

# SUMMARY OF HEARING PETITION AND ALTERNATIVE PROPOSALS

## Petitioner

1) Dairy Institute of California (Institute)

- a. decrease the Commodity Reference Price (CRP) adjuster from +0.464 to -0.416.

## Alternative Proposals

2) Alliance of Western Milk Producers (Alliance)

- a. increase the Commodity Reference Price (CRP) adjuster from +0.464 to +0.739.
- b. change the fluid carrier adjuster for Northern California from -0.0031 to -0.0014.

3) Western United Dairymen (WUD)

- a. change the fluid carrier adjuster for Northern California from -0.0031 to -0.0011.

4) California Dairy Campaign (CDC)

- a. Adopt the federal order Class I pricing formula structure.
- b. Use federal order differentials of \$1.75 and \$2.00, respectively, for Northern and Southern California.
- c. Allocate the federal skim price to solids-not-fat and fluid carrier by:

- i. Solids-not-fat =  $\frac{(\text{skim} * 0.76)}{9}$

- ii. Fluid carrier =  $\frac{(\text{skim} * 0.24)}{91}$

## Data for Continued Analysis

Departmental analysis of the hearing petition and alternative proposals is based on data for the time period January 2000 and December 2004, however 2005 data is also available for your use.

All commodity prices, federal component prices, and California milk pool utilization figures can be accessed through the Branch's dairy hearing matrix on our website. The matrix may be accessed at:

[http://www.cdfa.ca.gov/dairy/dairy\\_hearings\\_matrix.html](http://www.cdfa.ca.gov/dairy/dairy_hearings_matrix.html)

The upcoming Class 1 hearing is outlined in the first row of the matrix. Select the link under "data analysis" to access all data used.

Additionally, industry stakeholders previously requested the following data from the Department.

1. CA Class 1 Farm Prices - Lowest Lawful Retail - A.C. Nielsen Retail
2. Commodity Prices for Calculation of Class 1 Prices - 1/2000 to 12/2004
3. Commodity Prices for Calculation of Class 4A and 4B Prices - 1/2000 to 12/2004
4. Comparison of Class 1 Farm Prices
5. Pooling Utilization 2000 -2005
6. Class 1 Sales Hearing Data - 1996 to 2004
7. Bulk Milk Movement - 1996 to 2004
8. Transportation Allowances - 09/2004 and 12/2004

These data are also available through the Branch's dairy hearing matrix. The upcoming Class 1 hearing is outlined in the first row of the matrix. Select the link under "data analysis" to access all data used.

# Summary Analysis of Alternative Concepts and Proposals April 18, 2005 Pre-Hearing Workshop

## Class 1 Price Proposals

**Table 1: Proposals Less Class and Pool Prices  
Based on Current Formulas, January 2000 - December 2004  
Five-year Average Change  
(Prices per hundredweight)**

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	Class 1		
	N. CA	S. CA	Pool Prices
Institute	-0.88	-0.88	-0.18
Alliance	0.42	0.28	0.07
WUD	0.18	0.00	0.02
CDC	-0.02	-0.05	less than -0.01

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# Summary of Pricing Impacts

## Impact on California Class and Pool Prices

- The table below shows the impacts of the petition and alternative proposals on class and pool prices relative to current prices from January 2000 through December 2004.
- The analysis assumes that the petition, alternative proposals and current formulas were in effect throughout the analysis period.

**Table 2: Proposals Less Class and Pool Prices  
Based on Current Formulas, January 2000 -- December 2004  
(Prices per hundredweight)**

	2000	2001	2002	2003	2004	Average
<b>Northern California Class 1</b>						
Institute	-0.88	-0.88	-0.88	-0.88	-0.88	-0.88
Alliance	0.42	0.42	0.42	0.42	0.42	0.42
WUD	0.18	0.18	0.18	0.18	0.18	0.18
CDC	-0.27	0.17	-0.09	-0.30	0.36	-0.02
<b>Southern California Class 1</b>						
Institute	-0.88	-0.88	-0.88	-0.88	-0.88	-0.88
Alliance	0.28	0.28	0.28	0.28	0.28	0.28
WUD	0.00	0.00	0.00	0.00	0.00	0.00
CDC	-0.29	0.15	-0.12	-0.32	0.35	-0.05
<b>Pool Prices</b>						
Institute	-0.19	-0.18	-0.18	-0.17	-0.16	-0.18
Alliance	0.08	0.07	0.07	0.07	0.06	0.07
WUD	0.02	0.02	0.02	0.02	0.01	0.02
CDC	-0.05	0.04	-0.02	-0.06	0.06	less than -0.01

