

January 8, 2002

The Honorable William Lyons
Secretary
California Department of Food and Agriculture
Dairy Marketing Branch
1220 N Street
Sacramento, CA 95814

RE: ALTERNATIVE PROPOSAL TO CONSIDER CHANGES IN THE CALIFORNIA MILK STABILIZATION PLAN CLASS 2, 3, 4a and 4b PROVISIONS

Dear Secretary Lyons:

The California Dairy Campaign would like to submit the following alternative proposals for the January 29 hearing:

Update the make allowances, yields, and transportation adjustments reflected in the current CDFA studies;

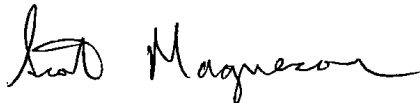
Establish a variable manufacturing cost allowance that would be adjusted monthly based on the dairy producer's cost of production and the prevailing commodity prices;

Floor the commodity prices at the higher of the market price or the federal support purchase prices and;

Include the whey skim value in the 4b price formula;

We appreciate your attention in this regard.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott Magneson". The signature is fluid and cursive, with a large initial "S" and "M".

Scott Magneson
Pricing Director
California Dairy Campaign

ARTICLE III Section 300.0.

(D) The minimum prices to be paid for components used for Class 4a shall be computed as follows:

- (1) For all milk fat, not less than the price per pound computed by the formula using the simple average of the Grade AA butter price quotations for the last significant trading action for the sale, offer or bid of butter at the Chicago Mercantile Exchange or the Commodity Credit Corporation Dairy Support Program purchase price for Grade AA butter in effect, which ever is higher, less a freight adjustment of two and forty-two hundredths cents (\$0.0242) ~~four and five tenths cents (\$0.045)~~, less a manufacturing cost allowance calculated pursuant to Subparagraph (D)(6) ~~of ten and two tenths cents (\$0.102)~~, and the result multiplied by a yield factor of 1.2.
- (2) For all milk solids-not-fat, not less than the weighted average price per pound for all Grade A and extra grade nonfat dry milk for human consumption sold f.o.b. California manufacturing plants for the period beginning the 26th day of the previous month and concluding the 25th day of the current month, as reported by the California Department of Food and Agriculture for the month or the Commodity Credit Corporation Dairy Support Program purchase price for nonfat dry milk powder in effect, which ever is higher, less a manufacturing cost allowance calculated pursuant to Subparagraph (D)(7), ~~of sixteen and one tenth cents (\$0.161)~~, multiplied by a yield factor of one (1.0) ~~ninety nine hundredths (0.99)~~.
- (3) In the event that the Chicago Mercantile Exchange Grade AA butter price is not available to calculate the current Class 4a fat price, pursuant to Subparagraph (D)(1), then used in its place shall be the butter price used in the prior month's calculation of the Class 4a fat price. All other Paragraphs that use the Class 4a fat price shall operate as if the price had been established pursuant to Subparagraph (D)(1).
- (4) In the event that the California weighted average nonfat dry milk price is not available to calculate the current Class 4a solids-not-fat component price, pursuant to Subparagraph (D)(2), then used in its place shall be the nonfat dry

milk price used in the prior month's calculation of the Class 4a solids-not-fat price. All other Paragraphs that use the Class 4a solids-not-fat price shall operate as if the solids-notfat price had been established pursuant to Subparagraph (D)(2).

- (5) The butter prices used in calculations pursuant to this paragraph shall be those released by the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month or the Commodity Credit Corporation Dairy Support Program purchase price for Grade AA butter in effect, which ever is higher.
- (6) The manufacturing cost allowance used in Subparagraph (D)(1) shall be twelve cents (\$0.12), times the Commodity Reference Price most recently calculated pursuant to Subparagraph (A)(4)(b), divided by the Cost of Production Index.
- (7) The manufacturing cost allowance used in Subparagraph (D)(2) shall be fifteen cents (\$0.15), times the Commodity Reference Price most recently calculated pursuant to Subparagraph (A)(4)(b), divided by the Cost of Production Index.

