EXHIBIT 57

PUBLIC HEARING
Stabilization and Marketing Plan for Market Milk
Northern California Marketing Area
Class 1 Pricing Formula
Sacramento, California
May 3, 2005

Hearing Officer and Members of the Panel:

My name is Sharon Hale and I am Vice President, Dairy Policy and Procurement for Crystal Cream and Butter Company. Our administrative offices are located at 1013 D Street, Sacramento, California, 95814. We own and operate two production facilities in Sacramento that produce dairy products in all classes except Class 4b. Crystal, along with its wholly owned subsdiary McColl's Corporation, located at 2500 Angelo Avenue, Redding, California, distribute dairy products throughout Northern California.

We appreciate CDFA's decision to call this hearing. Crystal began noting the decline in Class 1 usage relative to the total milk supply during the series of hearings held five to six years ago. At the time, Class 1 represented 19.5 percent of the 2000 pool utilization. In 2004, Class 1 usage had dropped to 15.7 percent and we have no reason to believe it will not continue its decline in 2005 and beyond. We welcome this opportunity to review Class 1 price levels in California.

Crystal is a member of the Dairy Institute of California and we support their proposal to reduce Class 1 prices in California. We share the belief expressed earlier by Dr. Schiek that when all relevant economic factors are taken into account and judged relative to the statutory requirements, a downward adjustment in statewide Class 1 prices is warranted. Dairy Institute's arguments are sound and we believe necessitate that action be taken on the part of the Department as a result of this hearing.

Northern California Conditions

Crystal's primary marketing area lies from Stockton north to the Oregon border. At many previous hearings we have given testimony regarding the presence of dairy products produced at plants located outside the state which are being sold in our marketing area. In preparation for this hearing, we again took a look around. What we found confirmed what we already knew—fluid items bottled out of state continue their presence in our area but the aggressive marketing of these products that we experienced in the '90's is absent. We attribute this to two factors: 1) A change in the pricing structure that allowed California price levels to trend under Oregon prices, and 2) the enforcement of California's component standards for fluid milks.

In the past five years, Northern California's Class 1 prices have averaged below those in Oregon during four of those five years. For the entire period the average was 1.5 cents per gallon or $.175 per hundredweight. This compares to the five years previous (1995-1999) when the average Class 1 price in California was $.521 per hundredweight or 4.5 cents per gallon *above* the average Oregon Class 1 price. With a product that traditionally competes at the third or fourth decimal place, a price difference of this magnitude opens a wide door to expanding territories and acquiring new business.

It should be noted that having somewhat lower Class 1 prices and less aggressiveness on the part of out of state processors does not necessarily mean we are in good alignment with Oregon and Nevada. We should have Class 1 prices lower than those in surrounding markets. We have the lowest cost, most efficient milk supply combined with the lowest market Class 1 utilization in the country. There is no economic justification, given today's market conditions, that we should have prices so high as to be at or near those in markets where both Class 1 utilization and farm production costs are much higher.

While not directly a pricing issue, enforcement of California's minimum fluid standards made those wanting to sell their products in this state meet the same compositional standards the rest of us were required to meet. Out of state processors were blocked from using reduced components to create lower, more attractive prices and as a result were compelled to make a commitment to produce comparable products if they wanted to sell in California. It took all segments of the dairy industry—producer, processor and regulatory, to eliminate this unfair competitive advantage but the playing field was leveled.

Going back to the market survey mentioned earlier, we found out of state fluid products in the following areas:

1) Darigold (Westfarm Foods, Portland & Medford, Oregon) – Private label for Ray's Markets is bottled by Westfarm Foods. Ray's 19 California locations include Arcata, Clearlake, Cloverdale, Crescent City (2), Etna, Eureka, Fort Jones, Fortuna, Garberville, Hoopa, McKinleyville, Mt. Shasta, Redway, Smith River, Weed, Willits, and Yreka (2). Westfarm also delivers to Skoogs Market in Doris, Jot's Market in Tulelake and to WinCo stores in Redding, Chico and Eureka. WinCo stores in the Sacramento area also carry Westfarm products but are generally limited to UHT half and half and flavored milk items.

