



January 3, 2012

Ms. Candace Gates, Chief
Dairy Marketing Branch
California Department of Food and Agriculture
560 J Street, Suite 150
Sacramento, CA 95814

RE: Petition for Class 4a Hearing

Dear Ms. Gates:

On behalf of its producer–members, California Dairies, Inc. (CDI) respectfully submits this petition for public hearing to consider changes to the Class 4a pricing formula. We are aware that the manufacturing cost allowances for butter and powder and the butter f.o.b. price adjuster were changed, effective September 1st, 2011. However, data collected and published by the California Department of Food and Agriculture in October 2011 indicates that further adjustments to the butter and powder manufacturing cost allowances are warranted.

Proposed Class 4a Pricing Formula

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

$$\text{Fat} = (\text{CME AA Butter Price} - \$0.0449 - \$0.1781) \times 1.2$$

$$\text{SNF} = (\text{California NFDM Price} - \$0.2070) \times 1.0$$

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 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 market.

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Ms. Candace Gates
Page 2

CDI's proposal amends the Class 4a pricing formula by increasing the butter and nonfat dry milk manufacturing cost allowances to the weighted average cost for both commodities, as published in the October 2011 cost Manufacturing Cost Exhibit. The Department's data verifies that the cost to manufacture butter is \$0.1781 per pound, an increase of 1.46¢ per pound over the current manufacturing cost allowance for butter. Similarly, the cost exhibit verifies that the cost to producer nonfat dry milk is \$0.2070 per pound, an increase of 3.07¢ per pound over the current manufacturing cost allowance for nonfat dry milk.

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 in the Class 4a pricing formula. The Department's data shows that the difference was 4.49¢ per pound for the 24-month period ended August 2011, which is actually a decrease of 0.36¢ per pound.

The attached extracts from the current Stabilization and Marketing Plans for Northern California and Southern California (the sections for the Class 4a pricing formula are identical for both Plans) reflect CDI's proposed amendments.

Thank you for your consideration of CDI's petition.



Sincerely,
Dr. Eric M. Erba
Sr. VP Administrative Affairs
California Dairies, Inc.

Proposed Changes to Article III, Section 300.0 of the Stabilization and Marketing Plans for Northern California (Plan 55) and Southern California (Plan 70):

(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 ~~four and eighty-five hundredths cents (\$0.0485)~~ four and forty-nine hundredths cents (\$0.0449), less a manufacturing cost allowance of ~~sixteen and thirty-five hundredths cents (\$0.1635)~~ seventeen and eighty-one hundredths cents (\$0.1781), 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 ~~seventeen and sixty-three hundredths cents (\$0.1763)~~ twenty and seventy hundredths cents (\$0.2070), multiplied by a yield factor of one (1.0).