

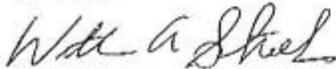
David Ikari - page 2

Dairy Institute is proposing the addition of a dry whey factor into the cheese-whey cream portion of the Commodity Reference Price (CRP) calculation to improve the tracking of California Class 1 prices with those in surrounding states, which are driven by Federal Order pricing formulas. The Federal formulas currently include a dry whey factor and California formulas do not. In recent years, dry whey prices have become quite volatile, and the disparity between the California and Federal formulas has created a disconnect between the Class 1 price movements in California compared to those in surrounding states. Our proposed adjustment will result in better alignment of prices through time and over a broader range of dairy commodity market prices.

Dairy Institute is also proposing a change to the formula factor known as the CRP adjuster. Currently, this adjuster has a value of +\$0.464 in the formulas that compute the component prices for Class 1 solids not fat and Class 1 fluid carrier. We advocate changing the adjuster to a new value of -\$0.17 both as a means of accommodating the addition of the dry whey factor to the CRP calculation and to establish an appropriate level for California's Class 1 price differential given the state's status of being the regulated dairy market with the nation's lowest Class 1 utilization.

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 ten cents (~~\$0.10~~ *\$0.118*), 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 forty-six and four-tenths cents (\$0.464)~~ *less seventeen cents (\$0.17)*, 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 forty-six and four-tenths cents (\$0.464)~~ *less seventeen cents (\$0.17)*, 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.
 - (4) The Commodity Reference Price per hundredweight shall be the higher of either:
 - (a) The sum of the following ~~two~~ *three* formulas:
 - (i) The price per hundredweight computed by the formula using the Cheddar cheese price determined pursuant to Subparagraph (A)(6) of this Section, multiplied by a Cheddar cheese yield factor of nine and eight-tenths (9.8).
 - (ii) The price per hundredweight computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less ten cents (\$0.10), all multiplied by a whey butter yield factor of twenty-seven-hundredths (0.27).

- (iii) *The price per hundredweight computed by the formula using the dry whey price determined pursuant to Subparagraph (A)(8) of this Section, multiplied by a dry whey yield factor of 5.8, and subtract from the result eighty-five cents (\$0.85).*
- (b) The sum of the following two formulas:

 - (i) The price per hundredweight computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, multiplied by a butter yield factor of 1.2, and the result multiplied by 3.5.
 - (ii) The price per hundredweight computed by the formula using the nonfat dry milk price determined pursuant to Subparagraph (A)(7) of this Section, multiplied by a nonfat dry milk yield factor of 0.99, and the result multiplied by 8.7.
- (5) The butter price used in calculations pursuant to Paragraph (A) shall be the simple average of the daily closing Grade AA butter prices at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the second previous month and concluding the 10th day of the previous month. In the event that Chicago Mercantile Exchange Grade AA butter prices are not available to calculate the butter price fifteen days prior to the effective date of the Class 1 pricing period concerned, then used in its place shall be the butter price used in the previous month's calculation.
- (6) The Cheddar cheese price used in calculations pursuant to Paragraph (A) shall be the simple average of the daily closing 40 pound block Cheddar cheese prices at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the second previous month and concluding the 10th day of the previous month. In the event that Chicago Mercantile Exchange 40 pound block Cheddar prices are not available to calculate the Cheddar cheese price fifteen days prior to the effective date of the Class 1 pricing period concerned, then used in its place shall be the Cheddar cheese price used in the previous month's calculation.
- (7) The nonfat dry milk price used in calculations pursuant to Paragraph (A) shall be the weighted average of the two most recent weekly price reports for nonfat dry milk f.o.b. California manufacturing plants available on the 10th day of the previous month. The weekly reports are used to calculate the weighted average price per pound for all Grade A and extra grade nonfat dry milk for human consumption sold f.o.b. California manufacturing plants for the seven day period ending on Friday as reported by the California Department of Food and Agriculture.

- (8) *The dry whey price used in calculations pursuant to Paragraph (A) shall be the simple average of the two most recent weekly midpoints of the Dry Whey –West Mostly price range as published in Dairy Market News available on the 10th day of the previous month.*
- (9) ~~(8)~~ For any month in which the Secretary implements the collection of security charges provided for in Chapter 2.5, Part 3, Division 21 of the Food and Agricultural Code, the minimum Class 1 prices shall be increased by the following amounts:
 - (a) For milk fat, five and seven-tenths mils (\$0.0057) per pound.
 - (b) For milk solids-not-fat, two and three-tenths mils (\$0.0023) per pound.
 - (c) For fluid carrier, one-tenth mil (\$0.0001) 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:

- (B) 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 ten cents (~~\$0.10~~ *\$0.118*), 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 forty-six and four-tenths cents (\$0.464)~~ *less seventeen cents (\$0.17)*, 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 forty-six and four-tenths cents (\$0.464)~~ *less seventeen cents (\$0.17)*, 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.
 - (4) The Commodity Reference Price per hundredweight shall be the higher of either:
 - (a) The sum of the following ~~two~~ *three* formulas:
 - (i) The price per hundredweight computed by the formula using the Cheddar cheese price determined pursuant to Subparagraph (A)(6) of this Section, multiplied by a Cheddar cheese yield factor of nine and eight-tenths (9.8).
 - (ii) The price per hundredweight computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less ten cents (\$0.10), all multiplied by a whey butter yield factor of twenty-seven-hundredths (0.27).

- (8) *The dry whey price used in calculations pursuant to Paragraph (A) shall be the simple average of the two most recent weekly midpoints of the Dry Whey –West Mostly price range as published in Dairy Market News available on the 10th day of the previous month.*
 - (9) ~~(8)~~ For any month in which the Secretary implements the collection of security charges provided for in Chapter 2.5, Part 3, Division 21 of the Food and Agricultural Code, the minimum Class 1 prices shall be increased by the following amounts:
 - (a) For milk fat, five and seven-tenths mils (\$0.0057) per pound.
 - (b) For milk solids-not-fat, two and three-tenths mils (\$0.0023) per pound.
 - (c) For fluid carrier, one-tenth mil (\$0.0001) per pound.
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