



February 20, 2013

Hearing Officer c/o
CDFA Milk Pooling Branch
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

RE: Alternative Proposal for Consolidated Public Hearing to be held on April 4, 2013 concerning Transportation Allowances and Credits

Dear Mr. Hearing Officer:

On behalf of its producer-members, California Dairies, Inc. (CDI) respectfully submits this alternative proposal in response to the Notice of A Consolidated Public Hearing issued February 6, 2013. The Call of the Hearing establishes that the petitioner's proposal to amend the transportation allowances for milk moving into Napa County will be considered, in addition to other proposals to amend provisions that address transportation allowances (Article 9, Section 920 of the Milk Pooling Plan for Market Milk) and transportation credits (Section 300.0 of the Stabilization and Marketing Plans for Market Milk for the Northern California and Southern California Marketing Areas).

Almost five years have elapsed since the last hearing was held to consider changes to transportation allowances and transportation credits. Fuel costs were extraordinary at that time, and they are, once again, at astronomical levels. However, CDI's proposal for targeted increases in transportation allowances and credits has less to do with fuel costs and more to do with the fact that milk has to be moved longer distances to accommodate customers in Southern California as the milk production base in the southern part of the state shrinks.

We continue to believe that transportation allowances should be based on the difference between the cost of the local hauls and the cost of the longer haul to deficit markets. Southern California is the largest deficit market in the state, and CDI has found that it must send more and more milk from the South Valley to meet customer needs as its Southern California dairies exit the business. Consequently, CDI proposes that the following changes be made to Section 921.5 of the Milk Pooling Plan for Market Milk (*italics indicate new language*):

(e) For plants located in the Southern California receiving area, which shall consist of the counties of Los Angeles, Orange, Riverside, San Bernardino and Ventura:

(1) From the counties of Riverside and San Bernardino:

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|--|-----------------------|
| (a) From zero through 93 45 miles | \$0.15 per CWT |
| (b) <i>From 46 miles to 93 miles</i> | <i>\$0.30 per CWT</i> |
| (c) Over 93 miles | \$0.46 per CWT |

(2) From California's 56 other counties:

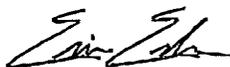
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|--|----------------|
| (a) From zero through 79 miles | \$0.15 per CWT |
| (b) Over 79 miles through 99 miles | \$0.46 per CWT |
| (c) Over 99 miles through 119 miles | \$0.67 per CWT |
| (d) Over 119 miles Over 119 miles through 139 miles | \$0.84 per CWT |
| (e) Over 139 miles | \$1.00 per CWT |

CDI also proposes that Section 300.2 of the Stabilization and Marketing Plans for Market Milk for the Northern California and Southern California Marketing Areas be adjusted to align transportation credits with actual costs incurred. We propose that the shipments of market milk, market skim milk and condensed skim milk from Los Angeles County to Orange, Riverside, San Bernardino, San Diego or Ventura Counties be increased from \$0.45 per cwt. to \$0.54 per cwt. The modifications to the Stabilization and Marketing Plans are given below:

Designated Supply County	Maximum Deduction per Cwt.	Designated Deficit Counties
Los Angeles County	\$0.45 \$0.54	Orange, Riverside, San Bernardino, San Diego, or Ventura Counties

These modifications will bring costs into better alignment with actual and regular milk movements. In particular, the proposed language corrects known hauling cost shortfalls in the current banding structure. Furthermore, it recognizes that more and more milk must come from Kern and Tulare Counties to service customer needs in Southern California.

Thank you for your consideration of CDI's alternative proposal.



Sincerely,
 Dr. Eric M. Erba
 Sr. VP & Chief Strategy Officer
 California Dairies, Inc.