

ANALYSIS OF ALTERNATIVE PROPOSALS: TRANSPORTATION CREDITS

May 2003

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

Fluid Milk Moving Plant-to-Plant

Data Limitations: The data available to estimate the impact of alternative proposals for transportation credits is limited. Only information on the volume of milk currently eligible is available, and it is only available in aggregate for the designated deficit counties combined. After the workshop, the Department was able to disaggregate the data for milk going into Southern California. However, in plant usage for the receiving plants was not known; thus, usage was estimated based on March 2003 data. Also, the data set included some spot, eligible shipments where a credit was never applied for. The accuracy of the estimate can be judged by comparing the actual 2002 cost of credits into Southern California of \$4.53 million to the \$4.61 million figure generated by the estimating procedure. Thus for the LOL proposal, in place of the minimum and maximum, a single estimate is made, but it is an estimate and not an actual figure. Likewise for the MPC proposal, there is no information on the volume of milk going to counties not currently classified as designated deficit counties.

For all of 2002, 617 million pounds of milk utilized transportation credits. The vast majority was milk moving into Southern California (587 million pounds). In Northern California, the receiving plants averaged 95% Class 1 utilization, with 99% in Southern California. There were two proposals to change the current transportation credit system for fluid milk. Land O'Lakes (LOL) would only change the system in Southern California. Milk Producers Council (MPC) would expand the system statewide.

The LOL proposal would increase the cost of the transportation credit system. Of the total \$1.22 million increase, \$0.96 million would be due to the base rate increases into Southern California, while the remainder would be due to having an \$0.08 higher rate for milk going into Riverside and San Diego counties. (See table below and Figures 1 and 2)

The MPC proposal would decrease the cost of the transportation credit system for those plants current using the system. However, there would be an unknown additional expense for the inclusion of plants in both Northern and Southern California not currently eligible for transportation credits. (See table below and Figures 1 and 2).

ANNUAL COST OF TRANSPORTATION CREDITS
Current system compared to LOL and MPC proposals
Millions of dollars for 2002

	Current	LOL estimate	MPC minimum
Northern California	\$0.11	\$0.11	\$0.07
Southern California	\$4.53	\$5.83	\$2.65
Total	\$4.64	\$5.94	\$2.72
% Change		28%	-41%

Condensed Skim Moving Plant-to-Plant

For the twelve months ending March 2003, 85.7 million pounds of condensed skim was imported into Southern California. The majority came in from Tulare County (54.6 million pounds), with the vast majority of the remainder coming in as other source milk (30.8 million pounds). (See *Figure 3*.)

LOL proposed to make condensed skim eligible for transportation credits for product moving in to Southern California (*Figure 4*). For all of 2002, the LOL proposal would increase the cost of the transportation credit system by \$0.41 million. *Figure 5* estimates the monthly costs for the last four years.

Figure 1 - NORTHERN CALIFORNIA
Milk eligible for transportation credits and total costs
Monthly January 2002 to December 2002

