



October 28, 2009

Mr. David Ikari, Chief
Dairy Marketing Branch
California Department of Food and Agriculture
560 J Street, Suite 150
Sacramento, CA 95814

RE: Alternative Proposal for Class 1, 2, 3, 4a and 4b Hearing

Dear Mr. Ikari:

On behalf of its producer-members, California Dairies, Inc. (CDI) respectfully submits this alternative proposal in response to the Notice of Public Hearing issued October 19, 2009. The Call of the Hearing establishes that the parameters to be considered at the hearing have been set broadly in that, "...any other temporary or permanent changes to the Class 1, 2, 3, 4a and 4b pricing formulas to address emergency conditions..." will be considered.

The release of the Department's latest Manufacturing Cost Exhibit on October 1, 2009 provides ample evidence to suggest the manufacturing cost allowances for butter and nonfat dry milk should be increased. Given the current status of the dairy industry, we had not planned on making a proposal for higher manufacturing cost allowances until a later date. However, the submission of the petition by Western United Dairymen and the subsequent announcement by the Department to consider a wide variety of topics affecting any of the classes of milk has forced CDI to take the position of proposing higher manufacturing cost allowances at this hearing instead of waiting for a later and more appropriate date. In addition, we are also proposing an increase in the butter f.o.b. price adjuster to reflect the most current butter sales information that has been provided to the Department by California butter manufacturers.

Proposed Class 4a Pricing Formula

CDI proposes that the following formula for Class 4a milk be adopted:

$$\text{Fat} = (\text{CME AA Butter Price} - \$0.0475 - \$0.1740) \times 1.2$$

$$\text{SNF} = (\text{California NFDM Price} - \$0.1965) \times 1.0$$

CDI's proposed changes are consistent with the objectives stated in previous hearings — the Class 4a formula should reflect the most currently available cost-justified changes. This applies to not only the manufacturing cost allowances for butter and nonfat dry

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milk but to the f.o.b. price adjuster for butter as well. Simply, the manufacturing cost allowances should be consistent with actual costs for processing, and the butter commodity price should be adjusted by a factor that reflects what California plants actually receive for the products they produce.

CDI's proposal amends the butter and nonfat dry milk manufacturing cost allowances by the increase in the weighted average of the costs from 2007 to 2009, with 2007 being the last time the manufacturing cost allowances were adjusted. That is to say, CDI's proposal would increase the manufacturing costs for butter and nonfat dry milk by the difference of the weighted average costs reported in the 2007 manufacturing cost exhibits and of the weighted average costs reported in the 2009 manufacturing cost exhibits. The Department's data verifies that the cost to manufacture butter increased by 1.8¢ per pound, and the cost to manufacture nonfat dry milk increased by 2.67¢ per pound

To be consistent with past practices, the Department should also consider adjustments to the f.o.b. price adjuster for butter at the same time that it is considering manufacturing cost allowance changes. Unfortunately, the Department has not published the most current data, and, therefore, we must substitute a butter f.o.b. price adjuster that reflects the relationship between butter prices received by CDI and the Chicago Mercantile Exchange (CME) butter price. This difference is 4.75¢ per pound and has been included in our proposal.

The attached extracts from the current Stabilization and Marketing Plans for Northern California and Southern California and for the Pooling Plan for Market Milk reflect CDI's proposed amendments.

Thank you for your consideration of CDI's alternative proposal.



Sincerely,
Dr. Eric M. Erba
Sr. VP Producer & Government Relations
California Dairies, Inc.

Proposed Changes to Article III, Section 300.0 of the Stabilization and Marketing Plans for Northern California (Plan 53) and Southern California (Plan 68):

(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 butter price, less an f.o.b. California price adjuster of ~~three and nine hundredths cents (\$0.0309)~~ four and seventy five-hundredths cents (\$0.0475), less a manufacturing cost allowance of ~~fifteen and six tenths cents (\$0.156)~~ seventeen and four-tenths cents (\$0.1740), 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 ninety eight hundredths cents (\$0.1698)~~ nineteen and sixty five-hundredths cents (\$0.1965), multiplied by a yield factor of one (1.0).