Proposed changes and impacts on various prices

**Table 3: Proposed Changes and Estimated Impacts  
Class 1 Prices and Pool Prices  
January 2000 through December 2004  
(In Dollars Per Hundredweight)**

<b>Proposed Changes</b>	<b>Current</b>	<b>Institute</b>	<b>Alliance</b>	<b>WUD</b>	<b>CDC</b>
<b>Adjuster to the CRP <sup>1/</sup></b>	0.464	-0.416	0.739	--	--
<b>Federal Class I Differential <sup>2/</sup></b>					
NC Class 1	--	--	--	--	1.75
SC Class 1	--	--	--	--	2.00
<b>Price Difference between Northern and Southern California Class 1 prices</b>	0.272	--	0.123	0.097	0.25
<b>Estimated Impacts</b>	<b>Current</b>	<b>Institute</b>	<b>Alliance</b>	<b>WUD</b>	<b>CDC</b>
NC Class 1	--	-0.88	0.42	0.18	-0.02
SC Class 1	--	-0.88	0.28	--	-0.05
Pool <sup>4/</sup>	--	-0.18	0.07	0.02	less than -0.01

1/ Adjuster to the CRP is the value added to (subtracted from) the Commodity Reference Price to get the Southern California Class 1 hundredweight price (at 3.5% fat, 8.7% SNF).

2/ Federal Class I Differential is the value added to the Federal Base Class I price.

3/ Based on actual usage for the twelve-month period, January to December 2004.

Impact on California Class Prices Relative to Federal Order Prices

- Expressed in dollars per hundredweight.
- The table below shows the impacts of the petition and alternative proposals on class prices relative to comparable federal prices from January 2000 through December 2004.
- The federal prices are those that would have resulted from using the pricing formulas announced in the Final Rule on November 7, 2002. The analysis assumes that these formulas have been in place since January 2000.

**Table 4: Comparison of Fluid Milk Farm Prices, by Type of Milk  
between California and Contiguous States  
Five-Year Average: January 2000 to December 2004  
(In Dollars per Hundredweight)**

<b>Southern California less Arizona</b>					
	<b>Current</b>	<b>Institute</b>	<b>Alliance</b>	<b>WUD</b>	<b>CDC</b>
Whole	-0.29	-1.17	-0.02	-0.29	-0.34
Reduced Fat	-0.81	-1.79	-0.50	-0.81	-0.81
Low Fat	-1.16	-2.22	-0.83	-1.16	-1.14
Skim	-0.37	-1.28	-0.09	-0.37	-0.34
<b>Southern California less Southern Nevada</b>					
	<b>Current</b>	<b>Institute</b>	<b>Alliance</b>	<b>WUD</b>	<b>CDC</b>
Whole	0.66	-0.22	0.93	0.66	0.61
Reduced Fat	0.19	-0.79	0.49	0.19	0.18
Low Fat	-0.13	-1.19	0.20	-0.13	-0.12
Skim	0.58	-0.33	0.86	0.58	0.61
<b>Northern California less Oregon</b>					
	<b>Current</b>	<b>Institute</b>	<b>Alliance</b>	<b>WUD</b>	<b>CDC</b>
Whole	-0.11	-0.99	0.31	0.06	-0.14
Reduced Fat	-0.61	-1.59	-0.15	-0.43	-0.62
Low Fat	-0.95	-2.00	-0.47	-0.77	-0.95
Skim	-0.21	-1.12	0.23	-0.02	-0.14

Impact on California Class Prices Relative to Federal Order Prices

- Expressed in cents per gallon.
- The table below shows the impacts of the petition and alternative proposals on class prices relative to comparable federal prices from January 2000 through December 2004.
- The federal prices are those that would have resulted from using the pricing formulas announced in the Final Rule on November 7, 2002. The analysis assumes that these formulas have been in place since January 2000.

**Table 5: Comparison of Fluid Milk Farm Prices, by Type of Milk  
between California and Contiguous States  
Five-Year Average: January 2000 to December 2004  
(In Cents Per Gallon)**

<b>Southern California less Arizona</b>					
	<b>Current</b>	<b>Institute</b>	<b>Alliance</b>	<b>WUD</b>	<b>CDC</b>
Whole	-2.5¢	-10.1¢	-0.1¢	-2.5¢	-2.9¢
Reduced Fat	-7.0¢	-15.4¢	-4.3¢	-7.0¢	-7.0¢
Lowfat	-10.1¢	-19.3¢	-7.2¢	-10.1¢	-9.9¢
Skim	-3.2¢	-11.1¢	-0.8¢	-3.2¢	-3.0¢
<b>Southern California less Southern Nevada</b>					
	<b>Current</b>	<b>Institute</b>	<b>Alliance</b>	<b>WUD</b>	<b>CDC</b>
Whole	5.7¢	-1.9¢	8.0¢	5.7¢	5.3¢
Reduced Fat	1.6¢	-6.9¢	4.3¢	1.6¢	1.6¢
Lowfat	-1.2¢	-10.3¢	1.7¢	-1.2¢	-1.0¢
Skim	5.0¢	-2.9¢	7.4¢	5.0¢	5.2¢
<b>Northern California less Oregon</b>					
	<b>Current</b>	<b>Institute</b>	<b>Alliance</b>	<b>WUD</b>	<b>CDC</b>
Whole	-1.0¢	-8.5¢	2.7¢	0.5¢	-1.2¢
Reduced Fat	-5.3¢	-13.7¢	-1.3¢	-3.7¢	-5.3¢
Lowfat	-8.2¢	-17.4¢	-4.0¢	-6.7¢	-8.2¢
Skim	-1.8¢	-9.6¢	2.0¢	-0.2¢	-1.2¢

- The table below shows the impacts of the petition and alternative proposals on class prices relative to various federal prices from January 2000 through December 2004.
- Monthly utilization data was not readily available for the Arizona-Las Vegas and Pacific Northwest FMMO's. Thus, it was not possible to recalculate uniform prices using current formulas back to January 2000. Therefore, all comparisons are on a historic basis.
- For 2003 and 2004, the historic data is the same as would have resulted from using the current California Class 1 and federal Class I formulas.

**Table 6: Proposals less Selected Federal Class Prices, assuming whole milk composition  
January 2000 - December 2004 (Prices per hundredweight)**

	2000	2001	2002	2003	2004	Average
<b>Northern California Class 1 less Oregon Class I</b>						
Current	0.13	-0.31	-0.05	0.16	-0.50	-0.11
Institute	-0.75	-1.19	-0.93	-0.72	-1.38	-0.99
Alliance	0.55	0.12	0.38	0.58	-0.08	0.31
WUD	0.31	-0.13	0.13	0.33	-0.33	0.06
CDC	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14
<b>Northern California Class 1 less Oregon Uniform</b>						
Current	1.86	1.65	1.55	2.09	1.56	1.74
Institute	0.98	0.77	0.67	1.21	0.68	0.86
Alliance	2.29	2.08	1.97	2.52	1.99	2.17
WUD	2.04	1.83	1.73	2.27	1.74	1.92
CDC	1.59	1.83	1.46	1.79	1.93	1.72
<b>Northern California Class 1 less Federal Class III</b>						
Current	3.82	2.82	2.38	2.00	0.99	2.40
Institute	2.94	1.94	1.50	1.12	0.11	1.52
Alliance	4.24	3.24	2.80	2.42	1.41	2.82
WUD	4.00	2.99	2.56	2.17	1.16	2.58
CDC	3.55	2.99	2.29	1.70	1.35	2.38
<b>Southern California Class 1 less Arizona Class I</b>						
Current	-0.05	-0.49	-0.22	-0.02	-0.68	-0.29
Institute	-0.93	-1.37	-1.10	-0.90	-1.56	-1.17
Alliance	0.23	-0.21	0.05	0.26	-0.41	-0.02
WUD	-0.05	-0.49	-0.22	-0.02	-0.68	-0.29
CDC	-0.34	-0.34	-0.34	-0.34	-0.34	-0.34
<b>Southern California Class 1 less Arizona Uniform</b>						
Current	2.00	1.70	1.55	1.80	1.13	1.64
Institute	1.12	0.82	0.67	0.92	0.25	0.76
Alliance	2.27	1.98	1.83	2.08	1.40	1.91
WUD	2.00	1.70	1.55	1.80	1.13	1.64
CDC	1.71	1.85	1.44	1.48	1.47	1.59
<b>Southern California Class 1 less Federal Class III</b>						
Current	4.09	3.09	2.65	2.27	1.26	2.67
Institute	3.21	2.21	1.77	1.39	0.38	1.79
Alliance	4.37	3.36	2.93	2.54	1.53	2.95
WUD	4.09	3.09	2.65	2.27	1.26	2.67
CDC	3.80	3.24	2.54	1.95	1.60	2.63

**Current Price Differences between Southern and Northern California and  
Alternative Class 1 Differences proposed by the Alliance, WUD and CDC  
for Classes 1, 2 and 3**

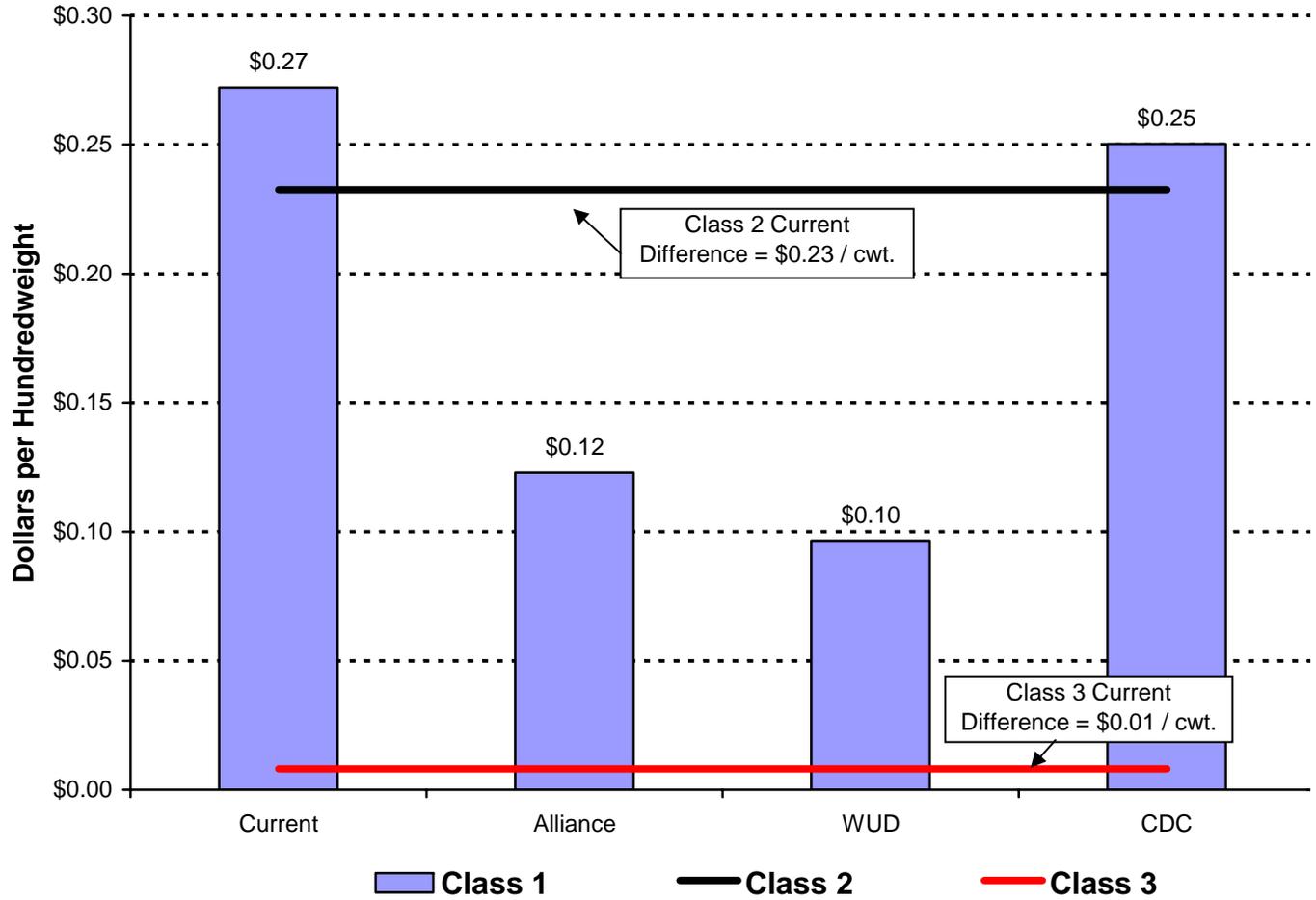
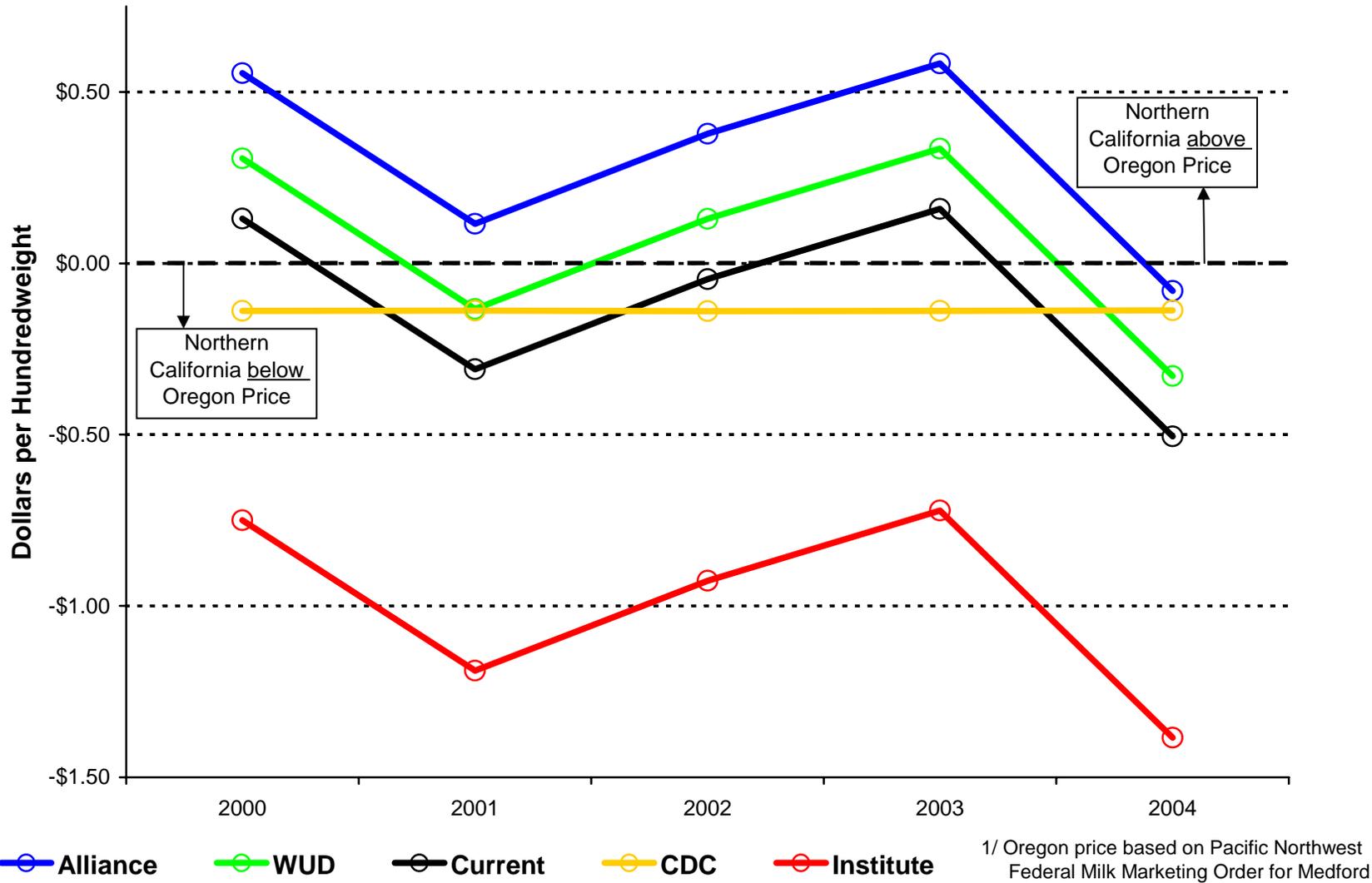
