

September 25, 2007

David Ikari, Branch Chief
Dairy Marketing
California Department of Food and Agriculture
1220 N Street
Sacramento, California 95814

Dear Mr. Ikari:

Land O' Lakes is filing an alternative proposal for the Consolidated Public Hearing on October 10, 2007, to Consider Amendments to the Stabilization and Marketing plans for Market Milk for the Northern California and Southern California Marketing Areas.

Our alternative proposal is to change some of the make allowances and/or price adjusters for butter, cheese and whey based upon weighted average cost information and other data supplied by CDFA.

Class 4a

Current formula

Fat=(CME butter price - \$0.0168 - \$0.156) x 1.2

SNF=(CA weighted Average NFDM price - \$.16)

Proposed formula

Fat=(CME butter price - \$.028 - \$0.156) x 1.2

SNF=(Ca Weighted Average NFDM price - \$0.1664)

For butter we are basing the recommended price adjuster on the simple difference between the CME price and prices received by plants for 12 months ending August 2007. We are recommending maintaining the current make allowance on butter at .156 per pound.

For powder we are recommending that the make allowance be increased from the current \$.16 per pound to \$.1664 per pound which matches the weighted average cost for powder in the most recent CDFA cost study.

Class 4b

Current formula

Cheese class 4b = (CME 40# cheddar block price - \$0.0252 - \$0.178) x 10.2
 +(CME Butter price - \$.10 - \$0.156) x .27
 -(Western Dry Whey Price - \$0.267) x 5.8

Fat = Class 4a Fat price
 SNF = (Cheese CWT - (3.72 x Class 4b fat price))/8.8

Proposed Formula

Cheese Cwt = (CME 40# Cheddar Block Price - \$0.0252 - \$0.1988) x 10.2
 +(CME Butter price - \$0.10 - \$0.156) x .27
 +(Western Dry Whey Price - \$0.2734) x 5.8

Fat Price = Class 4a Fat Price
 SNF = (Cheese CWT - (3.72 x Class 4b fat price))/8.8

The fob adjuster matches the 24-month difference between the CME price and the prices received by cheese plants and so we recommend no change in the price adjuster for cheese. The proposed make allowance for cheddar cheese is the weighted average manufacturing cost for cheese from the most recent CDFA cost survey. The recommended whey make allowance is based upon the difference between the current manufacturing allowance for NFDM compared to whey. The current difference is \$0.107 per pound which reflects the difference between the current make allowance of whey at \$0.267 and the current NFDM make allowance of \$0.16 per pound. Since we are recommending an increase in the make allowance from \$0.16 per pound to \$0.1664 per pound, we simply increase the whey make allowance by \$0.0064 per pound or to \$0.2734 per pound. One large reason for this recommendation is that this might be the last year that CDFA can publish weighted average cost study results for whey without revealing confidential information. Therefore, we are recommending that at least for this year we use the established difference in the make allowances for whey and NFDM that currently exist (i.e., \$0.107 per pound) and apply that difference to the new make allowance for NFDM to arrive at the proposed whey make allowance of \$0.2734 per pound.

Land O' Lakes is very concerned about the apparent lack of manufacturing capacity in California and we believe it is absolutely essential to make changes in the Class 4a and 4b formulas to encourage the development of additional manufacturing capacity in California.

Specific language and changes thereto based upon Land O' Lakes alternative proposal;

Northern and Southern California Stabilization and Marketing Plan

I. Article III

Section 300.0

(D) The minimum prices to be paid for components 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 butter price, less an f.o.b. California price adjuster of two and eight tenths cents (\$0.028), less a manufacturing allowance of fifteen and six-tenths cents (\$0.156), and the result multiplied by a yield factor of one and two-tenths (1.2).
- (2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the nonfat dry milk price, less a manufacturing cost allowance of sixteen and sixty-four hundredths cents (\$0.1664), multiplied by a yield factor of one (1.0).
- (3) (4), (5) (6) remain the same as now.

(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. California price adjuster of two and fifty-two hundredths cents (\$0.0252), less a Cheddar cheese manufacturing cost allowance of nineteen and eighty-eight hundredths cents (\$0.1988), 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 allowance of twenty-seven and thirty-four hundredths cents (\$0.2734), all multiplied by a yield factor of 5.8.

(E) (2), (3), (4), (5), (6), (7), (8), and (9) all remain the same.

Thank you for your consideration.

Sincerely,


James W. Gruebele