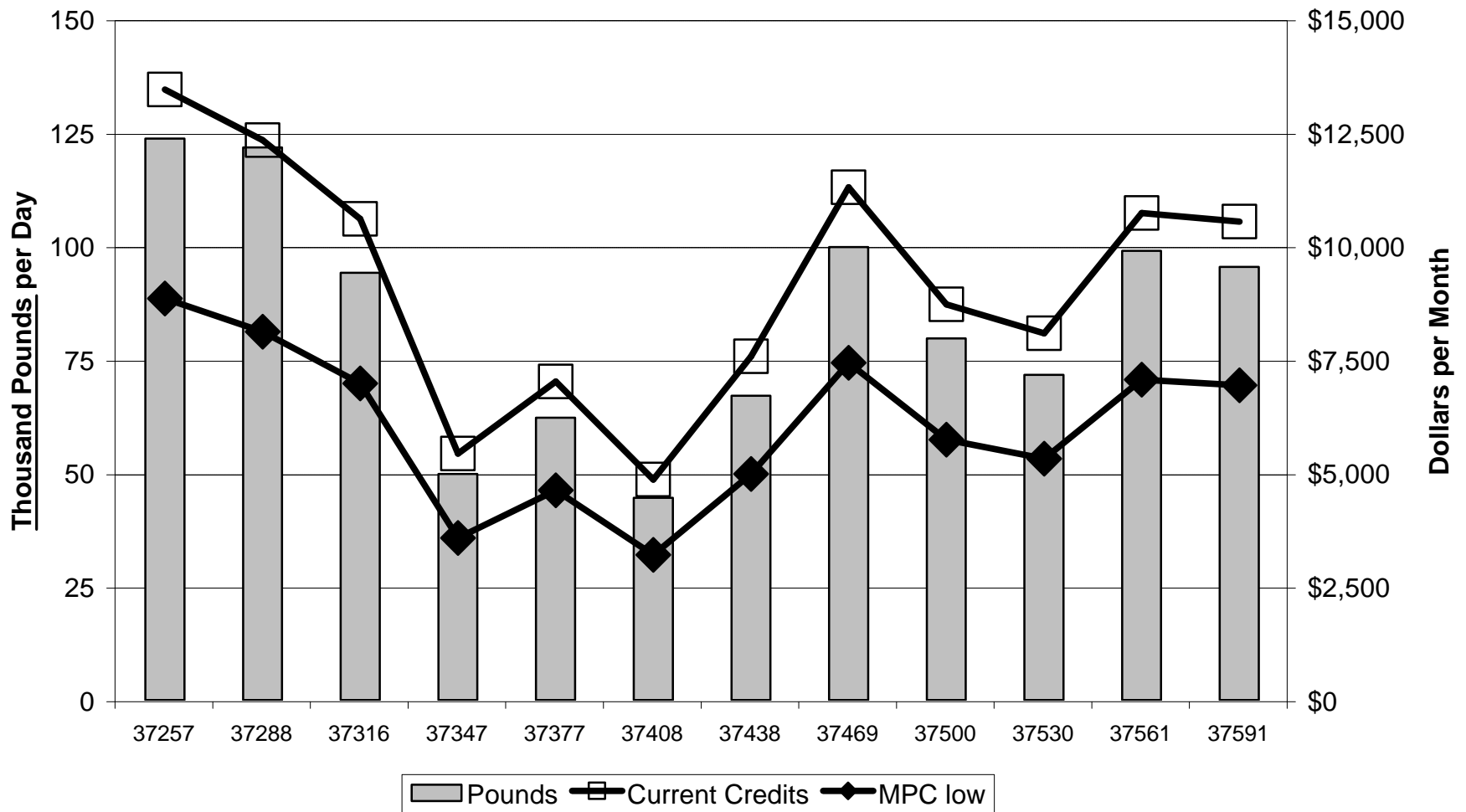


Figure 2 - SOUTHERN CALIFORNIA
Milk eligible for transport. credits and total costs including differential
Monthly January 2002 to December 2002