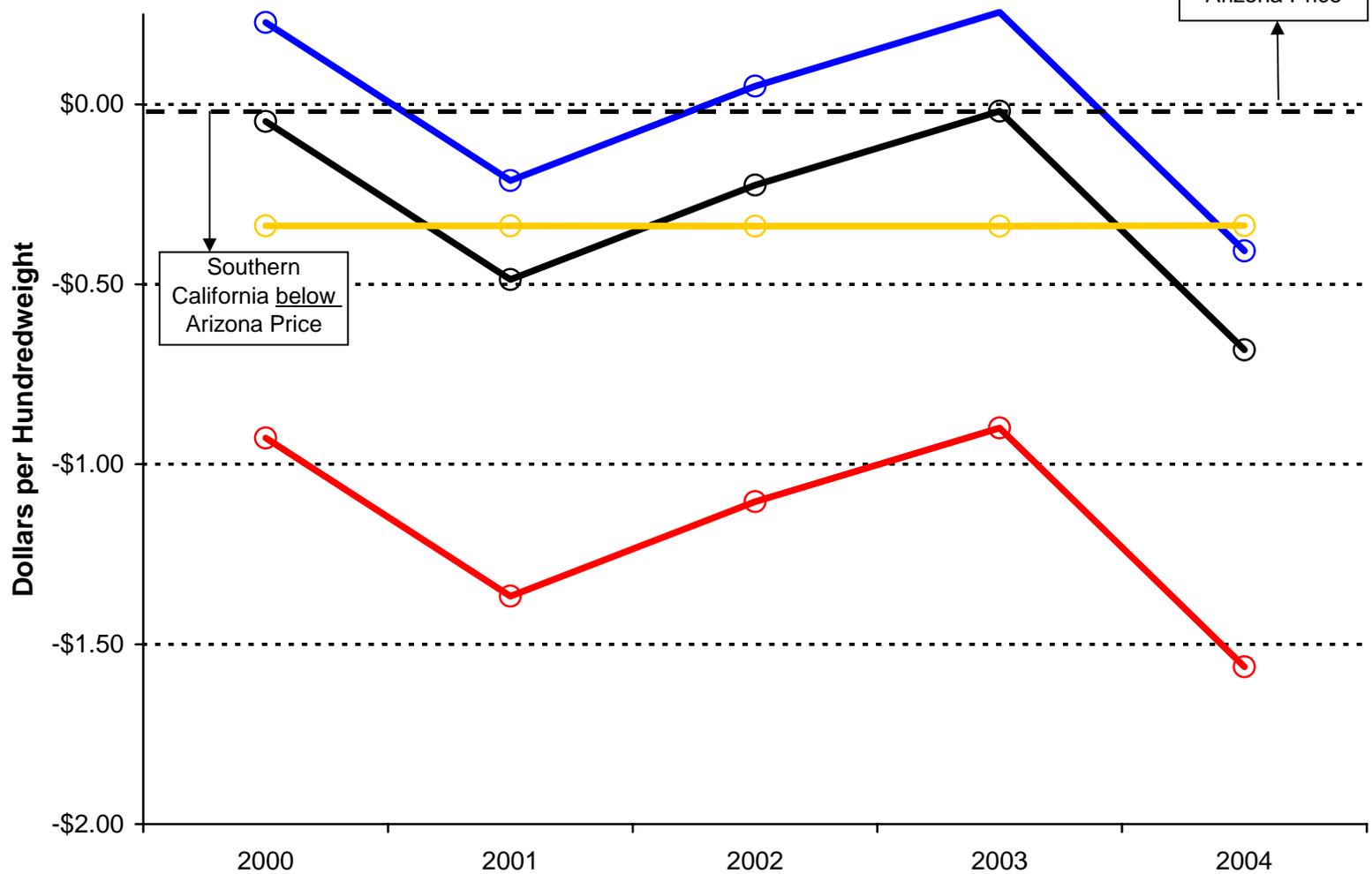