(E) The minimum prices to be paid for components used for Class 4b shall be computed as follows:

- (1) The Cheese hundredweight price shall be the price per hundredweight computed by the sum of the following:
- (a) The price per hundredweight computed by using the simple average of the 40 pound block price quotations for the last significant transaction for Cheddar cheese at the Chicago Mercantile Exchange or the Commodity Credit Corporation Dairy Support Program purchase price for block cheddar cheese in effect, which ever is higher, less a ~~marketing adjustment of one and two tenths cent (\$0.012)~~, less a Cheddar cheese manufacturing cost allowance calculated pursuant to Subparagraph (E)(7) ~~of seventeen and six tenths cents (\$0.176)~~, all multiplied by a yield factor of ten and two tenths (10.2) ~~ten (10)~~.

- (b) The price per hundredweight computed by the formula using the simple average of the Grade AA butter price quotations for the last significant trading action for the sale, offer or bid of butter at the Chicago Mercantile Exchange or the Commodity Credit Corporation Dairy Support Program purchase price for Grade AA butter in effect, which ever is higher, less a manufacturing cost allowance of twelve cents (\$0.12) ~~nine and seven-tenths cents (\$0.097)~~, less ten cents (\$0.10), all multiplied by a yield factor of twenty-seven-hundredths (0.27).
- (c) The price per hundredweight computed by the formula using the dry whey price, less a manufacturing cost allowance of fifteen and nine tenths cents (\$0.159), all multiplied by a yield factor of five (5.0).
- (2) For all milk fat, the price per pound computed pursuant to Subparagraph (D)(1) of this Section.
- (3) For all milk solids-not-fat, the price per pound computed by the formula using the Cheese hundredweight price established pursuant to Subparagraph (E)(1) less the product of three and sixty-five hundredths (3.65) multiplied by the Class 4b fat price established pursuant to Subparagraph (E)(2), all divided by eight and seventy-eight hundredths (8.78).
- (4) In the event the Chicago Mercantile Exchange 40 pound block Cheddar price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the cheese price used in the prior month's calculation of the Cheese hundredweight price.
- (5) In the event that the Chicago Mercantile Exchange Grade AA butter price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Grade AA butter price used in the prior month's calculation of the Cheese hundredweight price.
- (6) The butter and Cheddar cheese prices used in calculations pursuant this Paragraph shall be those released by the Chicago Mercantile Exchange

between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.

(7) The whey price used in calculations pursuant to Subparagraph (E)(1)(c) shall be the simple average of the Western Mostly dry whey as published in the United States Department of Agriculture falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.

(8) The manufacturing cost allowance used in Subparagraph (E)(1)(a) shall be seventeen and thirty-five hundredth cents (\$0.1735), times the Commodity Reference Price most recently calculated pursuant to Subparagraph (A)(4)(a), divided by the Cost of Production Index.

(F) The Cost of Production Index used in Subparagraphs (D)(6), (D)(7) and (E)(7) shall be that most recently published by the California Department of Food and Agriculture.

~~(F)~~ (G) The minimum prices to be paid pursuant to Paragraph (A) of this section shall be computed by the Dairy Marketing Branch and furnished to handlers not less than ten days prior to the effective date of each price change.

~~(G)~~(H) The minimum prices to be paid pursuant to Paragraphs (B), (C), (D), and (E) of this section will be computed by the Dairy Marketing Branch and furnished to handlers each month.

~~(H)~~(I) The minimum price for components used for Class 1, as set forth in Paragraph (A) of this Section, shall be modified only for the period April and May, 1997 and shall be:

1. The fat component price shall be \$1.0004 per pound.
2. The solids-not-fat component prices shall be \$0.9575 per pound.

The fluid carrier component price shall be \$0.0283 per pound.