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September 26, 2007

The Honorable A.G. Kawamura
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

Re: Alternative Proposal for the October 10, 2007 Class 4a and 4b Hearing

Dear Secretary Kawamura:

The Alliance of Western Milk Producers, Milk Producers Council and Western United Dairymen respectfully submit this alternative proposal for the October 10, 2007 consolidated public hearing to consider amendments to the Stabilization and Marketing Plans for Market Milk for the Northern and Southern California Marketing Areas and to the Pooling Plan for Market Milk.

The original petitioners called for the elimination of the whey component portion of the Class 4b price formula. That action is far too dramatic and involves the assumption that whey has a net value of zero. History contradicts this assumption, as the whey stream has returned millions of dollars annually to the pool. The purpose of our alternative is to focus the adjustments to those plants that process volumes of milk below a level that could support an investment in whey processing equipment. The proposal allows a credit for all plants on the first 100,000 pounds of bulk milk they process daily.

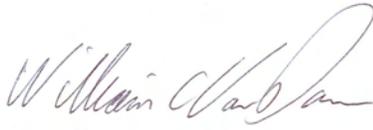
Specifically, we propose the implementation of a "dry whey credit" provided to Class 4b manufacturing plants up to 264,480 pounds solids not fat monthly used in the production of cheese. The credit will be valued at the dry whey price as determined in Section 300 (E)(1)(c) of the applicable Stabilization and Marketing Plan, divided by 8.7. Furthermore, we propose an alternative method to setting the manufacturing cost allowance for dry whey (nonfat dry milk manufacturing cost allowance plus \$0.03 per pound) and the implementation of a snubber on the dry whey component of the Class 4b formula to prevent the whey component of the Class 4b formula from becoming negative, and, consequently, a draw on the pool.

Our proposed language for the Northern and Southern California Stabilization Plans and Pooling Plan for Market Milk are attached. We suggest modifications to Section 300 (E)(1)(c) of the applicable Stabilization plans as well as the addition of Section 300.3 (G) to the applicable Stabilization plans. Finally, for implementation purposes, we suggest the addition of Section 900 (e) and (f) and Section 901 (d) to the Milk Pooling Plan.

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We thank you for your careful consideration of this alternative proposal.

Very truly yours,



Bill Van Dam
Alliance of Western Milk Producers



Geoffrey Vanden Heuvel
Milk Producers Council



Michael L. H. Marsh
Western United Dairymen

cc: George Gomes, Undersecretary
Kelly Krug, Director, Marketing Services
David Ikari, Dairy Marketing Branch Chief
John Lee, Milk Pooling Branch Chief

Proposed Language Changes to the Northern and Southern California Stabilization and Marketing Plans

Section 300.0

- (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 the formula using the Cheddar cheese price, less an f.o.b. price adjuster of two and fifty-two hundredths cents (\$0.0252), less a Cheddar cheese manufacturing cost allowance of seventeen and eight tenths cents (\$0.178), all multiplied by a yield factor of ten and two-tenths (10.2).
 - b) The price per hundredweight computed by the formula using the butter price, less a manufacturing cost allowance of fifteen and six tenths cents (\$0.156), 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 ~~twenty six and seven tenths cents (\$0.267)~~ set equal to the nonfat dry milk manufacturing cost allowance in Section 300.0 (D)(2) plus three cents (\$0.0300), all multiplied by a yield factor of 5.8; provided this value shall not be less than zero.**
 - (2) For all milk fat, not less than the price per pound computed pursuant to Subparagraph (D)(1) of this Section.
 - (3) For all milk solids-not-fat, not less than 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 seventy-two hundredths (3.72) multiplied by the Class 4b fat price established pursuant to Subparagraph (E)(2), all divided by eight and eighty hundredths (8.80).
 - (4) The Cheddar cheese price used in calculations pursuant to this Paragraph shall be the simple average of the 40 pound block Cheddar cheese price quotations for the last significant trading action for sale, offer or bid at 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.
 - (5) The butter prices used in calculations pursuant this Paragraph shall be the simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid at 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.
 - (6) The dry whey prices used in calculations pursuant to this Paragraph shall be the simple average of the Dry Whey-West Mostly prices as published in Dairy Market News between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.
 - (7) In the event the Chicago Mercantile Exchange 40 pound block Cheddar cheese 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.

- (8) In the event 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 price used in the prior month's calculation of the Cheese hundredweight price.
- (9) In the event that the Dry Whey – West Mostly price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Dry Whey – West Mostly price used in the prior month's calculation of the Cheese hundredweight price.

Section 300.3

(G) Each handlers' plant located in California purchasing milk for Class 4b utilization in the current month may deduct a dry whey credit for quantities of solids not fat processed equal to the value determined in Section 300 (E)(1)(c), divided by 8.7, not to exceed 264,480 of solids not fat per month.

Proposed Language Changes to the Pooling Plan

Article 9

Section 900. The gross pool obligation of each handler for each of the plants or for a cooperative association acting as a handler under Paragraph 105(c) shall be computed as follows:

Add new paragraphs

(e) Deduct from the amounts calculated in Section 900 above the dry whey credit determined pursuant to Section 300.3 (G) of the applicable Stabilization Plan for plants operated by the handler.

(f) Deduct any dry whey credit earned by non pool plants to which Class 4b milk has been supplied by a pool handler. Any such dry whey credits must be supported by documentation that identifies each non pool plant given the credit and supported by an agreement letter between the pool handler and the non pool plant that verifies that the non pool plant is eligible for the credit and that the non pool plant is the sole reporter of said credit.

Section 901. The total pounds of milk in each class and the pool value thereof shall be computed by the secretary as follows:

Add new paragraph

(d) For the current month:

(1) Multiply the sum of the pounds of solids not fat that are eligible for the dry whey credit pursuant to Section 300.3 (G) of the appropriate Stabilization and Marketing Plan times the dry whey credit as determined in Section 300.3 (G); and

(2) Deduct from the total value of the Class 4b solids not fat, the amount calculated under Subparagraph (1). The resulting value for each class shall be utilized in computing the prices under Section 902, 903 and 904 or 906.