Diagram shows relationship between class price differentials generated by the Class 1 hearing petition and alternative proposals. The current Class 2 and 3 differentials are included for comparative purposes. Changes to the Class 1 differentials may become an issue at future Class 2 and 3 hearings. Class 4a and 4b differentials are not included because they are both calculated on a uniform basis (i.e. no differential between Northern and Southern California exists).

### Northern California Class 1 less Oregon Class I<sup>1/</sup> Annual Averages, 2000 to 2004



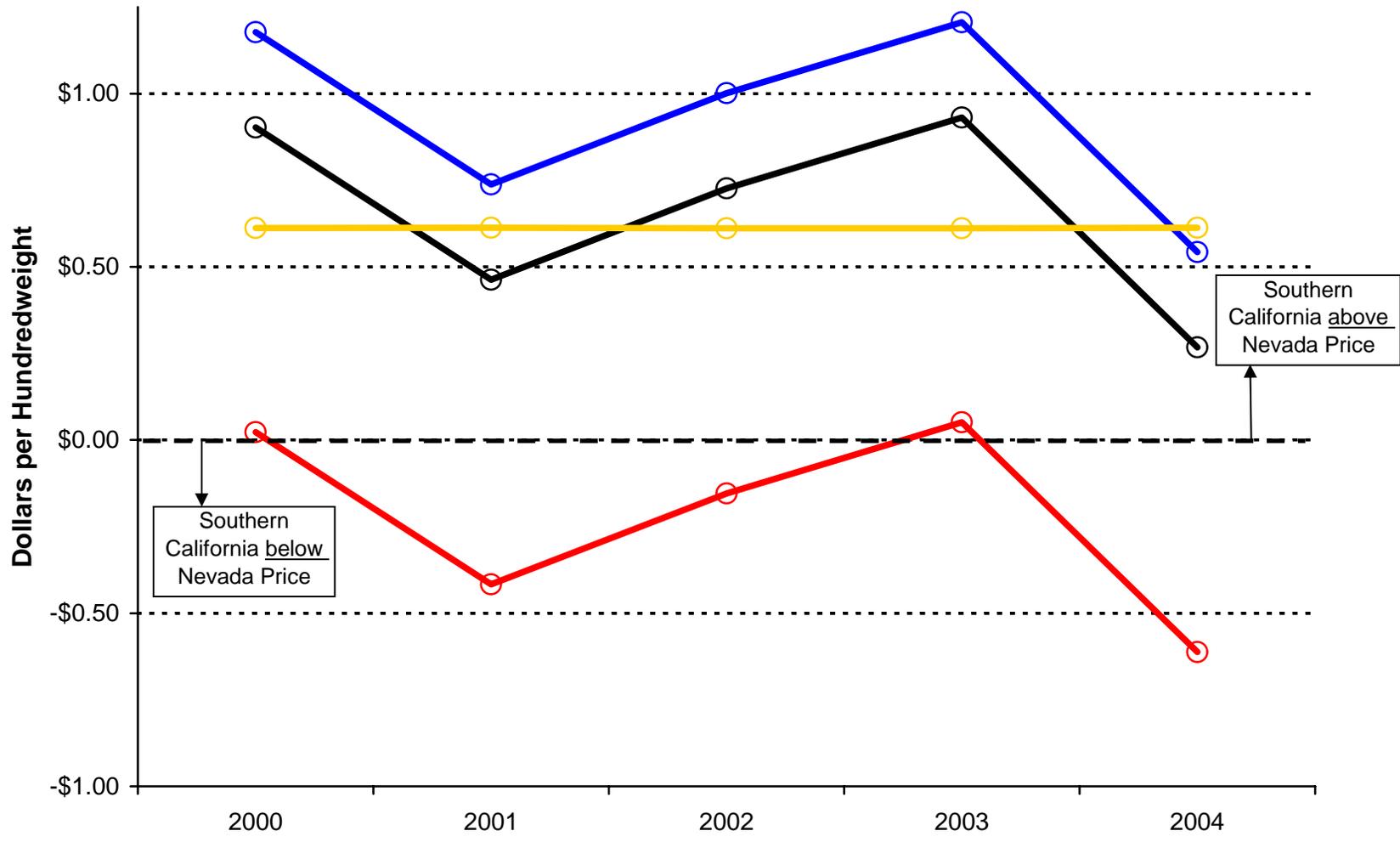
### Southern California Class 1 less Arizona Class I<sup>1/</sup> Annual averages, 2000 to 2004



—○— Alliance    
 —○— Current/WUD    
 —○— CDC    
 —○— Institute

<sup>1/</sup> Arizona price based on Arizona-Las Vegas Federal Milk Marketing Order for Phoenix

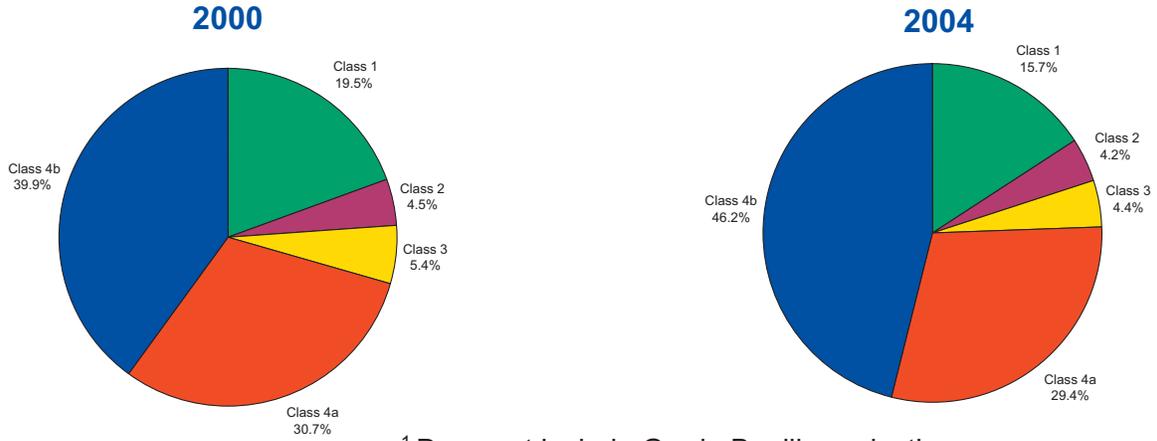
**Southern California Class 1 less Southern Nevada Class I<sup>1/</sup>**  
**Annual Averages, 2000 to 2004**



—○— **Alliance**    
 —○— **Current/WUD**    
 —○— **CDC**    
 —○— **Institute**

