



March 28, 2012

Dr. Eric M. Erba
Sr. VP Administrative Affairs
California Dairies, Inc.
2000 N. Plaza Drive
Visalia, CA 93291

Dear Dr. