

Summary Analysis of Alternative Concepts and Proposals for January 22, 2003 Pre-Hearing Workshop

Executive Summary of Class 2, 3, 4a and 4b Price Proposals

Proposals Less Class and Pool Prices Based on Current Formulas, 1998 to 2002			
	Classes 2 & 3	Class 4a	Class 4b
Western United Dairymen	\$0.31	\$0.31	\$0.49
California Dairy Women	\$0.01	\$0.01	\$0.05
Alliance of Western Milk Producers	-\$0.08	-\$0.08	\$0.48
California Dairy Campaign	-\$0.04	-\$0.03	\$0.58
Dairy Institute	\$0.05	\$0.05	\$0.00
Change in Quota and Overbase Prices			
Western United Dairymen		\$0.32	
California Dairy Women		\$0.02	
Alliance of Western Milk Producers		\$0.16	
California Dairy Campaign		\$0.23	
Dairy Institute		\$0.02	

Summary of Petition and Alternative Proposals

- 1) Western United Dairymen
 - a) Decrease the butter freight adjustment in the Class 4a formula to -\$0.0332
 - b) Increase the cheese freight adjustment in the Class 4b formula to -\$0.0321
 - c) Increase the butter yield to 1.211
 - d) Increase the powder yield to 1.004
 - e) Increase the cheese yield to 10.2
 - f) Increase the butter manufacturing cost allowance to \$0.1134
 - g) Decrease the powder manufacturing cost allowance to \$0.1427
 - h) Decrease the cheese manufacturing cost allowance to \$0.1592
 - i) Add a whey pricing component to the Class 4b formula

- 2) California Dairy Women Association — Establish price floors for butter, powder and cheese such that the Class 4a and 4b formulas use the higher of the commercial market prices or the announced CCC support purchase prices.

- 3) The Alliance of Western Milk Producers
 - a) Amend definition of milk in the Stabilization Plans to include “true protein and other solids”
 - b) Increase the cheese freight adjustment in the Class 4b formula to -\$0.0321
 - c) Decrease the cheese manufacturing cost allowance to \$0.1746

- d) Increase the butter manufacturing cost allowance to \$0.1211
- e) Establish a true protein and an other solids price in the Class 4b formula
- f) Add a whey pricing component to the Class 4b formula

4) California Dairy Campaign

- a) Establish price floors for butter, powder and cheese such that the Class 4a and 4b formulas use the higher of the commercial market prices or the announced CCC support purchase prices.
- b) Decrease the butter freight adjustment in the Class 4a formula to -\$0.0242
- c) Decrease the cheese freight adjustment in the Class 4b formula to \$0.0
- d) Establish variable manufacturing cost allowances for butter, powder and cheese. The variable multiplier for each is the CRP divided by the COP Index
 - i) The nominal butter base allowance would be \$0.1200 and averages \$0.1354 over the five-year period, 1998 to 2002
 - ii) The nominal powder base allowance would be \$0.1500 and averages \$0.1693 over the five-year period, 1998 to 2002
 - iii) The nominal cheese base allowance would be \$0.1735 and averages \$0.1846 over the five-year period, 1998 to 2002
- e) Increase the powder yield to 1.0
- f) Increase the cheese yield to 10.2
- g) Add a whey pricing component to the Class 4b formula

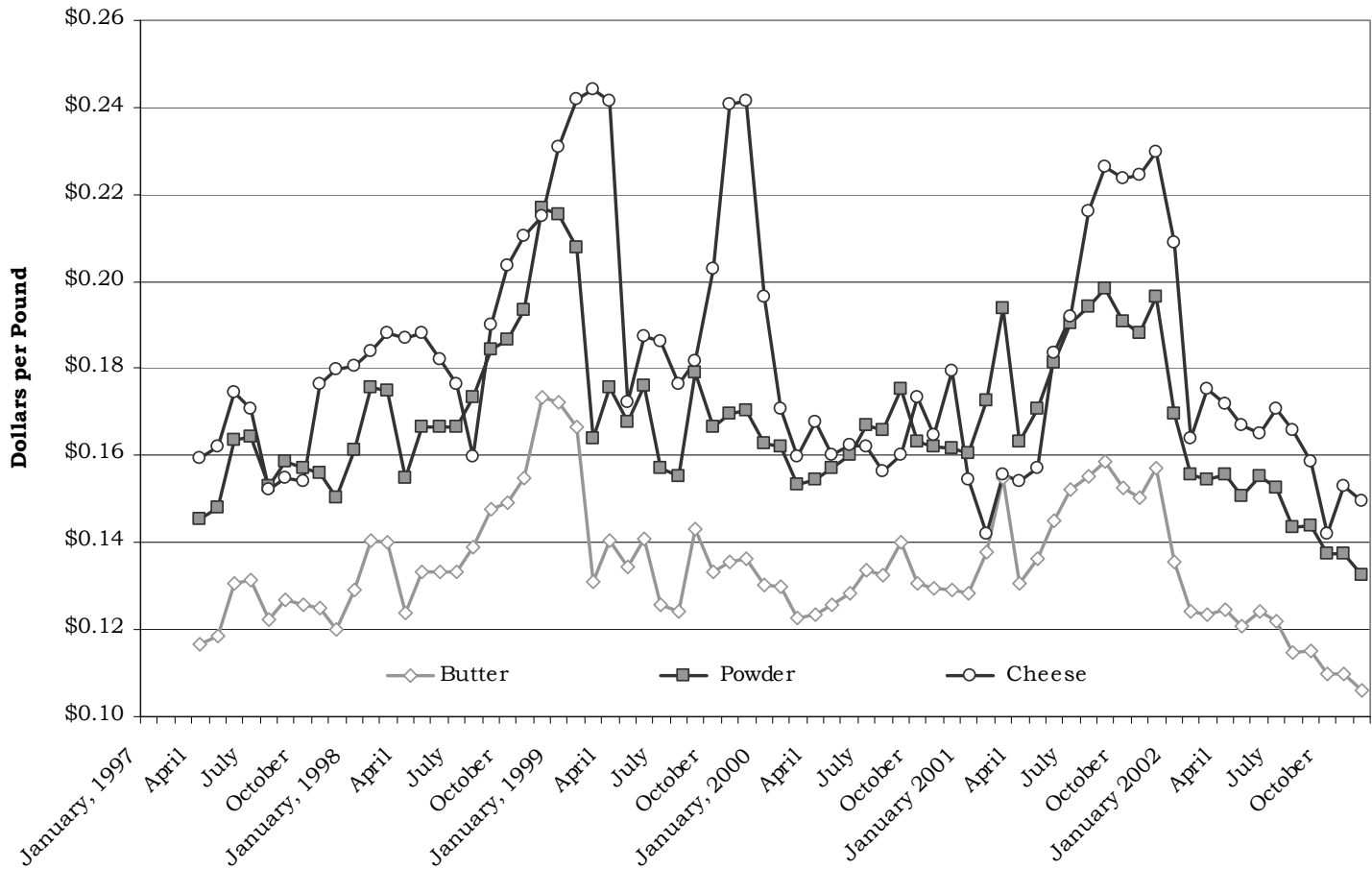
5) Dairy Institute of California

- a) Replace the term “freight adjustment” in the Class 4a formula with “marketing adjustment”
- b) Decrease the butter marketing adjustment in the Class 4a formula to
- c) -\$0.0332
- d) Increase the butter manufacturing cost allowance to \$0.1211
- e) Decrease the powder manufacturing cost allowance to \$0.1512
- f) Decrease the cheese freight adjustment in the Class 4b formula to -\$0.008
- g) Decrease the cheese yield to 9.98
- h) Decrease the cheese manufacturing cost allowance to \$0.1746
- i) Change the vat tests in the Class 4b formula to 3.68% for fat and 8.76% for SNF

Percent of Months In Which the Support Price Was Triggered, 1998 to 2002

	<u>Butter</u>	<u>Powder</u>	<u>Cheese</u>
CDWA/CDC	0%	27%	13%

CDC Alternative Proposal: Variable Manufacturing Cost Allowances, 1998 to 2002



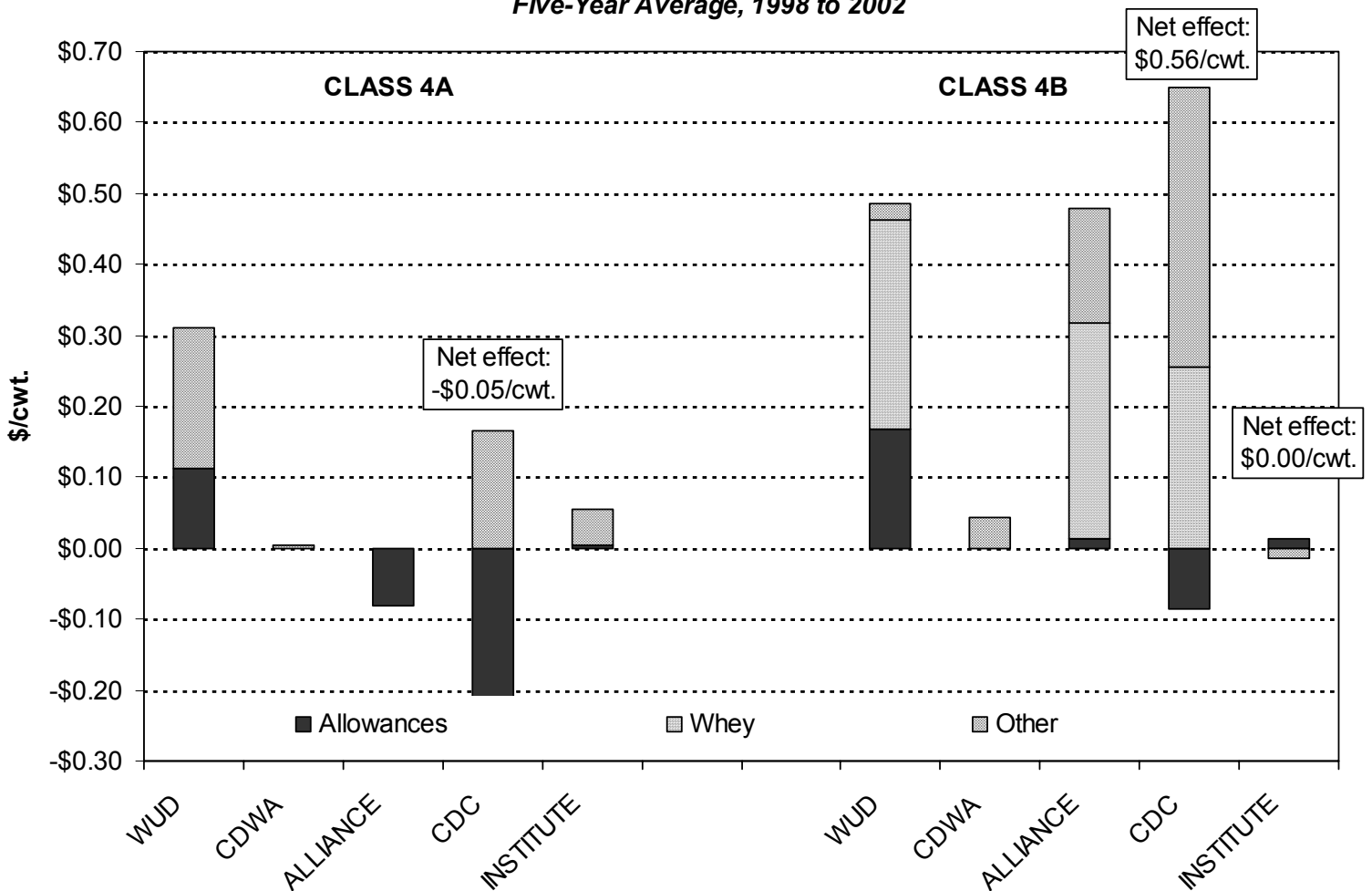
Statistics on Variable Allowance			
	<u>Average</u>	<u>High</u>	<u>Low</u>
Butter	\$0.1354	\$0.1734	\$0.1060
Powder	\$0.1693	\$0.2168	\$0.1325
Cheese	\$0.1846	\$0.2442	\$0.1418

Summary of Manufacturing Cost Allowances and Percent of Volume Covered for Butter, Powder and Cheese			
	<u>Butter</u>	<u>Powder</u>	<u>Cheese</u>
Current Formulas	\$0.1020 (37%)	\$0.1610 (89%)	\$0.1760 (77%)
Western United	\$0.1134 (37%)	\$0.1427 (21%)	\$0.1592 (49%)
CDWA	\$0.1020 (37%)	\$0.1610 (89%)	\$0.1760 (77%)
Alliance	\$0.1211 (53%)	\$0.1610 (89%)	\$0.1746 (55%)
CDC	\$0.1354 (84%)	\$0.1693 (89%)	\$0.1846 (77%)
Dairy Institute	\$0.1211 (53%)	\$0.1512 (69%)	\$0.1746 (55%)

Breakdown of Changes to Pricing Formulas by Category

- 1) Price changes are broken up into effects resulting from changes to the manufacturing cost allowances, the addition of a whey component and the residual effects, designated as "Other".
 - a) The residual effect might include proposed changes to the marketing adjustment factors, yields, incorporating the support purchase prices, etc.
 - b) The CDC proposal for changes in the Class 4a formula results in both positive and negative effects, with the net effect being $-\$0.05$ per cwt. over the 1998 to 2002 period.
 - c) The CDC and Dairy Institute proposals for changes to the Class 4b formula result in both positive and negative effects, with the net effects being $\$0.56$ per cwt. and $\$0.00$ per cwt., respectively.

Components of Class 4a and 4b Price Changes
Five-Year Average, 1998 to 2002



Summary of Pricing Impacts

Impact on California Class and Pool Prices

Notes:

- The table below shows the impacts of the petition and alternative proposals on class and pool prices relative to current prices from January 1998 through December 2002.
- The analysis assumes that the petition, alternative proposals and current formulas were in effect throughout the analysis period.
- The support purchase prices used in the CDWA and CDC alternative proposals reflect those in effect during the analysis time period and not the current support purchase prices projected backward.

<u>Proposals Less Class and Pool Prices Based on Current Formulas, 1998 to 2002</u>					
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	<i>Dollars per Hundredweight</i>				
Classes 2 and 3:					
Western United	\$0.33	\$0.31	\$0.30	\$0.32	\$0.29
CDWA	\$0.00	\$0.01	\$0.01	\$0.00	\$0.00
Alliance	-\$0.08	-\$0.08	-\$0.08	-\$0.08	-\$0.08
CDC	-\$0.03	-\$0.18	\$0.04	-\$0.16	\$0.07
Dairy Institute	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05
Class 4a:					
Western United	\$0.33	\$0.31	\$0.30	\$0.32	\$0.29
CDWA	\$0.00	\$0.01	\$0.01	\$0.00	\$0.00
Alliance	-\$0.08	-\$0.08	-\$0.08	-\$0.08	-\$0.08
CDC	-\$0.14	-\$0.11	\$0.05	-\$0.22	\$0.18
Dairy Institute	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05
Class 4b:					
Western United	\$0.66	\$0.38	\$0.28	\$0.77	\$0.34
CDWA	\$0.00	\$0.00	\$0.11	\$0.02	\$0.09
Alliance	\$0.71	\$0.33	\$0.25	\$0.82	\$0.29
CDC	\$0.64	\$0.15	\$0.61	\$0.76	\$0.66
Dairy Institute	-\$0.02	\$0.00	\$0.01	-\$0.01	\$0.01
Pool Prices:					
Western United	\$0.38	\$0.27	\$0.23	\$0.46	\$0.25
CDWA	\$0.00	\$0.00	\$0.05	\$0.01	\$0.04
Alliance	\$0.24	\$0.09	\$0.06	\$0.33	\$0.09
CDC	\$0.21	\$0.01	\$0.27	\$0.25	\$0.35
Dairy Institute	\$0.01	\$0.02	\$0.02	\$0.01	\$0.02

Impact on California Class Prices Relative to Federal Order Prices

Notes:

- The table below shows the impacts of the petition and alternative proposals on class prices relative to comparable federal prices from January 2000 through December 2002.
- The federal prices are those that would have resulted from using the pricing formulas announced in the Final Rule on November 7, 2002 and assuming that the formulas have been in place since January 2000.
- Comparisons involving Classes 2 and 3 use the Northern California prices relative to the Pacific Northwest federal order prices.

<u>Proposals Less Federal Class Prices Based on Current Formulas, 2000 to 2002</u>			
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Class 2 less Class II:			
<i>Current Formula</i>	-\$0.50	-\$0.18	-\$0.10
Western United	-\$0.20	\$0.14	\$0.19
CDWA	-\$0.49	-\$0.18	-\$0.10
Alliance	-\$0.58	-\$0.26	-\$0.18
CDC	-\$0.46	-\$0.34	-\$0.03
Dairy Institute	-\$0.45	-\$0.13	-\$0.05
Class 3 less Class II:			
<i>Current Formula</i>	-\$0.55	-\$0.23	-\$0.15
Western United	-\$0.25	\$0.09	\$0.14
CDWA	-\$0.54	-\$0.23	-\$0.15
Alliance	-\$0.63	-\$0.31	-\$0.23
CDC	-\$0.51	-\$0.39	-\$0.08
Dairy Institute	-\$0.50	-\$0.18	-\$0.10
Class 4a less Class IV:			
<i>Current Formula</i>	-\$0.20	-\$0.27	-\$0.29
Western United	\$0.10	\$0.05	-\$0.01
CDWA	-\$0.19	-\$0.27	-\$0.29
Alliance	-\$0.28	-\$0.35	-\$0.37
CDC	-\$0.15	-\$0.49	-\$0.11
Dairy Institute	-\$0.15	-\$0.21	-\$0.24
Class 4b less Class III:			
<i>Current Formula</i>	-\$0.40	-\$0.92	-\$0.51
Western United	-\$0.12	-\$0.15	-\$0.17
CDWA	-\$0.29	-\$0.90	-\$0.42
Alliance	-\$0.15	-\$0.10	-\$0.22
CDC	\$0.21	-\$0.17	\$0.15
Dairy Institute	-\$0.40	-\$0.94	-\$0.50

Impact on Raw Product Prices in Consumer Sizes

Notes:

- The tables below show the impacts of the petition and alternative proposals on raw product prices in consumer container sizes.
- Ice cream contains 10% fat and 10% SNF.
- Yogurt contains 1% fat and 10% SNF.

