



May 20, 2015

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

Re: Alternative Proposal for the June 3, 2015 Class 4b Hearing

Dear Secretary Ross:

The attached extracts from the current Stabilization and Marketing Plans for Northern California and Southern California reflect Dairy Institute's proposed amendments to the Class 4b price formula in the two marketing areas of the state. These proposals respond to the Notice of Public Hearing dated May 1, 2015. The Department of Food and Agriculture has called the hearing on its own motion.

Description of requested changes:

The Institute's proposed changes to the Class 4b formula whey scale are shown below. Items that have changed relative to the current formula are *highlighted*.

Proposed Formula:

Cheese CWT = (CME 40# Cheddar Block Price -\$0.0252 -\$0.1988) x 10.2
+ (CME Butter Price -\$0.10 -\$0.1635) x 0.27
+ *Whey Contribution based on the following schedule*

<u>WPC34 Price</u> (\$/lb.)	<u>Whey Contribution to the Class 4b Price</u> (\$/cwt.)
< 0.75	0.2500
>= 0.75 and < 0.80	0.3210
>= 0.80 and < 0.85	0.4013
>= 0.85 and < 0.90	0.4816
>= 0.90 and < 0.95	0.5618
>= 0.95 and < 1.00	0.6421
>= 1.00 and < 1.05	0.7224

≥ 1.05 and < 1.10	0.8026
≥ 1.10 and < 1.15	0.8829
≥ 1.15 and < 1.20	0.9631
≥ 1.20 and < 1.25	1.0434
≥ 1.25 and < 1.30	1.1237
≥ 1.30 and < 1.35	1.2039
≥ 1.35	1.2500

Fat = Class 4a Fat Price

SNF = (Cheese CWT – (3.72 x Class 4b fat price))/8.8

The whey price series used in the proposed formula would be the simple average of the weekly Central and West 34% Whey Protein Concentrate-Mostly prices as published in USDA's *Dairy Market News* between the 26th of the prior month and the 25th of the current month.

The changes are proposed to make the Class 4b pricing formula better reflect the current market situation and to balance the needs of producers and the diverse types of cheese plants that operate in the state of California. It is reflective of the value of whey to cheesemakers that concentrate liquid whey and sell it to other plants for further processing, and is therefore more appropriate for inclusion in an end-product price formula designed to calculate minimum regulated prices for milk.

The whey scale currently used in the Class 4b formula as described in the Stabilization and Marketing Plans is based on dry whey and is no longer representative of the whey values received by cheese plants operating in California. The number of plants in the state making dry whey has diminished, and plants selling liquid whey increasingly find their liquid whey product's value is more closely tied to movements in the price of WPC 34%.

Dairy Institute proposes that the new whey scale described above be in effect for a period of six months.

Sincerely,



William Schiek
Economist

cc James Houston, Undersecretary
Jeff Cesca, Director, Division of Marketing Services
John Lee, Acting Chief, Dairy Marketing Branch

Extracts from Northern California Stabilization Plan 60 and Southern California Stabilization Plan 75.

I. 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:

(E) The minimum prices to be paid for components used for Class 4b shall be computed as follows, except as such formulas and procedures may be modified by Paragraph (H) of this Section:

- (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 the formula using the Cheddar cheese price, less an f.o.b. California price adjuster of two and fifty-two hundredths cents (\$0.0252), less a Cheddar cheese manufacturing cost allowance of nineteen and eighty-eight hundredths cents (\$0.1988), all multiplied by a yield factor of ten and two-tenths (10.2).
 - (b) The price per hundredweight computed by the formula using the butter price, less a manufacturing cost allowance of sixteen and thirty-five hundredths cents (\$0.1635), less ten cents (\$0.10), all multiplied by a yield factor of twenty-seven-hundredths (0.27).
 - (c) *Except for the period beginning on July 1, 2015 and ending December 31, 2015,* the price per hundredweight for the whey factor value, corresponding to the monthly average dry whey price, based on the following schedule:

