



1315 K STREET
MODESTO, CALIFORNIA 95354-0917
TELEPHONE (209) 527-6453
FAX (209) 527-0630

October 21, 2002

The Honorable Bill Lyons, Secretary
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

Re: Petition for a Class 4a and 4b Hearing

Dear Mr. Secretary:

As you are aware, the Department has released updated data on butter and powder yields used in the California Class 4a and 4b pricing formulas. The Department has also indicated (letter dated October 11, 2002) that the study on butter and cheddar cheese sales data as well as manufacturing cost data will be released by November. Based on the findings of the butter and powder yield report, we would like to request a hearing through which several components in the Class 4a and 4b pricing formulas can be updated. We would also like to extend the hearing to include components covered by the reports that will be released in November.

For Class 4a, data released by the Department pertaining to powder yields indicates a weighted average yield of 1.0208 among the 10 powder plants included in the study. When this weighted average is multiplied by the weighted average NFDM and BMP price over the period 1991-2000 of 0.992, the result is 1.013. This study complements data released in 1998 by CDFA that indicated the powder yield, at the low end, should be closer to 1.0111. Also, data pertaining to butter yields indicates a weighted average yield of 1.2183 among the six butter plants included in the study. Based on these findings, proposed changes to the Stabilization and Marketing Plan are attached.

We would also like to request that this hearing be extended to include manufacturing cost allowances as well as the transportation factor for Class 4a. The two reports to be released by the Department in November will provide data on which to base our requested changes.

For Class 4b, we would like to review the yield factor for cheddar cheese and the inclusion of a whey solids component. Dr. Phil Tong, professor at Cal Poly, has recently released data on California milk composition. Data of this nature has never before been available in California. A preliminary review of the data shows composition levels that, when passed through the Van Slyke cheese yield formula, indicate a cheese yield closer to 10.20, rather than the yield of 10 that is currently used. In addition, we are hopeful that the Department's updated cheese yield data (included in the Manufacturing Cost Studies) will be available prior to the hearing. The last study (October 17, 2001) indicated a weighted average cheddar cheese yield of

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10.69. We would like to work with the department and other organizations to ascertain the appropriate cheese yield that should be used. Attached

are proposed changes to the Stabilization and Marketing Plan. These proposed changes are subject to revision when updated data is made available.

As in Class 4a, we would also like to request that this hearing be extended to include manufacturing cost allowances for Class 4b.

We look forward to your response and thank you for your careful consideration of this very important request.

Very truly yours,

Signed Michael L.H. Marsh

Michael L. H. Marsh, CPA
Chief Executive Officer

cc: David Ikari, Chief
Board of Directors, Western United Dairymen

Section 300.0

(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 simple average of the Grade AA butter price quotations for the last significant trading action for the sale, offer or bid of butter at the Chicago Mercantile Exchange, less freight adjustment of four and five-tenths cents (\$0.045), less a manufacturing cost allowance of ten and two-tenths cents (\$0.102), and the result multiplied by a yield factor of ~~1.2~~ 1.2183.
- (2) For all milk solids-not-fat, not less than 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 period beginning the 26th day of the previous month and concluding the 25th day of the current month, as reported by the California Department of Food and Agriculture for the month, less a manufacturing cost allowance of sixteen and one-tenth cents (\$0.161), multiplied by a yield factor of ~~ninety nine hundredths (0.99)~~ 1.013.

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

- (1) The Cheese hundredweight price shall be the price per hundredweight computed by the sum of the following:
 - a) The price per hundredweight computed by using the simple average of the 40 pound block price quotations for the last significant transaction for Cheddar cheese at the Chicago Mercantile Exchange, less a marketing adjustment of one and two-tenths cent (\$0.012), less a Cheddar cheese manufacturing cost allowance of seventeen and six-tenths cents (\$0.176), all multiplied by a yield factor of ~~ten (10)~~ of ten and 20 hundredths (10.20).
 - b) The price per hundredweight computed by the formula using the simple average of the Grade AA butter price quotations for the last significant trading action for the sale, offer or bid of butter at the Chicago Mercantile Exchange, less a manufacturing cost allowance of ten and two-tenths cents (\$0.102), less ten cents (\$0.10), all multiplied by a yield factor of twenty-seven-hundredths (0.27).
 - c) The price per hundredweight computed by the formula using the simple average of the Western Mostly dry whey prices as published in the United States Department of Agriculture's Dairy Market News, less a manufacturing cost allowance of 14 cents

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(\$0.14), all multiplied by a yield factor of five and seventy-five hundredths (5.75).