June 16, 2014

Ms. Karen Ross, Secretary
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

RE: Petition for Class 4a Hearing

Dear Secretary Ross:

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 note that the manufacturing cost allowances for butter and powder and the butter f.o.b. price adjuster were last changed September 1st, 2011. However, all of the manufacturing cost data collected and published by the California Department of Food and Agriculture (Department) since then indicates that the trend is toward higher costs, and further adjustments to the butter and powder manufacturing cost allowances are both warranted and justified.

We appreciate the work being done by the Dairy Future Task Force (Task Force) and the ambitious goal of examining the milk pricing and regulatory systems with the intent of developing a foundation to ensure a better future for the California dairy industry. CDI has been an active participant on several fronts since the creation of the Task Force in 2012, and we continue to devote time and resources to the efforts. While we fully support the work and intent of the Task Force, we must request that the Department consider updating the butter and nonfat dry milk manufacturing costs as the Task Force continues to look for new and innovative solutions to price milk. As the largest butter and milk powder manufacturer in the state, we cannot simply ignore the fact that our processing costs are higher than the manufacturing cost allowances in the Class 4a pricing formula might suggest. We also cannot overlook the implications that static manufacturing cost allowances have on all California Class 4a and 4b operations.

Proposed Class 4a Pricing Formula

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

Fat = (CME AA Butter Price - $0.0485 - $0.1688) x 1.2

SNF = (California NFDM Price - $0.1999) x 1.0

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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 November 2013 cost Manufacturing Cost Exhibit, which represent the most recent data to which we have access. The Department's data verifies that the cost to manufacture butter is $0.1688 per pound, an increase of 0.53¢ per pound over the current manufacturing cost allowance for butter. Similarly, the cost exhibit verifies that the cost to produce nonfat dry milk is $0.1999 per pound, an increase of 2.36¢ per pound over the current manufacturing cost allowance for nonfat dry milk.

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. Unfortunately, we have no current information on the f.o.b. price adjuster for butter and have consequently left the adjuster unmodified. Furthermore, we understand that a new round of cost studies is underway, but we do not expect the Department to release published results for another five months. We do not feel we can wait until November to address the shortfalls in the manufacturing cost allowances. We ask that our petition be granted and that a hearing date be chosen as soon as possible.

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 & Chief Strategy Officer

Proposed Changes to Article III, Section 300.0 of the Stabilization and Marketing Plans for Northern California (Plan 60) and Southern California (Plan 75):

(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), less a manufacturing cost allowance of ~~sixteen and thirty-five hundredths cents ($0.1635)~~ sixteen and eighty-eight hundredths cents ($0.1688), 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)~~ nineteen and ninety-nine hundredths cents ($0.1999), multiplied by a yield factor of one (1.0).