



Land O'Lakes, Inc.

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June 8, 2006

Mr. David Ikari, Branch Chief
Dairy Marketing Branch
California Department of Food and Agriculture
1220 N Street
Sacramento, California 95814
SENT BY FAX TO: David Ikari, 916-341-6697

Re: Hearing on June 1-2, 2006 to Consider Amendments to the Stabilization and Marketing Plans for Marketing Milk for the Northern California and Southern California Marketing Areas

Dear Mr. Ikari:

Thank you for the opportunity to submit a post-hearing brief. We would like to clarify our testimony, respond to the panel's questions and amplify several points.

First, our position has not changed, including the sharing concept we introduced regarding whey.

Recall that Land O'Lakes supports increasing the whey make allowance to the level reported in the CDFA cost study, adjusting the allowance with updated energy and labor costs (from the period January 2005 through September 2005) and adding a variable component based on the prevailing whey market price.

We want to clarify the accuracy of the written statement submitted for the hearing record. Specifically, the fourth paragraph on page 3 of our statement should read:

Land O' Lakes supports adjusting the make allowances for cheese and nonfat dry milk powder based upon CDFA adjusted weighted average costs including the energy and labor updates for the period January 2005 through September 2005 for cheese and nonfat dry milk powder. Land O' Lakes recommends a change in the price adjusters for butter and cheese based upon audited survey results by CDFA. We recommend a price adjuster of \$0.0168 for butter and a price adjuster of \$0.0252 for cheese. On make allowances, we support the continued make allowance of \$0.156 per pound for butter, adjusting the make allowance to \$0.1591 per pound for powder and adjusting the make allowance to \$0.1791 per pound for cheese.

The panel requested Land O' Lakes to clarify our position on the price adjusters for butter and cheese and make allowances for butter, powder and cheese.

To reiterate, Land O' Lakes supports using the CDFA audited results to update the price adjusters for butter and cheese. We agree that the best approach in estimating the relationship between the monthly CME prices and monthly California prices is to take a simple average of the monthly differences between the two prices. Specifically, Land O' Lakes supports the use of the simple average of the CME prices and simple average audited sales information of salted butter and the sales of 40-pound blocks of cheese from January 2004 to December 2005. There is no practical reason why one month's price differences should be weighted more heavily than another month's price differences. In fact, the hearing panel in its 2005 report agreed with this approach.

With respect to make allowance adjustments for butter and cheese, we support the use of the weighted average cost audit results by CDFA including the energy and labor updates for the most recent cost audit of the powder and cheese plants. We observed that the weighted average cost for the butter plants including the energy and labor updates is less than the current make allowance. Therefore, we recommend no change in the make allowance for butter.

We support the adjustment of the whey make allowance to \$0.2742 per pound. The recent cost audit of the plants making whey validates the 2003 cost audit. Again, to be consistent we based the adjustment of the skim whey powder make allowance to \$0.2742 on the weighted average cost audit results for plants making skim whey powder including the energy and labor updates.

We understand the CDFA only performs cost audits for cheese plants that manufacture block cheddar cheese. As the panel realizes, many processors in California, including Land O' Lakes, operate plants that make varieties other than cheddar blocks. This means that the new Land O' Lakes operation in Tulare, with high front-end loaded fixed costs, is not included in the weighted average cost audit for cheese plants. Accordingly, our plant and others that produce varieties excluding cheddar are not included in the CDFA survey and have cost factors, (e.g., returns on investment, capital, etc.) unique to their operations.

The panel requested Land O' Lakes clarify the volume of non-member milk received at our plant in Tulare.

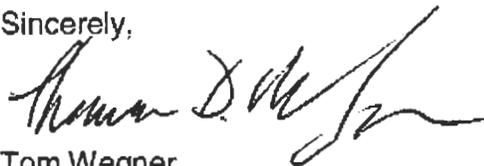
We currently handle 1.5 million pounds of milk per day under contract for non-members at our Tulare plant. In addition, we have accepted spot loads of milk when there is sufficient room. More often than not, we have had more offers than we could accept. As milk from our own producer members grows we will gradually terminate contracts to handle non-member milk at our Tulare plant.

The inadequacies of the current cheese and whey make allowances have led to sub-par returns on Land O' Lakes member owners' investments. As a result of these sub-par returns, nine Land O' Lakes members have chosen to terminate their milk supply contracts since January 1, 2005.

Land O' Lakes member owners' return on investment from the CPI mozzarella plant is influenced greatly by the current cheese make allowance and whey formula. In fact, the returns on investment in the Tulare operations have been negative. The future profitability of the Tulare and Orland cheese operations will be largely influenced by the cheese make allowance and the whey formula.

Thank you again for the opportunity to file a brief and for your consideration of addressing the components of the Class 4b formula. These issues are of critical importance to the member owners of Land O' Lakes.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Wegner", written in a cursive style.

Tom Wegner
Director of Economics and Dairy Policy