Area Transportation Allowances for one year using the same rate structure and qualification requirements.
    - The 1.79 billion pounds of milk moved during 2002 is about the equivalent of the sum of the milk moved into the Bay Area, Sacramento and Solano Receiving Areas that received a transportation allowance.