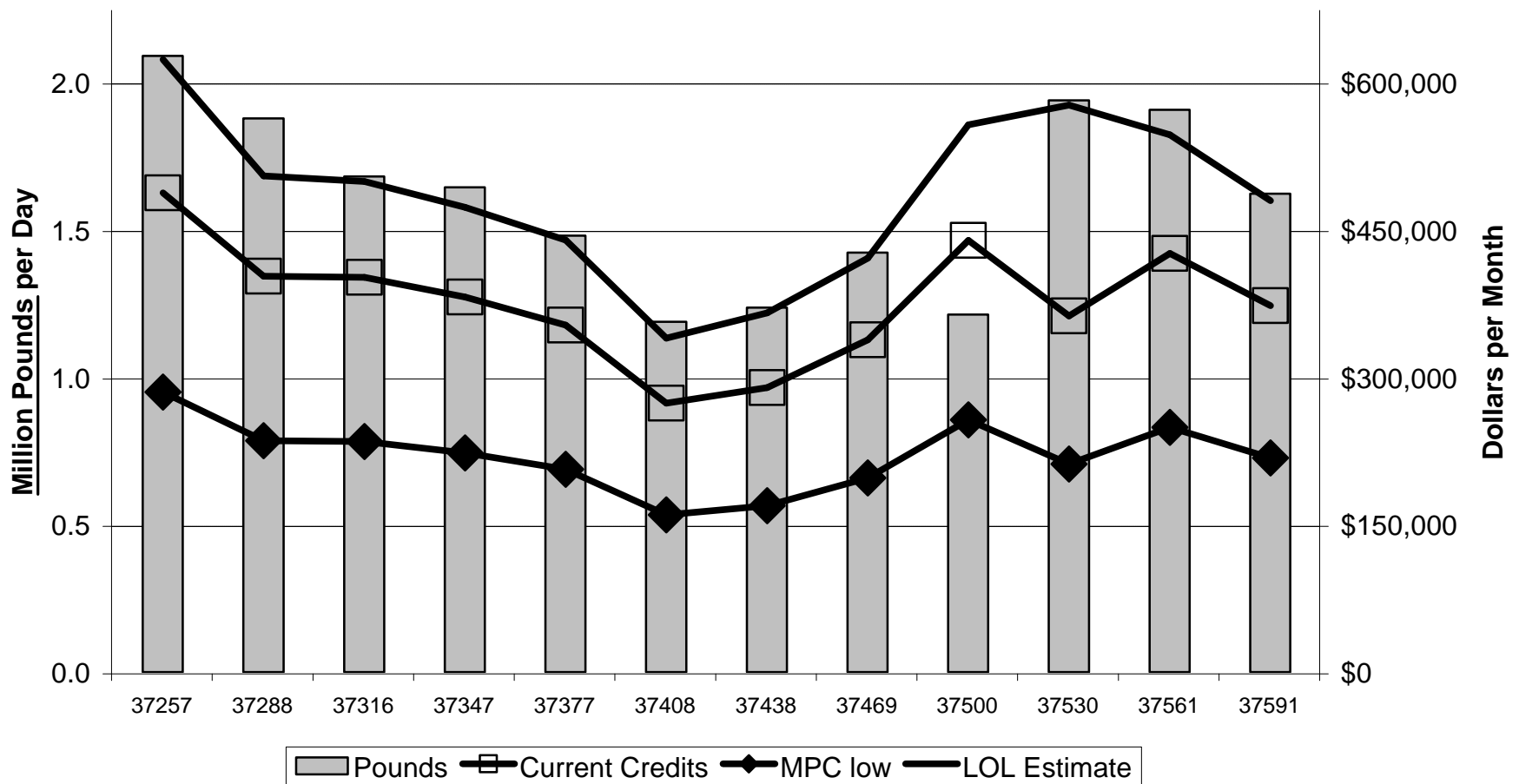
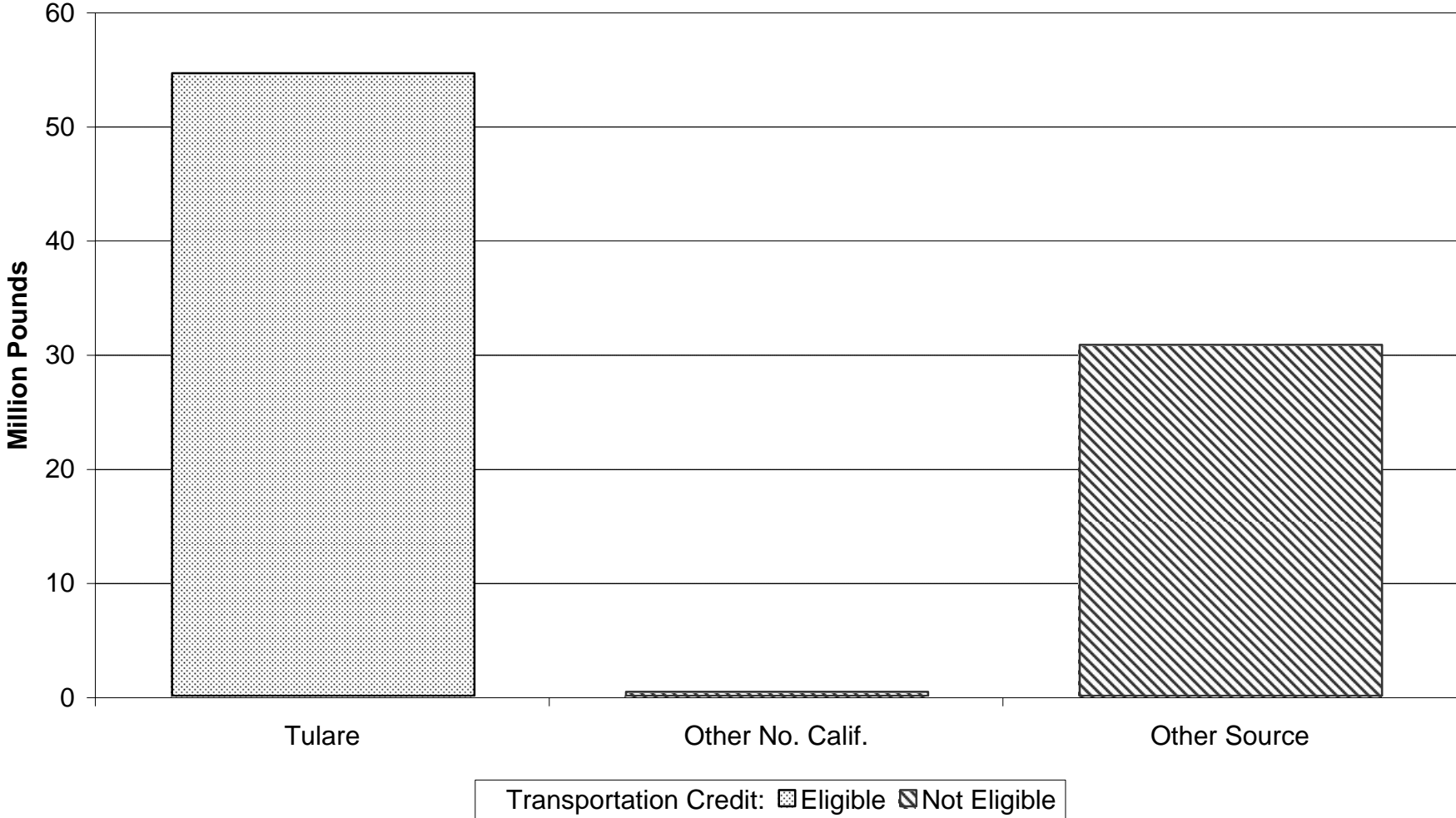
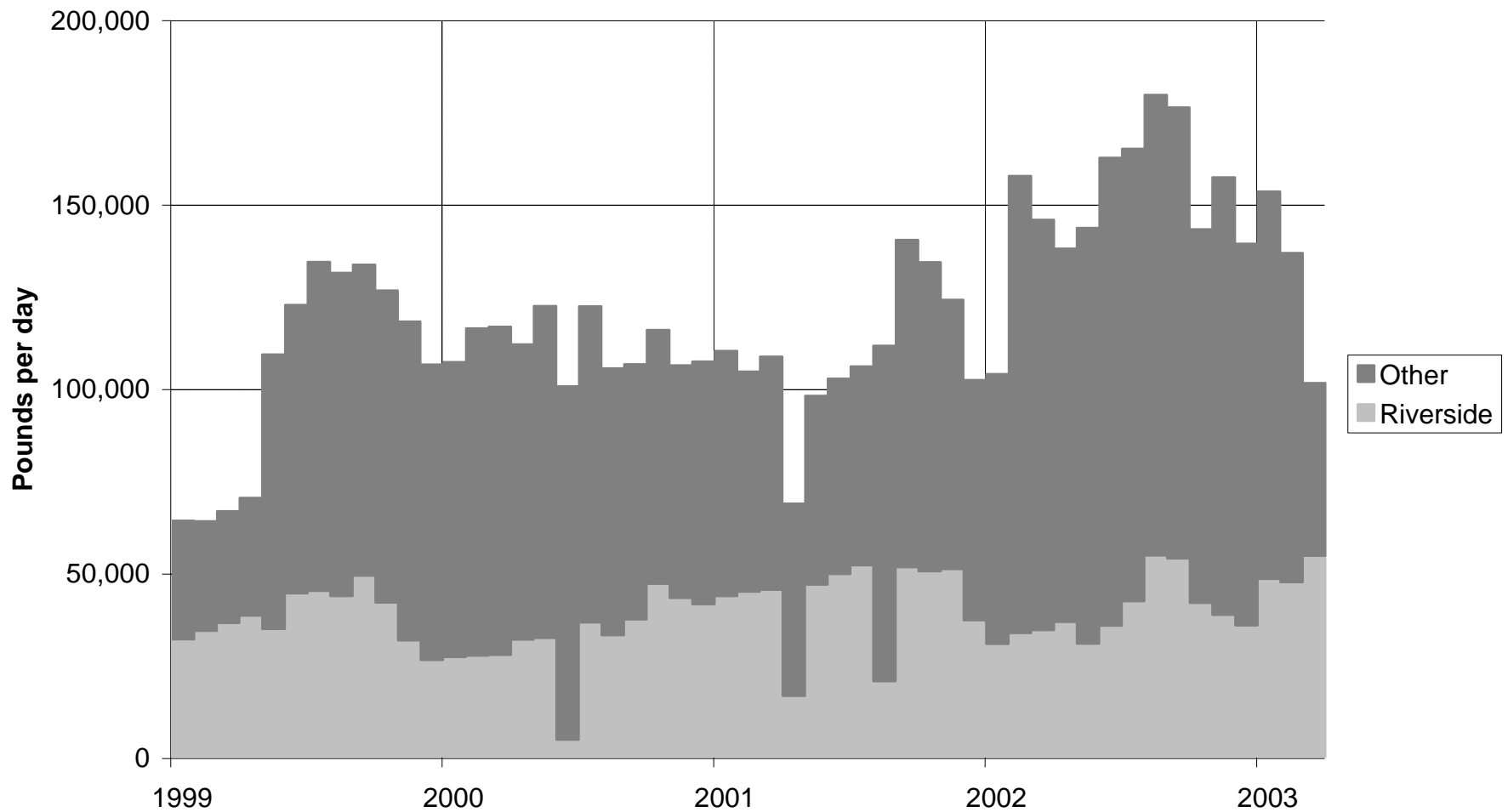


Figure 3 - Sources of Condensed Skim Imported into Southern California, Twelve Month Total: April 2002 to March 2003



**Figure 4 - Condensed Skim that would be eligible for Transportation Credits under the Land O'Lakes Proposal
Monthly, January 1999 to March 2003**



**Figure 5 - Cost of the Land O'Lakes Proposed
Transportation Credit for Condensed Skim
Monthly, January 1999 to March 2003**