Darigold distributors serve numerous accounts in the Yreka area and on into Happy Camp to Perry's Market. The distributor in Eureka serves Darigold product to accounts such as Hometown Buffet and Gold Rush Coffee.

ProPacific, a produce distributor based in Chico, has joined a growing trend which puts dairy items on produce trucks. This distributor is very ambitious and can be found from south of Sacramento to the Oregon border, east to Nevada and west to the Pacific Ocean. They are calling on Crystal accounts in the Sacramento area and are known to serve Darigold products to the Naked Café, a coffee house chain with shops in Sacramento, Yuba City and Chico, Bob's Market in Willow Creek, Hawkins Bar Market in Hawkins Bar and Peninsula Market in Chester.

2) Model (Model Dairy, Reno, Nevada) – Class 1 items are brought in by distributors located in South/North Lake Tahoe and Susanville. Twice a week deliveries distribute products to accounts such as Starbucks in Susanville, Leonard's Market in Portola, Grey Eagle Market in Grey Eagle and Young's Market in Sierraville. Model's Lake Tahoe distributor has been successful in getting products into our distributor's accounts through a series of one-time placements of a changing list of products. While very costly to the Crystal distributor who plans for orders that do not materialize, I am uncertain as to the level of importance of this business person's methods in today's hearing.

3) Wilcox Dairy (Roy, Washington) – This is a recent competitor who seems to be limited at the moment to supplying the California stores of Dutch Brothers Coffee, a 60-outlet chain, whose California locations currently include Redding, Chico and Woodland. As the supplier of private label to WalMart in Oregon, they are likely to have the capability to expand.

As you can see, packaged products do move into California on both a direct delivery basis and through distributors, and have done so for many years. The current pricing structure does not discourage entry into the California market. The environment is competitive, and in our opinion, the pricing structure has not created undue benefit to either side. We have a great deal more difficulty competing with the Producer/Distributors located within California. This special class of processor has been granted an exemption from the Pool for a portion of their Class 1 sales, the result of which lowers their raw product cost by a substantial amount. In the period from 2000 through 2004, the difference between the Class 1 price in Northern California and the Quota price averaged $.926 per hundredweight. That equates to 8 cents per gallon <u>lower</u> than what non-P/D processors were required to pay for Class 1 milk.

According to the Departmental Exhibit recapping Total P/D Production, the current statewide P/D exemption represents approximately 20 percent of these same processors collective Class 1 sales. Applying this logic to the $.926 average differential yields a five-year benefit to all Producer/Distributors of $.185 per hundredweight. On a per gallon basis, it equals 1.6 cents on every gallon of Class 1 milk the P/D's have sold in the past five years.

That number may not sound like much to those who do not compete for packaged milk business but it has a cumulative effect. An example is Costco, a customer, albeit a large one, of one of the P/D's in Northern California. A Costco store could easily purchase 2 trailers of milk per week. 8,000 gallons times $.016 per gallon equals $128.00 per week. In 52 weeks the advantage multiplies to $6,656 per store. Costco operates 100 stores in California, approximately 46 of which are in Northern California. 46 stores times $6,656 equals $306,176. We would love to have an extra $300,000 per year from each of our customers to use to secure additional business, update equipment or improve the bottom line. In reality, our goal is simply that the competition *not* have this raw product cost advantage.

Costco is an interesting subject for another reason. We would like to point out the "Lowest Lawful Retail" price as published by the Department and contained in Exhibit 7, is based on milk sold at Costco. In a call to the Dairy Marketing Branch, I was told these prices are developed using the actual invoices for milk from Costco's supplier plus the store's cost of getting milk on the shelf. Believe me when I say this is a very popular number. Our grocery customers feel it is imperative they meet Costco's price to remain competitive at the retail level and they turn to Crystal to make it happen. We are then pressured to meet a cost that is based on a pricing advantage which is not available to our company. I hope you understand what an untenable position this places us in.

