

**DEPARTMENT OF FOOD AND AGRICULTURE**

WILLIAM (BILL) J. LYONS, JR., Secretary

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May 15, 2003

**To the Interested Party Addressed:**

This is a corrected version of the letter and attachments sent out on May 8, 2003. The corrections in the text and on *Table 1* are highlighted.

At the May 22, 2003 prehearing workshop, the Department will be presenting analysis, data, and background material. This material will be relevant to the transportation allowance and credits issues raised both in the original petition from Land O' Lakes (LOL) and the alternative proposal from Milk Producers Council (MPC).

**Transportation Allowances: *Ranch-to-Plant***

Transportation allowances partially compensate for the cost of hauling milk from a producer's ranch to qualified plants in designated receiving areas.

**LOL Proposal:** LOL is proposing changes only to transportation allowances for the Southern California receiving area. Currently, there is a single set of mileage brackets and rates for milk going into Southern California. Under the LOL proposal, there would be three sets of mileage brackets and rates depending on the county of origin of the milk coming into Southern California:

- The rates from Imperial, Kern, Kings, Santa Barbara, San Diego and Tulare counties would remain at their current levels.
- The rates from Indio, Los Angeles, Mono, Orange, Riverside, San Bernardino and Ventura counties would be reduced.
- The rate from the remaining 45 Northern California counties would be eliminated.

LOL is also proposing the addition of Riverside county to the three counties (Los Angeles, Orange, and Ventura) that currently make up the Southern California receiving area. (See *Figures 1* and *2*.)

**MPC Proposal:** MPC is proposing the elimination of the current six designated receiving areas. In its place, they propose to establish a single set of mileage brackets and rates for all eligible plants in the state. They are also proposing a change to the eligibility rules. Currently, a plant is eligible if more than 50% of its in-plant utilization is Classes 1, 2 and 3. MPC is proposing both that only plants with Class 1 utilization be eligible for allowances and that the allowances be prorated based on the level of Class 1 utilization. (See *Figures 1* and *3*.)

### **Transportation Credits: *Plant-to-Plant***

By reducing the obligation only for Class 1 milk (but not condensed skim), transportation credits partially compensates for the cost of hauling milk from plants in designated supply counties to plants in designated deficit counties:

- In Northern California there are two levels of credits, two supply counties, and three receiving counties.
- In Southern California there are three levels of credits, four supply counties, and five receiving counties

**LOL Proposal:** LOL is proposing changes only to transportation credits for milk moving into Southern California:

- In Southern California there would be five levels of credits, the same four supply counties, and the same five receiving counties.

The level of credits would be increased, with Riverside and San Diego counties getting a larger increase than the other three receiving counties. In addition, condensed skim would be made eligible for transportation credits at levels different from that for other milk. (See *Table 1*.)

**MPC Proposal:** MPC is proposing the elimination of the current system of designated supply counties and designated deficit counties. In its place, transportation credits for any milk moving plant-to-plant to a Class 1 plant would be established. The effective level of the credits would be the same as that proposed for transportation allowances, except for milk moving from the Southern to the Northern California marketing area. (See *Table 1*.)

### **Workshop Analysis and Data**

The Department is planning to perform analyses that will estimate the change in the cost of the two proposals relative to the current allowances and credits. This will only be an estimate, as it will be static rather than dynamic, using historic data. Thus, if either proposal would result in a change in the pattern of milk movement, that would not be captured by the analysis. The past is not necessarily a good measure of the future.

