



March 14, 2012

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

RE: Request to Expand Call of Hearing to include Class 4a

Dear Secretary Ross:

On behalf of its producer-members, California Dairies, Inc. (CDI) respectfully requests that you amend the Department's notice of public hearing issued on March 16, 2012 and expand the call of the hearing to include the Class 4a pricing formula. For decades, it has been a standard practice for the Department to call hearings such that proposed changes to the Class 4a and Class 4b pricing formulas can be received and considered within a single hearing, particularly if participants in the dairy industry formally submit such a request. Class 4a and Class 4b are the manufacturing classes of milk in California, accounting for more than 80% of the milk produced in California. Thus, it is imperative that the respective pricing formulas be reviewed regularly and updated with the most current information that is available.

Data collected and published by the California Department of Food and Agriculture in October 2011 indicates that actual costs incurred by California butter and powder processing continue to exceed current manufacturing costs allowances contained in the Class 4a milk pricing formula. The Department's data provides validation that further increases to the butter and powder manufacturing cost allowances are warranted, and by rule, changes to the manufacturing cost allowances can only be considered and addressed in a public hearing. The Food and Agricultural Code sections relevant to the call of this hearing are found in Division 21, Part 3, Chapter 2, Article 4 through Article 9.

Proposed Class 4a Pricing Formula

CDI proposes that the following formula for Class 4a milk be adopted:

ARTESIA

11709 E. Artesia Blvd.
P.O. Box 6210
Artesia, CA 90702-6210
Telephone: 562-865-1291
FAX: 562-860-8633

FRESNO

755 "F" Street
P.O. Box 11865
Fresno, CA 93775-1865
Telephone: 559-233-5154
FAX: 559-268-5101

LOS BANOS

1175 Pacheco Blvd.
P.O. Box 2198
Los Banos, CA 93635-2198
Telephone: 209-826-4901
FAX: 209-826-4294

TIPTON

11894 Avenue 120
P.O. Box 837
Tipton, CA 93272-0837
Telephone: 559-752-5200
FAX: 559-752-5201

TURLOCK

475 South Tegner
Turlock, CA 95380
Telephone:
209-668-6150
FAX: 209-668-6162

CORPORATE OFFICE**VISALIA**

2000 N. Plaza Drive
Visalia, CA 93291
Telephone:
559-625-2200
FAX: 559-625-5433

Fat = (CME AA Butter Price - \$0.0449 - \$0.1781) x 1.2

SNF = (California NFDM Price - \$0.2070) x 1.0

CDI's proposed changes are consistent with the objectives stated in previous hearings — the Class 4a formula should reflect the most currently available cost-justified changes. This applies to not only the manufacturing cost allowances for butter and nonfat dry milk but to the f.o.b. price adjuster for butter as well.

Simply, the manufacturing cost allowances should be consistent with actual costs for processing, and the butter commodity price should be adjusted by a factor that reflects what California plants actually receive for the products they market.

CDI's proposal amends the Class 4a pricing formula by increasing the butter and nonfat dry milk manufacturing cost allowances to the weighted average cost for both commodities, as published in the October 2011 cost Manufacturing Cost Exhibit. The Department's audited data verifies that the cost to manufacture butter is \$0.1781 per pound, an increase of 1.46¢ per pound over the current manufacturing cost allowance for butter. Similarly, the cost exhibit verifies that the cost to produce nonfat dry milk is \$0.2070 per pound, an increase of 3.07¢ per pound over the current manufacturing cost allowance for nonfat dry milk.

To be consistent with past practices, the Department should also consider adjustments to the f.o.b. price adjuster for butter at the same time that it is considering manufacturing cost allowance changes in the Class 4a pricing formula. The Department's data shows that the difference was 4.49¢ per pound for the 24-month period ended August 2011, which is actually a decrease of 0.36¢ per pound.

The attached extracts from the current Stabilization and Marketing Plans for Northern California and Southern California (the sections for the Class 4a pricing formula are identical for both Plans) reflect CDI's proposed amendments.

Thank you for your consideration of CDI's request to amend the Department's hearing notice and expand the scope of the hearing to include changes relevant to the Class 4a pricing formula.



Sincerely,
Dr. Eric M. Erba
Sr. VP Administrative Affairs
California Dairies, Inc.

Proposed Changes to Article III, Section 300.0 of the Stabilization and Marketing Plans for Northern California (Plan 55) and Southern California (Plan 70):

(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 butter price, less an f.o.b. California price adjuster of ~~four and eighty-five hundredths cents (\$0.0485)~~ four and forty-nine hundredths cents (\$0.0449), less a manufacturing cost allowance of ~~sixteen and thirty-five hundredths cents (\$0.1635)~~ seventeen and eighty-one hundredths cents (\$0.1781), and the result multiplied by a yield factor of one and two-tenths (1.2).
- (2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the nonfat dry milk price, less a manufacturing cost allowance of ~~seventeen and sixty-three hundredths cents (\$0.1763)~~ twenty and seventy hundredths cents (\$0.2070), multiplied by a yield factor of one (1.0).