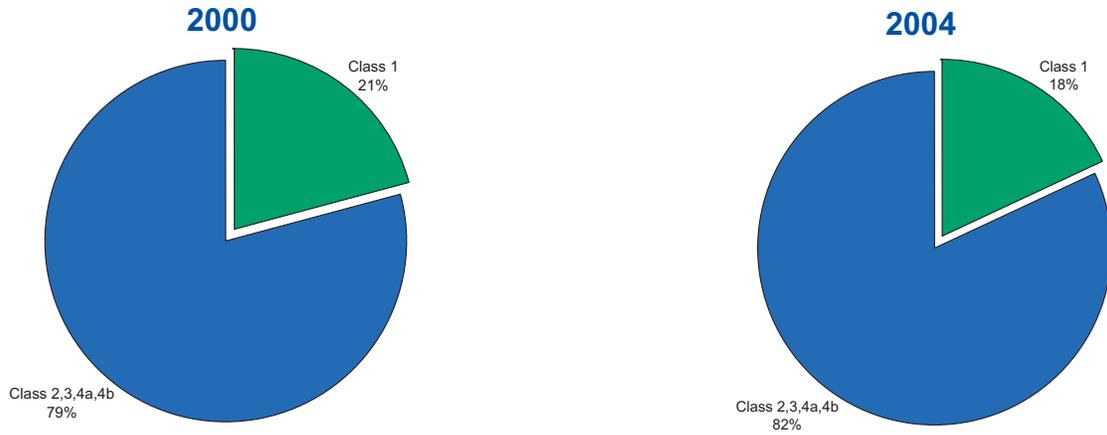
<sup>1/</sup> Southern Nevada price based on Nevada State Order for Las Vegas

## Pool Utilization of Milk Produced in California, by Class<sup>1</sup>



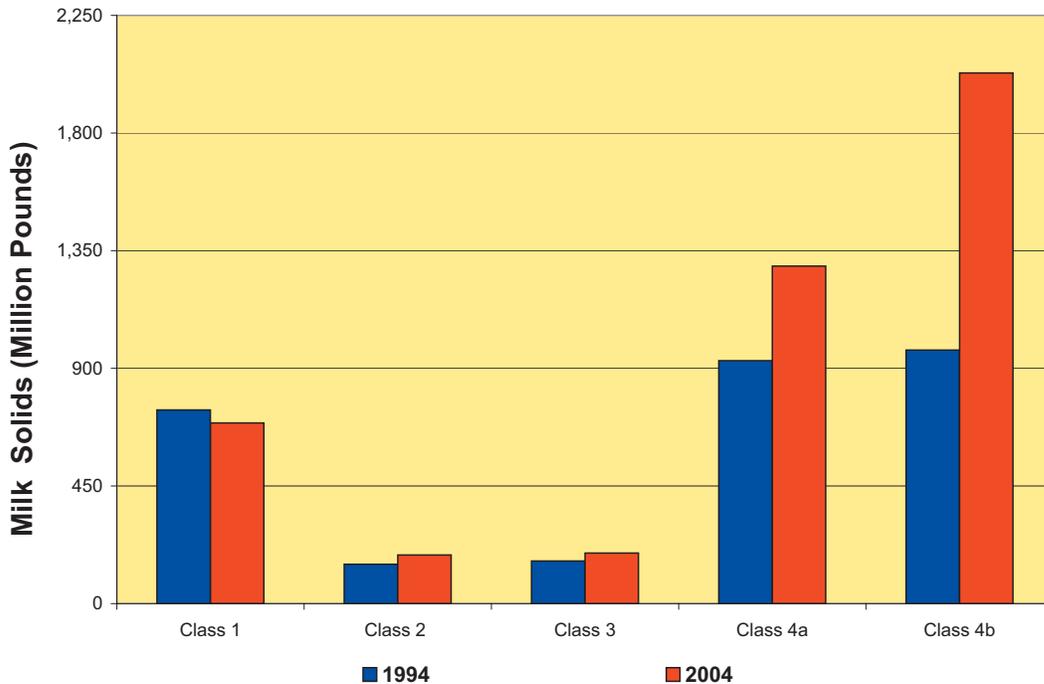
<sup>1</sup> Does not include Grade B milk production

## Utilization of All Milk Received in California Plants, by Class<sup>2</sup>



<sup>2</sup> Includes Grade B milk production

## Use of Total Pool Milk Solids Produced in California, by Class<sup>3</sup>



<sup>3</sup> Does not include Grade B milk production

## Net Milk Available in California

**California Commercial Milk Production, Production Entering, Production Leaving  
Net Milk Available, in Thousand Pounds, 2000-2004**

Year	California Milk Production	Production Entering California	Production Leaving California	Net Milk Available in California
2000	32,207,577	582,026	289,187	32,500,416
2001	33,183,393	840,655	285,282	33,738,766
2002	35,026,340	1,208,973	560,900	35,674,413
2003	35,393,369	1,187,717	514,266	36,066,820
2004	36,427,964	1,344,585	281,539	37,491,010

## Milk Production Entering California, Leaving California, 2000-2004