The Department plans to develop the following data and background material. Items marked with an \* indicates that information similar to this typically has been used at prior milk movement incentive hearings:

- (1) Ranch-to-Plant Hauling Rates through March 2003\*
- (2) Plant-to-Plant Hauling Rates through March 2003\*
- (3) Other Source milk by state of origin through March 2003\*

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- (4) Summary of changes in transportation allowances (1982-2001)\*
- (5) Summary of changes in transportation credits (1981-2001)\*
- (6) Southern California
  - (a) Milk production relative to milk processing in Southern California\*
  - (b) Milk production, shipments and processing in Southern California\*
  - (c) Milk to Southern California from Northern California by counties\*
- (7) Northern California
  - (a) Milk production relative to milk processing in Northern California
  - (b) Milk production, shipments and processing in Northern California
  - (c) Milk to Northern California Designated Receiving Areas by counties
- (8) Milk movement background paper\*
- (9) RQA background paper
- (10) Basis for constructive miles
- (11) Class 1 utilization and milk production by county
- (12) Plants sorted by percent of utilization individual by Class and for Classes 1, 2, and 3 combined
- (13) Oil and diesel price series

If there is any additional analysis, data or background material that would be helpful for the prehearing workshop, please let us know. The likelihood that the Department will be able to complete it in time depends both on how quickly the request is made and on its complexity.

If you have any questions, please contact Tom Gossard or Eric Erba at the telephone number or e-mail address above. All media contacts, including publication staff, are asked to contact the Department's Public Affairs Office by e-mail at [cdfapublicaffairs@cdfa.ca.gov](mailto:cdfapublicaffairs@cdfa.ca.gov) or by telephone at (916) 654-0462.

Sincerely,

*Original Signed by Ed Hunter for:*

David K. Ikari, Chief  
Dairy Marketing Branch

Attachments

Table 1  
**TRANSPORTATION CREDITS - Plant to Plant**  
**Current, LOL Proposal, MPC Proposal**  
**WITH CLARIFICATIONS**

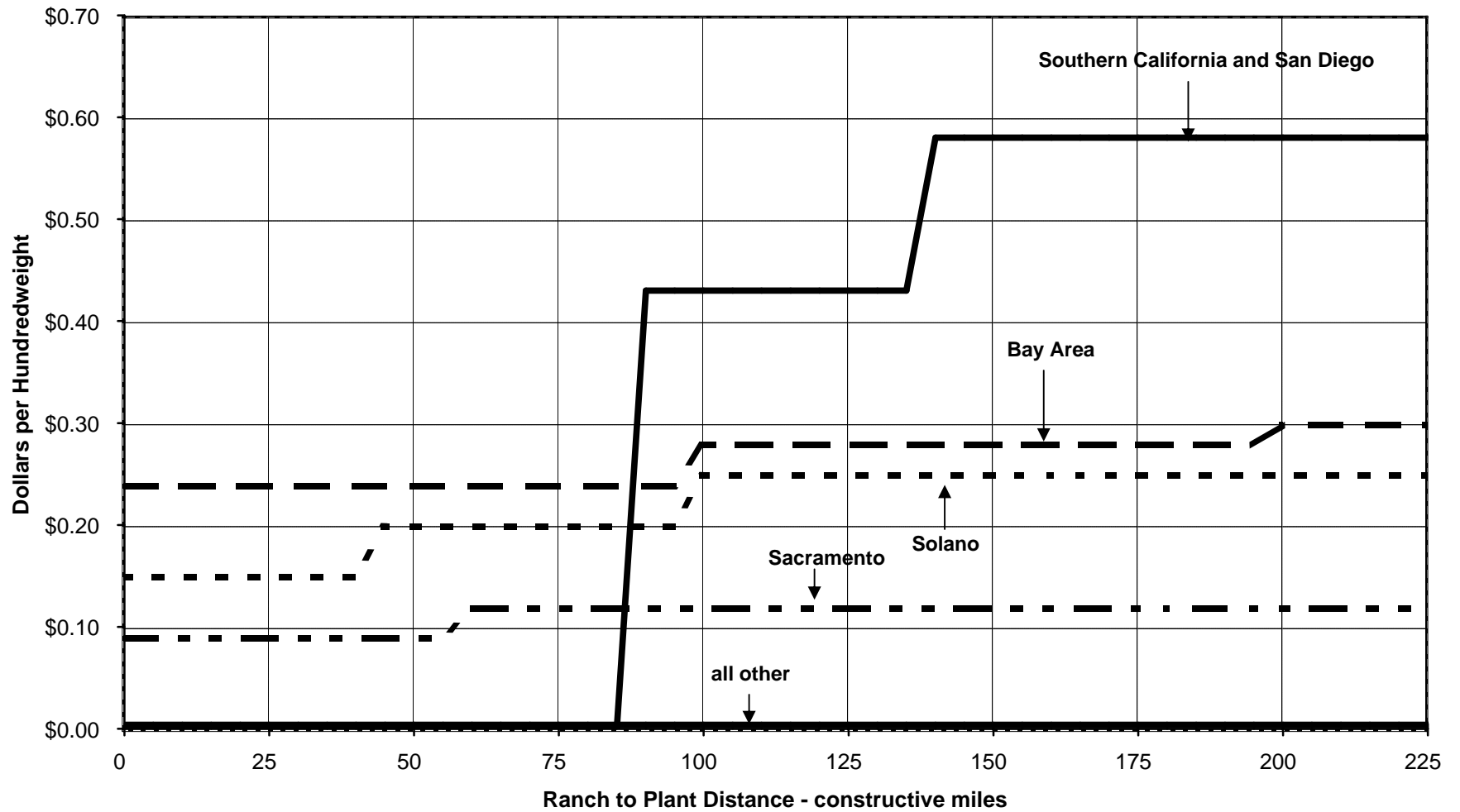
	ALAMEDA SAN FRANCISCO SANTA CLARA		ORANGE RIVERSIDE SAN DIEGO VENTURA	LOS ANGELES ORANGE  VENTURA	RIVERSIDE SAN DIEGO	LOS ANGELES ORANGE  VENTURA	RIVERSIDE SAN DIEGO	SOUTHERN CALIFORNIA	NORTHERN CALIFORNIA	ALL OTHER
	from Sonoma	from Merced Stanislaus (part)	from Los Angeles	from Tulare <sup>2/</sup>	from Tulare <sup>2/</sup>	from Fresno Kings <sup>2/</sup>	from Fresno Kings <sup>2/</sup>	from other Northern California <sup>2/</sup>	from Southern California <sup>2/</sup>	Within Marketing Area Transfers
<b>MILK</b>										
Current	27¢	38¢	24¢	77¢	77¢	80¢	80¢	27¢	-27¢	0¢
LOL	27¢	38¢	24¢	93¢	101¢	96¢	104¢	27¢	-27¢	0¢
MPC <sup>1/2/</sup>	5¢ to 45¢	5¢ to 45¢	5¢ to 45¢	5¢ to 45¢	5¢ to 45¢	5¢ to 45¢	5¢ to 45¢	5¢ to 45¢	-22¢ to 18¢	5¢ to 45¢
<b>CONDENSED SKIM</b>										
Current, MPC	0¢	0¢	0¢	21¢	21¢	21¢	21¢	21¢	-21¢	0¢
LOL	0¢	0¢	0¢	93¢	101¢	21¢	21¢	21¢	-21¢	0¢

<sup>1/</sup> MPC Mileage Brackets:

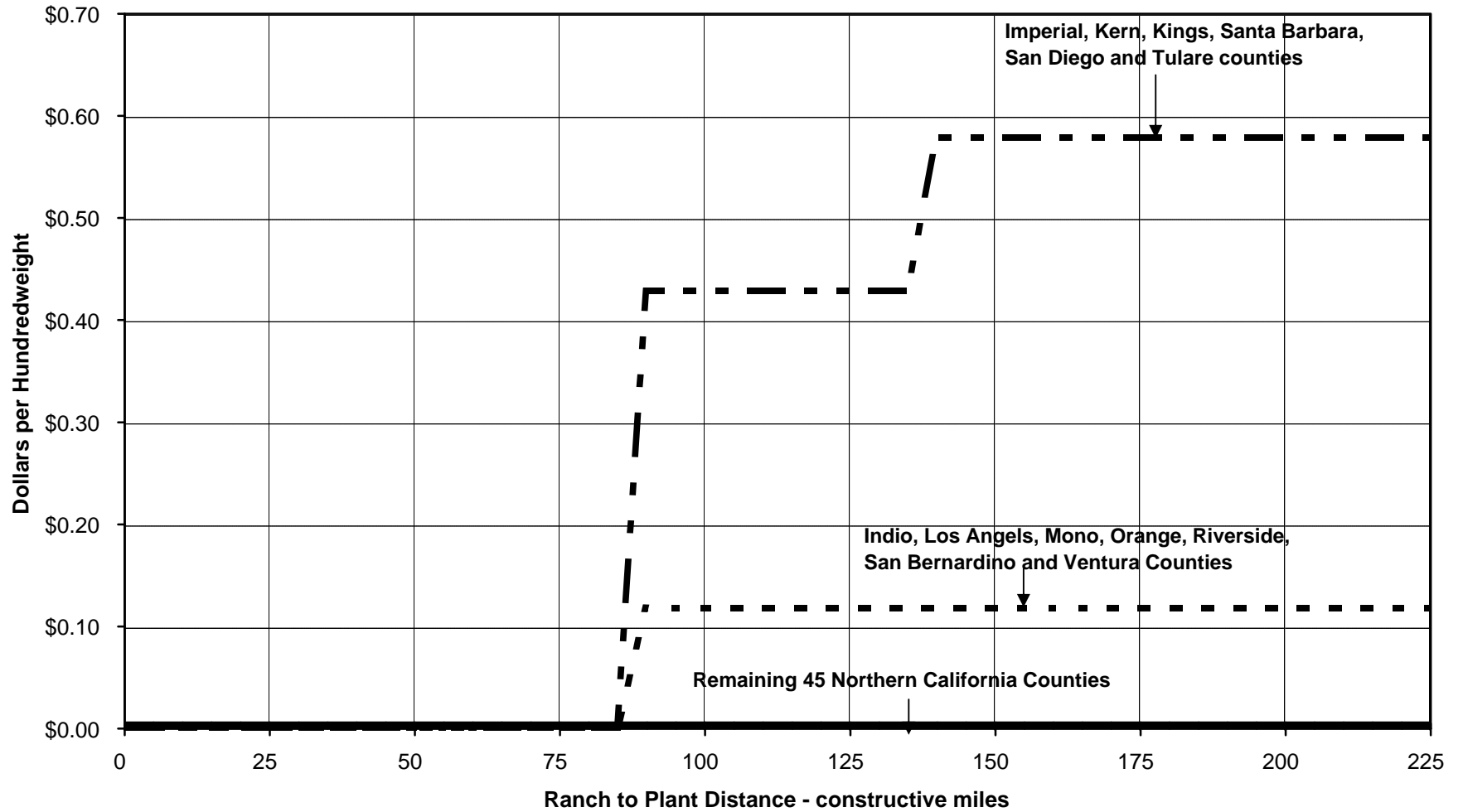
<sup>2/</sup> Except for the MPC proposal, includes Class 1 area differentials of 27.218¢ for product with 87.8% water and 21.08¢ for product with 68% water.

	From So. Calif. to No. Calif.	All Other
0 TO 14	-22¢	5¢
15 TO 49	-17¢	10¢
50 TO 74	-12¢	15¢
75 TO 99	-2¢	25¢
100 TO 124	8¢	35¢
125 AND UP	18¢	45¢

*Figure 1 - CURRENT TRANSPORTATION ALLOWANCES*  
**Actual allowance depends on distance and location of processor's plant**



**Figure 2 - LOL PROPOSAL FOR SOUTHERN CALIFORNIA AND SAN DIEGO**  
**Actual allowance depends on distance and location of producer's ranch**



*Figure 3 - MPC PROPOSAL FOR ALL AREAS*

All Class 1 plants are eligible, actual allowance prorated based on in-plant Class 1 utilization

