

Whey Committee Member updated documents and rankings for March 27th

This document contains:

- 1. March 27th Agenda**
- 2. Additional pros and cons provided by WRC members;**
- 3. Rankings from WRC members;**
- 4. The evaluations originally presented at our March 11th meeting.**

Agenda for March 27th 9:30-2:30 @ Farm Bureau:

1. Review of additional pros and cons to each alternative and initial ratings by Committee Members
2. Determine if certain alternatives can be consolidated or ruled out as not viable.
3. Review of the rankings provided by the WRC members.
4. Develop-review decision criteria for evaluating alternatives.
5. Recommendations to Secretary A.G. Kawamura

Consolidated Alternative Class 4b Whey Pricing Alternatives

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Here is a summary of additional pros and cons from WRC members for each of the 8 Whey pricing options.

Alternative	Additional Pros	Additional Cons
<p>1. Class 4b formula would contain a whey factor that would involve sharing of whey revenues between producer and processors, but the contribution of the whey factor to the Class 4b price would be floored at zero and capped at around \$0.55 per cwt.</p>	<p>50-50 sharing makes issues of base pricing, inversion and make allowance less important. Some sharing better than none. Adds the value of whey (protein & lactose) Mitigates a floor with a cap 1a: replace snubber cap with a sliding factor that decreases as whey price rises—producer percentage decreases as whey price increases establish an updating mechanism for the make allowance; needs to address inversion of WPC and whey 1b: replace snubber cap with a sliding factor that decreases as whey price rises—producer percentage decreases as whey price increases establish an updating mechanism for the make allowance Solves the inversion problem. Incentive to invest in whey processing is high. Make allowance rationally set and adjusted. No Snubbers</p>	<p>50-50 sharing too generous Incentive to invest in whey processing is low. Value sharing not consistent with operation of unregulated markets There should be no cap. The whey factor should have always been snubbed at zero. The cost of whey disposal is in the cheese make allowance</p> <p>My CON for all alternative proposals except alternative four is that they perpetuate the myth that a “fair price” can be achieved through the regulated system and forces us to continue battling over pieces of the formula rather than freeing us to let the markets handle the value rather than regulation.</p>
<p>2. The Class 4b formula would include a whey factor that would select the lower of the western dry whey or WPC 34 protein values and utilize that value less a make allowance multiplied by a yield factor as the whey contribution to the Class 4b price.</p>	<p>2: introduce sharing component, snubbers and refine updating mechanism for make allowance</p>	<p>Still subject to make allowance fights Lower of formula would make the 4b price determination more complicated. Moral hazard associated with Dairy Market News Prices Would discourage investment relative to the current formula Fails to place a value on lactose when its value increases above the protein value.</p> <p>Assumes that whey processing costs move parallel with NDM processing costs, which they may not.</p>

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<p>3. The Class 4b formula would include a fixed whey factor that changes in stepwise fashion for various whey price ranges. Above a certain whey price level the whey contribution would not change.</p>	<p>Some sharing no matter how modest is better than no sharing. Lessens the impact of, but does not solve, the inversion issue. No need for a make allowance 3a: replace fixed factors with adjustable factor; replace top snubber with sliding factor that decreases as whey price increases 3b: replace fixed factor with adjustable factor; replace top snubber with sliding factor that decreases as whey price increases</p>	<p>In many normal circumstances it is worse than the current fixed price. Steps size and price levels will be contentious. Too arbitrary, too costly to producers The cap should be higher. Could use another higher bracket.</p>
<p>5. The whey factor in the 4b formula would consist of a fixed factor of \$0.18/cwt plus an additional amount equal to the NASS dry whey price minus \$0.36 times 5.8 (yield) times .33 (share rate). The additional amount cannot be a negative number.</p>	<p>Some sharing better than none. Does not go negative Eliminates need for make allowance Bottom side snubber generous Lessens the impact of, but does not solve, the inversion issue. Allows the value to move with the market. Floors the value by dampening the increase beyond a certain level. 5: increase initial sharing percentage and decrease producer share percentage as whey price increases; establish an updating mechanism for make allowance; needs to address inversion of WPC and whey</p>	<p>Only acceptable to processors because value sharing is so lopsided. Arbitrary, not based on defensible logic. Weak incentives to invest in whey processing. During periods of high whey prices there are large windfall Producer share too low. A 50% split would be much better. Does not address problem of cheesemakers for which whey processing is not economically viable</p>
<p>6. Eliminate the Whey Component Factor</p>	<p>Base price is based upon a common denominator for a product group -Values only components that are economically viable for processing by all those subject to the regulation -Eliminates current scenario of whey factor of \$0.25 overvaluing milk -Does not put a group of plants at a disadvantage beyond what would happen in an unregulated market -More consistent with existing supply and demand conditions and does not aggravate stimulation of surplus production -Simple Does not solve the inversion problem Variable make as set up counters the price signal that should be sent to producers.</p>	<p>Is simple and easy to understand. Make allowance rationally set and adjusted Consistent with other parts of formula No snubbers. Not fair, Not Legal Will fail to follow the value of milk in the Federal Orders. Leaves the majority of 4b solids without a value.</p>

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	<p>Could encourage investment in new whey processing capacity Recognizes there is no common denominator for whey stream Would do the most of any of the alternative to encourage new cheese plant capacity in the state. Would allow market forces to direct investment in whey processing.</p>	
<p>7. End-product formula based on the average of the western mostly quote for dry whey; less a make allowance based on the costs of the four smallest plants (as generated by CDFA) making nonfat dry milk plus a fixed factor (Note A) to account for the extra costs of drying whey; and multiplied by a yield of 5.8. Etceteras....</p>	<p>Does not recognize any value for whey. Weak incentive to invest in whey processing. Will make negotiations of contracts contentious. Fails to send incentive message to producers when prices are good. Similar to the previous formula, could be used with a variable make. Incorporates the NFDM cost allowance. Includes a floor and cap. 7: introduce sharing component and snubbers; needs to address inversion of WPC and whey</p>	<p>Eliminates the inversion problem. Margins available due to whey processing become part of negotiation for premiums paid over minimum prices. Too much down side exposure for producers Would discourage cheese plant investment in California. Would likely result in a reduction in current cheese processing capacity Producer costs of production are reflected in the supply and demand dynamics that drive the overall commodity market price levels that are used to calculate the milk prices and should not impact manufacturer margins</p>
<p>8. End-product formula with the following features: The base value used shall be the lower of:</p> <ul style="list-style-type: none"> the average of the western mostly quote for dry whey as reported by DMN, or 38% of the average of the central and west mostly quote for whey protein concentrate 34% as reported by DMN. (Note C) <p>Etceteras....</p>	<p>Solves the inversion problem Make allowance rationally set and adjusted Whey value does not go negative</p> <p>Delete: "-Base price is based upon a common denominator for a product group -Values only components that are economically viable for processing by all those subject to the regulation -Eliminates current scenario of whey factor of \$0.25 overvaluing milk -Does not put a group of plants at a disadvantage beyond what would happen in an unregulated market -More consistent with existing supply and demand conditions and does not aggravate stimulation of surplus production -Simple" note: I believe that these were incorrectly added to #8</p>	<p>Snubber is contentious. Snubber huge windfall for processors in high whey markets in times of high whey prices. There should be no cap. The whey factor should have always been snubbed at zero. The cost of whey disposal is in the cheese make allowance Formula adds complexity to price determination Any end-product formula invites price enhancement (by tinkering) and would discourage plant investment and continued viability of cheese plant operations Fails to place a value on lactose when its value increases above the protein value.</p>

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	<p>rather than #6</p> <p>8a: replace the snubber cap with a sliding factor that decreases as whey price rises—producer percentage decreases as whey price increases</p> <p>8b: replace the snubber cap with a sliding factor that decreases as whey price rises—producer percentage decreases as whey price increases</p> <p>8c: replace snubber cap with a sliding factor that decreases as whey price rises—producer percentage decreases as whey price increases</p>	
<p>9. Current 4b Whey pricing formula and structure</p>	<p>It is easy.</p> <p>Uses value for wet skim whey for common denominator</p> <p>Formula is currently in place. Keeping it would promote stability.</p> <p>The fixed factor at 25 cents allows room for the market to determine investment decisions for whey processing</p> <p>Compromise that recognizes whey value to some manufacturers without threatening viability of those that cannot economically process whey</p> <p>Introduce sharing component</p>	<p>Price does not reflect market activity.</p> <p>Fails to give any market signals.</p> <p>Provides weak incentive to invest in whey processing</p> <p>In strong markets it provides a huge windfall to processors who do process whey.</p> <p>Fixed value nearly always wrong</p> <p>No upside potential for producers- allows Ca pricing to get way out of alignment with the federal price.</p> <p>Floor and cap at same level. Will not follow the Federal Order class III price.</p> <p>Overvalues milk when whey market prices are below \$0.329 (@ cost from study released in 2006). This occurred in Feb and Mar and is likely to occur through August of this year based upon whey futures prices.</p>

Here are the WRC rankings 13 out of 14 WRC members provided (lower number means a higher rating; e.g. the top three were options 5, 1, and 8. You will see a separate recommendation for alternative 4 had 11 out of 14 yes votes with one no vote).

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		1	2	3	4	5	6	7	8	9	10	11	12	13	14	Total
1	Class 4b formula would contain a whey factor that would involve sharing of whey revenues between producer and processors, but the contribution of the whey factor to the Class 4b price would be floored at zero and capped at around \$0.55 per cwt.	4	5	4	3	4	1	3	4	5	5.4	4	2	4	1	49.4
5	The whey factor in the 4b formula would consist of a fixed factor of \$0.18/cwt plus an additional amount equal to the NASS dry whey price minus \$0.36 times 5.8 (yield) times .33 (share rate). The additional amount cannot be a negative number.	5	3	3	4	5	3	6	5	3	2	3	3	5	4	54
8	End-product formula with the following features: The base value used shall be the lower of:	2	2	6	7	6	5	4	1	1	5.4	5	6	2	6	58.4
9	Current 4b Whey pricing formula and structure	7	6	2	2	2	7	2	7	7	2	1	6	7	2	60
2	The Class 4b formula would include a whey factor that would select the lower of the western dry whey or WPC 34 protein values and utilize that value less a make allowance multiplied by a yield factor as the whey contribution to the Class 4b price.	1	1	7	6	7	6	7	2	2	2	8	6	1	5	61
6	Eliminate the Whey Component Factor	8	8	1	1	1	8	1	8	8	8	2	1	8	3	66
3	The Class 4b formula would include a fixed whey factor that changes in stepwise fashion for various whey price ranges. Above a certain whey price level the whey contribution would not change.	6	7	5	5	3	4	5	6	4	5.4	6	6	6	8	76.4
7	End-product formula based on the average of the western mostly quote for dry whey; less a make allowance based on the costs of the four smallest plants (as generated by CDFA) making nonfat dry milk plus a fixed factor (Note A) to account for the extra costs of drying whey; and multiplied by a yield of 5.8. Etceteras....	3	4	8	8	8	2	8	3	6	5.4	7	6	3	7	78.4

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4	Present option 4 as a separate recommendation for further study	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N	?	11
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Detailed pricing alternatives presented and discussed at the March 11th meeting follow. Note: Financial impacts of all alternatives have been provided in separate CDFA prepared documents dealing with price impacts and underlying assumptions.

Whey Sub-Committee: Branagh, Paris, Schiek, Souza, and Wegner		
Alternative 1	Alternative 2	Alternative 3

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<p>Description: Class 4b formula would contain a whey factor that would involve sharing of whey revenues between producer and processors, but the contribution of the whey factor to the Class 4b price would be floored at zero and capped at around \$0.55 per cwt. (50 cents per pound whey price).</p>	<p>Description: The Class 4b formula would include a whey factor that would select the lower of the western dry whey or WPC 34 protein values and utilize that value less a make allowance multiplied by a yield factor as the whey contribution to the Class 4b price.</p>	<p>Description: The Class 4b formula would include a fixed whey factor that changes in stepwise fashion for various whey price ranges. Above a certain whey price level the whey contribution would not change. That is, there would be a maximum contribution. Below a certain price level, the contribution would be snubbed at zero.</p>
<p>Formula construction:</p> <ol style="list-style-type: none"> 1. Use Western Dry Whey price mostly midpoint less a make allowance of 31 cents per pound (most recent CDFA survey). 2. Multiply the result of the price less the yield by 2.9, which is half the yield (5.8) that was used in the previous formula prior to 12/07. This yield factor produces a result that is 	<p>Formula Construction:</p> <ol style="list-style-type: none"> 1. Obtain monthly dry whey and WPC 34% prices (Dairy Mkt. News) 2. Obtain per pound protein prices for each <ol style="list-style-type: none"> a. Divide dry whey price by 13% (or 0.13) b. Divide WPC 34% price by 34% (or 0.34) 	<p>Formula Construction:</p> <ol style="list-style-type: none"> 1. Use the NASS dry whey price (although the concept could also be implemented with a lower-of dry whey or WPC-34 on a pound of protein basis). 2. For dry whey prices less than 27 cents, add nothing to the 4b price For dry whey prices > 27 cents and <= 37 cents, add 10 cents/ cwt. For dry whey prices > 37 cents and <=

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<p>mathematically identical to the 50% sharing proposal put forth by Land O' Lakes at the June 2006 Class 4a/4b hearing.</p> <p>3. The maximum dry whey price that could be used in this calculation would be \$0.50 per pound, so if the market price went above that level, a value of \$0.50 would be substituted for the whey price in the formula.</p> <p>4. If the whey price dropped below 31 cents the contribution to the formula would be snubbed at zero so that the whey factor would not be a negative impact on the milk price.</p> <p>5. As an alternative to the dry whey price, both the western dry whey and WPC-34 prices could be expressed on a pound of protein basis (divide dry whey price by 0.12 and WPC by 0.34). The lower of the two values would then be selected and multiplied by 0.12 to express the value on a dry whey equivalent price basis. This new value could be used in the formula in place of the western dry whey price.</p>	<p>3. Choose lower of (1) OR (2) above</p> <p>4. Multiple the lower of by 13% (or 0.13) to obtain a "derived dry whey value"</p> <p>5. Incorporate into Class 4b whey formula</p> <p>a. (Lower of "derived dry whey value" – dry whey make allowance) * 5.8 yield</p> <p>Dry whey make allowance options:</p> <ul style="list-style-type: none">• Maintain previous \$0.267 per pound (For the purpose of initial calculations, this make allowance was used)• Use the nonfat dry milk make allowance as a base and add a differential based on a fixed or percentage difference from NFDM cost.	<p>50 cents add 25 cents/cwt. For dry whey prices > 50 cents add 40 cents/cwt.</p>
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<p>Other potential modifications raised by the group: cap could be replaced by a lower percentage contribution at higher prices.</p>	<p>Other potential modifications raised by the group: Whey factor could have a lower yield to allow for some sharing of whey revenues between producers and processors above the make allowance. A cap and /or floor could be implemented to prevent whey contribution from going above some specified level or below zero.</p>	<p>Other potential modifications raised by the group: Different break points, contributions, or limits could be used.</p>
<p>PROS:</p> <ul style="list-style-type: none"> • Shares whey revenue with both producers and processors • Gives processors the opportunity to invest in whey facilities • Higher make allowance and cap gives some protection to smaller cheesemakers • Floor protects producer from low whey prices • Whey's contribution moves with the dry whey market prices until the ceiling of 50 cents 	<p>PROS:</p> <ul style="list-style-type: none"> • Provides sharing of revenues between producers and processors • Prevents price inversion problem between dry whey and WPC • Keeps California in closer alignment with federal order prices • Broadening the base product mix used to determine whey values • Whey's contribution moves with the market price of whey products 	<p>PROS:</p> <ul style="list-style-type: none"> • Relative to the current formula, this proposal moves the milk price <i>somewhat</i> with the whey market in a muted sort of way. • Provides protection for small cheesemakers in high whey markets • Provides producer protection in low whey markets. • It could broaden product base if you use the lower of WPC/dry whey option •
<p>Cons:</p> <ul style="list-style-type: none"> • Limits contribution to the pool (producers) in high whey markets • Make allowance presents a long term problem due to paucity of whey cost data • 	<p>Cons:</p> <ul style="list-style-type: none"> • Exposes small cheesemakers to risk of high whey markets • Make allowance updates could still be problematic • Data integrity (accuracy of data) • Assumption all value is protein based 	<p>Cons:</p> <ul style="list-style-type: none"> • Limits producer benefit from high whey markets from regulated pricing • Breakpoints and contributions somewhat arbitrary • Could make the Hearing process more contentious

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Whey sub-committee: Hofferber, Jeter, Tollenaar, and Vanden Heuvel

Current realities (for alternative 4):

- California is in a significant plant capacity deficit position.
- The California producer model, which is heavily dependent on purchased feeds, is rapidly removing California producers national dominance as low cost of production leaders. California's practical cost of production could be well approaching several dollars per cwt. higher than their Midwest competition.
- The requirement that all California processors who purchase market milk (Grade A) must pay the regulated minimum price for that milk regardless of whether or not they are a pool plant means that the only current tool to add incentive for additional plant capacity is to discount the regulated minimum price.
- Given the already expensive cost of doing business for processors in California, the **further discount** in the regulated price needed to add incentive for additional plant capacity could amount to more than one dollar per cwt.
- Discounting the regulated price to add incentive for further plant capacity expansion in California has the potential to be very inefficient because:
 1. All processing plants get the increased margin regardless of whether or not they expand capacity. Given that there is a lot of capacity already, the marginal cost to the producer pool of the increased capacity becomes enormous.
 2. That increased margin in and of itself does nothing to encourage the innovation of the processing sector and may discourage it.
 3. Because it is a government granted regulated incentive that is subject to political pressure there is no assured "shelf life" to the policy thereby creating huge risk to processors who are contemplating an expensive plant capacity expansion that needs a return over the long term.
 4. Despite the large regulated margins this would create, the reality of significant month to month changes in the regulated milk price makes development of higher valued non-commodity cheese markets difficult.

Alternative 4

Alternative 5

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<p>Description: To create the opportunity for competition for producer milk between the current regulated system and a new unregulated system.</p>	<p>Description: We offer this alternative in the spirit of staying “inside the box”.</p>
<p>Proposed changes:</p> <ul style="list-style-type: none">• The regulated class 4b price should be directly tied to the FMMO class III price. We would suggest Class III less \$0.50 per cwt as the equivalent price.*• Secondly, a new Section would be added to the Food and Agriculture Code allowing purchasers of class 4b market milk the option to drop out of the regulated minimum price system. <p>What is contemplated here is a scenario where the regulated system would include all class 1, 2, 3, 4a and whatever 4b milk wished to be part of it. The class 1, 2 and 3 revenues would provide sufficient dollars to cover the quota payments for those producers who have quota. Cheese plants would be free to contract for a milk supply from producers and cooperatives outside of the pool, not subject to any minimum price requirements. Such producer milk would have no access to the regulated pool and would have no pool obligations. Cheese plants could establish any number of types of contracts to purchase grade A milk with regards to duration, volume and price. This flexibility would stimulate the opportunity to innovate.</p> <p>However, the cheese plants would have to compete against the regulated system for a milk supply. The regulated system would have the advantage of the inclusion of the higher classes of milk and a higher regulated class 4b price because the plant expansion incentive need not be included in the class 4b regulated price.</p> <p>The way this system would work in practice is that producers and cooperatives would make a decision about where they wanted to sell their milk. They could contract to sell all or part of their milk to a cheese plant for whatever terms they could mutually agree to. The milk that was sold to the cheese plants under this arrangement would not participate in the regulated</p>	<p>Proposed changes:</p> <p>The whey factor in the 4b formula would consist of a fixed factor of \$0.18/cwt plus an additional amount equal to the NASS dry whey price minus \$0.36 times 5.8 (yield) times .33 (share rate). The additional amount cannot be a negative number.</p>

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pool. The milk that is sold to a buyer on a regulated basis would participate in the pool and producers will be paid the quota and overbase prices out of the regulated pool. A cheese plant could buy both regulated and unregulated milk at the same time. However all milk purchased, both regulated and unregulated, must be sold by contract which would state, at a minimum, volume and price. CDFA will publish on a regular basis (no less frequently than semi-monthly) the total statewide volume and average price at which the unregulated milk supply is being sold.

*We propose the FMMO class III price less \$0.50 to account for the California specific cost and distance factors. The FMMO price is a good one to benchmark off of because it is what the competition in the rest of the country is using for a benchmark. The FMMO class III price includes a value for the whey solids stream. The criteria USDA uses to establish the FMMO Class III price mirrors the criteria that must be considered when California establishes its minimum price and therefore a California 4b price that references the FMMO class III price would meet the California statutory requirements.

PROS:

PROS:

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- Creates the opportunity for a much more efficient and effective incentive mechanism for expansion of cheese manufacturing in California through the use of business arrangements that are not legal today
- Greatly increases the ability of the market signals to be transmitted back to both producers and processors
- Enables the regulated price to be higher than is possible in a system where all milk must be regulated
- Facilitates milk price discovery through real-time transparency.
- Recognize the cost structure of competitors e.g. interstate and international
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- Introduces a revenue sharing concept when whey markets are high and acknowledges the fact that the whey stream does have a value
- Does not contain a “negative” factor
- Is a small decrease in the 4b price currently when milk is very long
- Does not include significant change from current formula
- Moves us beyond the make allowance argument on whey

CONS:

- Creates risks both to producers and processors
- Requires a law change

CONS:

- Fosters continuation of the status quo
- Give up too much of the potential income for producers
- No updates for cost strategy

Whey sub-committee: **Magneson, Mendes, McCully, Taylor , and Van Dam**

Alternative 6	Alternative 7	Alternative 8
<p>Description:</p> <p>Processors:</p> <ul style="list-style-type: none"> Eliminate the Whey Component Factor 	<p>Description:</p> <p>Producers:</p> <ul style="list-style-type: none"> End-product formula based on the average of the western mostly quote for dry whey; less a make allowance based on the costs of the four smallest plants (as generated by CDFA) making nonfat dry milk plus a fixed factor (Note A) to account for the extra costs of drying whey; and multiplied by a yield of 5.8. In addition, consider applying an index factor to the make allowance that would reduce it when producer costs were high relative to the 4b commodity reference price (CRP) and increase it when producer costs were low relative to the CRP. 	<p>Description:</p> <p>End-product formula with the following features:</p> <ul style="list-style-type: none"> The base value used shall be the lower of: <ol style="list-style-type: none"> the average of the western mostly quote for dry whey as reported by DMN, or 38% of the average of the central and west mostly quote for whey protein concentrate 34% as reported by DMN. (Note C) Less a make allowance based on the costs of the four smallest plants (as generated by CDFA) making nonfat dry milk plus a fixed factor to account for the added costs of drying whey (Note A) Multiplied by a yield of 5.8 If the result is less than <u>_x_</u> the whey component portion of the formula will set at <u>_x_</u> and if the result is more than <u>_z_</u> the whey component portion of the formula will be set at <u>_z_</u>. (Note B) <p>NOTES:</p> <p>Note A: Make allowance example: CDFA reported cost for smaller plants is 20 cents and then set a fixed factor of 8.5 cents to bring the make allowance to 28.5 cents.</p> <p>Note B: Snubber examples:</p>