Monthly Average Dry Whey Price (\$/lb.)	Whey Factor Value (\$/cwt.)
< \$0.25	\$0.2500
≥ \$0.25 and < \$0.30	\$0.3125
≥ \$0.30 and < \$0.35	\$0.3750
≥ \$0.35 and < \$0.40	\$0.4375
≥ \$0.40 and < \$0.45	\$0.5000
≥ \$0.45 and < \$0.50	\$0.5625
≥ \$0.50 and < \$0.55	\$0.6250
≥ \$0.55 and < \$0.60	\$0.6875
≥ \$0.60	\$0.7500

(d) For the period beginning on July 1, 2015 and ending on December 31, 2015, the price per hundredweight for the whey factor value, corresponding to the monthly average whey protein concentrate 34% (WPC-34) price, based on the following schedule:

Monthly Average WPC-34 Price (\$/lb.)	Whey Factor Value (\$/cwt.)
< \$0.75	\$0.2500
≥ \$0.75 and < \$0.80	\$0.3210
≥ \$0.80 and < \$0.85	\$0.4013
≥ \$0.85 and < \$0.90	\$0.4816
≥ \$0.90 and < \$0.95	\$0.5618
≥ \$0.95 and < \$1.00	\$0.6421
≥ \$1.00 and < \$1.05	\$0.7224
≥ \$1.05 and < \$1.10	\$0.8026
≥ \$1.10 and < \$1.15	\$0.8829
≥ \$1.15 and < \$1.20	\$0.9631
≥ \$1.20 and < \$1.25	\$1.0434
≥ \$1.25 and < \$1.30	\$1.1237
≥ \$1.30 and < \$1.35	\$1.2039
≥ \$1.35	\$1.2500

- (2) For all milk fat, not less than the price per pound computed pursuant to Subparagraph (D)(1) of this Section.
- (3) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Cheese hundredweight price established pursuant to Subparagraph (E)(1) less the product of three and seventy-two hundredths (3.72) multiplied by the Class 4b fat price established pursuant to Subparagraph (E)(2), all divided by eight and eighty hundredths (8.80).
- (4) The Cheddar cheese prices used in calculations pursuant this Paragraph shall be the simple average of the 40 pound block Cheddar cheese price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.
- (5) The butter prices used in calculations pursuant this Paragraph shall be the simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.

- (6) *Except for the period beginning on July 1, 2015 and ending December 31, 2015, the dry whey prices used in calculations pursuant to this Paragraph shall be the simple average of the Dry Whey – West Mostly prices as published in Dairy Market News between the period beginning the 26th day of the previous month and concluding the 25th day of the current month. For the period beginning on July 1, 2015 and ending December 31, 2015, the whey protein concentrate 34% prices used in calculations pursuant to this Paragraph shall be the simple average of the Whey Protein Concentrate 34% – Central and West Mostly prices as published in Dairy Market News between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.*
- (7) In the event the Chicago Mercantile Exchange 40 pound block Cheddar cheese price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the cheese price used in the prior month's calculation of the Cheese hundredweight price.
- (8) In the event that the Chicago Mercantile Exchange Grade AA butter price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Grade AA butter price used in the prior month's calculation of the Cheese hundredweight price.
- (9) *Except for the period beginning on July 1, 2015 and ending December 31, 2015, in the event that the Dry Whey – West Mostly price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Dry Whey – West Mostly price used in the prior month's calculation of the Cheese hundredweight price. For the period beginning on July 1, 2015 and ending December 31, 2015, in the event that the Whey Protein Concentrate 34% – Central and West Mostly price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Whey Protein Concentrate 34% – Central and West Mostly price used in the prior month's calculation of the Cheese hundredweight price.*
- (10) 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 4b price shall be increased by the following amounts:
- (a) For milk fat, three and two-tenth mils (\$0.0032) per pound.
 - (b) For milk solids-not-fat, one and three-tenths mils (\$0.0013) per pound.