

**DEPARTMENT OF FOOD AND AGRICULTURE**

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**William (Bill) J. Lyons, Jr., Secretary**

May 21, 2002

Mr. Scott Magnuson  
California Dairy Campaign  
PO Box 2044  
Turlock, CA 95381

Dear Mr. Magnuson:

This letter is in response to the petition for a public hearing submitted to the Department on May 9, 2002, by the California Dairy Campaign, and the subsequent amendment to the proposal received on May 15. The Department has decided not to call a hearing at this time.

Your letter requested a hearing to lower manufacturing cost allowances. The Department accumulates cost data on a continuing basis, including energy components. On May 30, the Department will be meeting with the Dairy Advisory Committee (DAC). At the meeting we will discuss several industry requests received for updated studies and analyses. One of the requests calls for an update of the energy component of dairy manufactured costs.

Discussions at the DAC meeting will help the Department assess the direction for future dairy cost studies. After additional manufactured cost data has been reviewed, the Department will evaluate the need for a hearing. Currently, we are not aware of significant changes in energy costs since our fall 2001 hearing.

Regarding the differences between California Class 4b and the federal Class III, the policy issues are complex. Factors such as competitive conditions in unregulated geographic areas and Federal Order rules that allow for easy plant depooling must be carefully considered. The differences in Class 4b and Class III prices comprise a portion of policy analysis.

USDA has indicated that it may make adjustments to its Class III and Class IV pricing formulas. Until such adjustments are clarified, a public hearing on the difference between the two pricing systems is premature.

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We recognize the considerable effort your organization puts forth to engage in meaningful discussion regarding the California dairy pricing program. We suggest you may also wish to stay involved with the Dairy Advisory Committee. We have enclosed a copy of the upcoming meeting agenda for your reference.

Sincerely,

Kelly Krug  
Director

Enclosure