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		<p style="text-align: center;">Value per cwt for the Class 4b whey component.</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">(x)</td> <td style="text-align: center;">(z)</td> </tr> <tr> <td style="text-align: center;">Bottom</td> <td style="text-align: center;">Top</td> </tr> <tr> <td style="text-align: center;">Zero</td> <td style="text-align: center;">\$0.50</td> </tr> <tr> <td style="text-align: center;">Zero</td> <td style="text-align: center;">\$1.00</td> </tr> <tr> <td style="text-align: center;">\$.25</td> <td style="text-align: center;">\$1.25</td> </tr> </table> <p>Note C: The effect of applying the 38% is to restate the dry whey price as if its protein were valued at the protein value of WPC 34. The math here is based on a protein content of 13% in dry whey and 34% in WPC 34. $13/34 = 38$. At 12% protein in dry whey the multiplier would be 35%.</p>	(x)	(z)	Bottom	Top	Zero	\$0.50	Zero	\$1.00	\$.25	\$1.25
(x)	(z)											
Bottom	Top											
Zero	\$0.50											
Zero	\$1.00											
\$.25	\$1.25											
<p>PROS:</p> <ul style="list-style-type: none"> • Could incent investment • History of the concept working 	<p>PROS:</p> <ul style="list-style-type: none"> • Makes more a discernable make allowance • History of the concept working • Move whey component value with the market (without a snubber a pro for the processor) • Variable make allowance signals demand for product to incent investment 	<p>PROS:</p> <ul style="list-style-type: none"> • Provides solution to the inversion problem. • Broadens the base. Use of "lower of" assures that products representative of all products derived from whey are considered in the formula in a manner favorable to processors. • Use of topside snubber protects the small processors in times of high whey prices. • With in the limits of the snubbers the whey component value moves with the market. • Bottom side snubber pevents negative whey values. • Enhances investment potential because it reestablishes trust that producers are interested in a formula that does not impose product costs on processors that cannot reasonably be recoved from the market. • Includes a make allowance that will adjust as conditions change. • Avoids issue of determining a separate make allowance for WPC 34 while allowing the inclusion of its underlying value in the formula.. • Base price is based upon a common denominator for a product group • -Values only components that are economically viable for processing by all those subject to the regulation • -Eliminates current scenario of whey factor of \$0.25 overvaluing milk 										

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		<ul style="list-style-type: none"> • -Does not put a group of plants at a disadvantage beyond what would happen in an unregulated market • -More consistent with existing supply and demand conditions and does not aggravate stimulation of surplus production • -Simple
<p>CONS: Producers will perceive they are foregoing revenue</p>	<p>CONS: Does not solve a small plant dilemma Producer without a snubber a loss Does not incent investment No history of a variable make allowance in use</p>	<p>CONS:</p> <ul style="list-style-type: none"> • Leaves potential valid producer value on the table. • Snubber is arbitrary and thus potentially contentious at hearings • Is more complex than the typical pricing formula. • Issue of independent value of lactose is not directly addressed. • Producers will perceive that they are foregoing revenue

NOTES: