April 27, 2006

David Ikari, Branch Chief
Dairy Marketing
California Department of Food and Agriculture
1220 N Street
Sacramento, California 95814

Dear Mr. Ikari:

Land O' Lakes is filing an alternative proposal for the Consolidated Public Hearing to Consider Amendments to the Stabilization and Marketing plans for Market Milk for the Northern California and Southern California Marketing Areas.

Our alternative proposal involves the whey portion of the 4b formula. The California Department of Food and Agriculture published cost data for whey plants and those published results are being used to formulate the alternate proposal. The weighted average cost as published by CDFA was .2673 for three whey plants. But we are proposing that the whey make allowance also reflect the energy update for the period January 2005 through September 2005 and that would mean a make allowance of .2742. The LOL proposal is to utilize the .2742 as a make allowance for the whey portion in the formula. The $.2742 includes the energy and labor update. CDFA currently uses the midpoint of the Western Dry whey market as a basis for determining the whey price for the month. Land O' Lakes is proposing a variable whey make allowance. When the whey prices as reported by Dairy Market News exceeds .2742, the whey make allowance is adjusted upward by adding 50 percent of the difference between the whey market price and .2742 and adding that 50% difference to .2742. For example if the whey market in any month were .2942 the .2742 whey make allowance is adjusted upward by $.01 to .2842. Contrariwise when the whey market is below the .2742 then 50 percent of the difference is subtracted from .2742. In other words if the whey market were .2542 in any month, the whey make allowance of .2742 would be adjusted downward by $.01. A proposal of this type would increase the incentive to move whey prices upward. In addition, this proposal provides for a share of the gain between producers and cheese plants. But, it also would provide for a sharing of the pain when the whey markets fall below the established make allowance.

Unless the make allowance for whey is adjusted, as shown above, to reflect the weighted average cost for whey as reflected in the CDFA study, Land O' Lakes recommends the elimination of the whey factor in the Class 4b formula.

Land O' Lakes believes that it is absolutely essential to adjust the whey make allowance to reflect the CDFA cost studies. The current Class 4b formula has had a devastating impact on cheese plants in California. We believe our proposal is very reasonable for both producers and cheese operations in California.

The formal language for our alternative proposal is as follows:

Section (E) © of the Stabilization and Marketing Plan for Market Milk as Amended for the Southern California Marketing Area and for the Northern California Marketing Area

(E) The minimum prices to be paid for components used for Class 4b shall be computed as follows:

© The price per hundredweight computed by the formula using the dry whey price, less a manufacturing cost allowance of twenty-seven and forty two hundredths cents ($.2742) plus .5 times (whey price minus $.2742), all multiplied by a yield factor of 5.8.

Thank you for your consideration.

Sincerely,

James W. Gruebele
Consultant for Land O' Lakes

CC: Kelly Krug
John Lee