We clearly understand the P/D exemption is in statute and cannot be changed or removed unless the Legislature chooses to do so. However, the advantage created by this exemption is a function of the pricing structure. Dr. Schiek spent time discussing the relationships between class prices and pool prices in his testimony and we know the Department can most certainly impact the P/D <u>advantage</u> as a result of this hearing. Adopting the petitioner's proposal will move us closer to an equal raw product cost among processors and a level playing field upon which to compete.

<u>Alternative Proposals</u>

Three alternative proposals are under consideration at this hearing. Western United Dairymen and the Alliance of Western Milk Producers have proposed similar changes in that they seek to amend the existing formulas for Class 1 milk in an upward direction. Having stated earlier our support for the Dairy Institute proposal, which would result in lower prices, we are opposed to formula changes which increase the Class 1 price. Both proposals would have a negative impact on our competitive position relative to fluid milk in our area and we do not believe conditions warrant such a change.

None of us really know what the impact of raising Northern California's prices will have on the competitive situation relative to Oregon or Nevada. As discussed earlier, products processed in Oregon already supply customers spread throughout a wide geographic area of our state. We know these companies were more aggressive competitors in the 90's when California prices exceeded those in Oregon. We know from talking with a business partner who runs a non-fluid dairy plant in Salem, Oregon that their cost of electricity is 30 percent less than what we pay in Sacramento. Worker's Compensation Insurance is six times more expensive in California than in Oregon. We would expect these same benefits extend to the fluid plants located in Oregon and other states. These cost savings, coupled with a return to smaller or even inverted raw product cost differences could easily fund a campaign to aggressively capture more of California's fluid sales.

The proposals of WUD and the Alliance would also increase the advantage the Producer/Distributor has over conventional processors. The Departments "Summary of Hearing Petition and Alternative Proposals" exhibit, Table 2 tells us the Northern California P/D would have seen their advantage improve by an additional \$.35 per hundredweight under the Alliance proposal and \$.16 per hundredweight under WUD's proposal. Giving the P/D's an even greater advantage is totally unacceptable to us.

The California Dairy Campaign proposal takes a different approach that may not carry the economic impact of the other alternatives but creates a very real problem for us as well. In tying California's Class 1 pricing formula to the Federal Milk Marketing Order price, we will be dependant upon the availability of the NASS data to calculate California's Class 1 prices. While we currently are able to calculate Class 1 prices as of the 10^{th} of the previous month at the latest, CDC's proposal would push that date forward to at least the 17^{th} of the previous month or as late as the 23rd, a loss of 7 to 13 calendar days. The impact on Crystal's ability to calculate monthly price changes and communicate those changes to our customers prior to the first of the month will be severely compromised. Our business is complex due to the shear number of products, sizes and labels we carry combined with a wide variety of customer types, locations and levels of business sophistication for which we must tailor our service. We feel we need all the time currently available for making price changes and oppose formula modifications that reduce that window.

Closing

In closing, we would like say that Crystal has a long history of commitment to its independent producers and has no real desire to break those ties. But certainly alternatives exist. We could pursue those periodic telephone calls from Nevada producers interested in delivering milk to our plants or seek co-packing arrangements with processors located in areas whose costs are lower than ours. If our stockholders were strangers instead of family members, seriously investigating the procurement alternatives discussed by Dr. Schiek and others would not be an optional activity.

As a 104-year old California company, we really do want to continue doing business with other Californians but we need to see change. We need to make progress on leveling the playing field upon which California's processors compete and we need the Department to start with the outcome of this hearing by adopting the proposal set forth by Dairy Institute.

Thank you for giving Crystal the opportunity to share its views on these important matters. That concludes my testimony. I do however request the opportunity to file a written brief.