

The amendments proposed here would amount to a reduction in Class 1 prices of about \$1.35 per hundredweight and are being made to address competitive concerns raised by pricing policy changes in both federal and other states' milk marketing orders, structural changes in interstate Class 1 price relationships, and structural changes in intra-state price relationships between the various classes of milk. In particular, the spread between California Class 1 and overbase prices has widened significantly in the past two years. This widening gap has resulted in a situation where class prices within California are no longer in reasonable alignment with one another.

The situation generated by this intrastate price misalignment puts too high a burden on the state's Class 1 consumers given current market conditions. Also, the widening spread between the classes puts California-based processors at a competitive disadvantage relative to out-of-state processors who purchase California milk and further disadvantages fully regulated California Class 1 processors compared to their partially regulated California competitors.

With regard to Classes 2 and 3, we are proposing the following amendments.

1. Eliminate the differentials that are added to the average Class 4a fat price for Classes 2 and 3 in both marketing areas. For Northern California, this would be a reduction in Class 2 and 3 fat prices of \$0.037 per pound. For Southern California this would mean a reduction in Class 2 and 3 fat prices of \$0.0393 per pound.
2. Reduce the differentials that are added to the Class 4a solids not fat price by \$0.0153 per pound for Classes 2 and 3 in both marketing areas.

The per hundredweight price changes indicated by the proposed component price changes would be a reduction of about 26 cents per hundredweight for Northern California and 27 cents per hundredweight for Southern California. The amendments are being proposed for the purpose of restoring the price relationship that has hitherto existed between California Class 2 & 3 prices and Federal Class II prices after the impending change to manufacturing allowances in the Federal orders takes effect on October 1, 2008.

Thank you for your consideration of our alternative proposal.

Sincerely,

William Schiek
Economist

Southern California Marketing Area

Article III - Class Prices

Section 300.0. The minimum class prices for the milk fat and skim milk components of market milk, market cream, and market skim milk f.o.b. the pool plant or nonpool plant located within this Marketing Area where the milk was first received from producers, shall be as follows:

- (A) The minimum monthly prices for components used for Class 1 shall be determined prior to the beginning of each month, using the following formulas and procedures, except as such formulas and procedures may be modified by Paragraph (H) of this Section:
- (1) For all milk fat, not less than the price per pound computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less a butter adjuster of ~~eleven and eight tenths cents (\$0.118)~~ **thirteen and fifteen-hundredths cents (\$0.1315)**, and the result multiplied by a yield factor of 1.2.
 - (2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, ~~plus fourteen and seven tenths cents (\$0.147)~~ **less one hundred twenty and three-tenths cents (\$1.203)**, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.76 and divided by 8.7.
 - (3) For all fluid carrier, not less than the price per pound computed by the formula using the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, ~~plus fourteen and seven tenths cents (\$0.147)~~ **less one hundred twenty and three-tenths cents (\$1.203)**, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24 and divided by 87.8.
- (B) The minimum bimonthly prices for components used for Class 2 shall be determined at the beginning of each even month, using the following formulas and procedures:
- (1) For all milk fat, not less than the Average Class 4a fat price ~~plus three and ninety-three hundredths cents (\$0.0393)~~ per pound.
 - (2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price ~~plus nine and one hundredths cents (\$0.0901)~~ **seven and forty-eight hundredths cents (\$0.0748)** per pound.

(C) The minimum bimonthly prices for components used for Class 3 shall be determined at the beginning of each even month, using the following formulas and procedures:

- (1) For all milk fat, not less than the Average Class 4a fat price ~~plus three and ninety-three hundredths cents (\$0.0393) per pound.~~
- (2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus ~~five and eighty-six hundredths cents (\$0.0586)~~ **four and thirty-three hundredths cents (\$0.0433)** per pound.

Northern California Marketing Area

Article III - Class Prices

Section 300.0. The minimum class prices for the milk fat and skim milk components of market milk, market cream, and market skim milk f.o.b. the pool plant or nonpool plant located within this Marketing Area where the milk was first received from producers, shall be as follows:

- (A) The minimum monthly prices for components used for Class 1 shall be determined prior to the beginning of each month, using the following formulas and procedures, except as such formulas and procedures may be modified by Paragraph (H) of this Section:
- (1) For all milk fat, not less than the price per pound computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less a butter adjuster of ~~eleven and eight tenths cents (\$0.118)~~ **thirteen and fifteen-hundredths cents (\$0.1315)**, and the result multiplied by a yield factor of 1.2.
 - (2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, ~~plus fourteen and seven tenths cents (\$0.147)~~ **less one hundred twenty and three-tenths cents (\$1.203)**, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.76 and divided by 8.7.
 - (3) For all fluid carrier, not less than the price per pound computed by the formula using the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, ~~plus fourteen and seven tenths cents (\$0.147)~~ **less one hundred twenty and three-tenths cents (\$1.203)**, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24 and divided by 87.8, and then \$0.0031 per pound subtracted from the result.
- (B) The minimum bimonthly prices for components used for Class 2 shall be determined at the beginning of each even month, using the following formulas and procedures:
- (1) For all milk fat, not less than the Average Class 4a fat price ~~plus three seven tenths cents (\$0.037)~~ per pound.
 - (2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus ~~six and forty three hundredths cents (\$0.0643)~~ **four and nine-tenths cents (\$0.049)** per pound.

(C) The minimum bimonthly prices for components used for Class 3 shall be determined at the beginning of each even month, using the following formulas and procedures:

- (1) For all milk fat, not less than the Average Class 4a fat price ~~plus three and seven-tenths cents (\$0.037)~~ per pound.
- (2) For all milk solids-not-fat, not less than the Average Class 4a solids-not-fat price plus ~~five and eighty-six hundredths cents (\$0.0586)~~ **four and thirty-three hundredths cents (\$0.0433)** per pound.