Changes in Dairy Raw Product Costs in Consumer Sizes Relative to Costs Generated by Current Formulas, 1998 to 2002					
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Ice Cream – half gallon:					
Western United	\$0.011	\$0.010	\$0.009	\$0.011	\$0.009
CDWA	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Alliance	-\$0.005	-\$0.005	-\$0.005	-\$0.005	-\$0.005
CDC	-\$0.003	-\$0.008	\$0.000	-\$0.007	-\$0.001
Dairy Institute	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Yogurt - quart:					
Western United	\$0.007	\$0.007	\$0.007	\$0.007	\$0.006
CDWA	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
Alliance	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
CDC	\$0.000	-\$0.003	\$0.002	-\$0.002	\$0.002
Dairy Institute	\$0.002	\$0.002	\$0.002	\$0.002	\$0.002

Changes in Dairy Raw Product Costs in Consumer Sizes Relative to Federal Order Prices, 2000 to 2002			
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Ice Cream – half gallon:			
<i>Current Formula</i>	-\$0.021	-\$0.001	\$0.005
Western United	-\$0.012	\$0.010	\$0.014
CDWA	-\$0.021	-\$0.001	\$0.005
Alliance	-\$0.026	-\$0.006	\$0.000
CDC	-\$0.021	-\$0.008	\$0.006
Dairy Institute	-\$0.021	\$0.000	\$0.005
Yogurt - quart:			
<i>Current Formula</i>	-\$0.009	-\$0.007	-\$0.007
Western United	-\$0.002	\$0.000	\$0.000
CDWA	-\$0.009	-\$0.007	-\$0.007
Alliance	-\$0.010	-\$0.008	-\$0.007
CDC	-\$0.008	-\$0.010	-\$0.005
Dairy Institute	-\$0.007	-\$0.005	-\$0.005

Impact on California Class Prices Relative to Federal Order Prices

Notes:

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- The federal prices are those that would have resulted from using the current federal pricing formulas and assuming that the formulas have been in place since January 2000.
- Comparisons involving Classes 2 and 3 use the Northern California prices relative to the Pacific Northwest federal order prices.

<u>Proposals Less Federal Class Prices Based on Current Formulas, 2000 to 2002</u>			
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Class 2 less Class II:			
<i>Current Formula</i>	-\$0.63	-\$0.34	-\$0.24
Western United	-\$0.33	-\$0.02	\$0.05
CDWA	-\$0.62	-\$0.34	-\$0.24
Alliance	-\$0.71	-\$0.42	-\$0.32
CDC	-\$0.60	-\$0.50	-\$0.18
Dairy Institute	-\$0.58	-\$0.28	-\$0.19
Class 3 less Class II:			
<i>Current Formula</i>	-\$0.68	-\$0.39	-\$0.29
Western United	-\$0.38	-\$0.07	\$0.00
CDWA	-\$0.67	-\$0.39	-\$0.29
Alliance	-\$0.76	-\$0.47	-\$0.37
CDC	-\$0.65	-\$0.55	-\$0.23
Dairy Institute	-\$0.63	-\$0.33	-\$0.24
Class 4a less Class IV:			
<i>Current Formula</i>	-\$0.33	-\$0.42	-\$0.42
Western United	-\$0.03	-\$0.11	-\$0.13
CDWA	-\$0.32	-\$0.42	-\$0.42
Alliance	-\$0.41	-\$0.51	-\$0.50
CDC	-\$0.28	-\$0.65	-\$0.23
Dairy Institute	-\$0.28	-\$0.37	-\$0.37
Class 4b less Class III:			
<i>Current Formula</i>	-\$0.26	-\$0.56	-\$0.44
Western United	\$0.02	\$0.21	-\$0.10
CDWA	-\$0.14	-\$0.54	-\$0.34
Alliance	-\$0.02	\$0.26	-\$0.15
CDC	\$0.35	\$0.19	\$0.22
Dairy Institute	-\$0.26	-\$0.57	-\$0.43