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PENNSYLVANIA ASSOCIATION OF DAIRY COOPERATIVES

Dairy Farmers of America, Inc., Dairy Marketing Services, LLC,
Lanco Dairy Farms Co-op, Inc., d/b/a Lanco-Pennland Quality Milk Producers,
Land O'Lakes, Inc., and Maryland & Virginia Milk Producers Cooperative Association, Inc.

Mr. Douglas Eberly
Chief Counsel
Pennsylvania Milk Marketing Board
2301 N. Cameron St.
Harrisburg, PA 17110

Dear Mr. Eberly:

Thank you for this opportunity to offer comments on the amendments to 7 Pa. Code 149.43 and 149.46 (relating to Uniform System of Accounts: Cost centers and operating accounts; Cooperative cost centers) proposed by the Pennsylvania Milk Marketing Board (Board). These comments are being provided on behalf of the Pennsylvania Association of Dairy Cooperatives, an organization that includes Dairy Farmers of America Inc., Dairy Marketing Services, LLC, Lanco Dairy Farms Co-Op, Inc., Land O' Lakes, Inc., and Maryland and Virginia Milk Producers Cooperative Association, Inc.

As a group, these farmer owned cooperatives market the milk for a combined total of approximately 3800 dairy farmer members in Pennsylvania, representing a majority of the dairy farms and milk production in the Commonwealth.

We commend the Board for initiating these proposed regulatory changes which update and clarify Section 149.43 to more accurately reflect current accounting and business practices of the entities regulated under this section and add Section 149.46 to enable collection of cooperative cost data heretofore not available to the Board as it exercises its regulatory, price-setting authority. In both instances the new and revised regulations will enhance the Board's ability to effectively and positively impact the milk industry at all three levels where it sets prices – producer, wholesale and retail.

As the only newly-regulated party impacted by the proposed regulatory change, we are specifically very supportive of the new Section 149.46. This regulation will enable the Board to collect data which will quantify and recognize costs borne by cooperatives in the procurement of fluid milk which parallel costs incurred by dealers. When these costs are borne by processing dealers they are considered in the price build-up; when these same costs are borne by cooperatives, however, they are not presently included. The proposed Section 149.46 establishes the frame work for collecting this cost data from cooperatives and we are totally supportive of this action by the Board.

The Board clearly has the legal authority for these proposed regulations pursuant to, *inter alia*, Sections 301, 307, and 704 of the Pennsylvania Milk Marketing Law, 31 P.S. ' 700j-101, et seq.,

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which, in Section 301, gives the Board the authority to “supervise, investigate, and regulate the entire milk industry of the Commonwealth . . .” Section 149.46 will fill a gap in the Board’s collection of cost data for milk products from production at the farm to sale to consumers in the store.

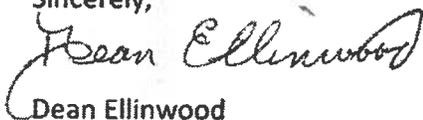
Any concerns that the cost data collected pursuant to Section 149.46 will not accurately parallel dealers costs, or will not be uniform among the cooperatives, or will not accurately extract fluid milk procurement costs from other cooperative costs associated with milk going to non-fluid uses are premature. Once the data has been collected and audited an evaluation can be made with respect to its ultimate use.

Proposed Section 149.46 is a first step which establishes the framework for cooperative cost data collection and whether and in what manner this data is used is a matter for future hearings of the Board in which all interested parties have a full opportunity to participate.

Finally, even though cooperatives, as the regulated community, will incur some additional costs as a result of this change (estimated to be \$15,000 in year one and \$9200 annually on a recurring basis) we are more than willing to bear this expense in order to ensure the Board has complete and accurate cost data available to it as it fulfills its statutory authority to regulate milk prices in the Commonwealth.

Our Pennsylvania dairy farmers appreciate this opportunity and we are available for further discussion of this proposal at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Dean Ellinwood". The signature is written in black ink and is positioned above the typed name.

Dean Ellinwood

For the

Pennsylvania Association of Dairy Cooperatives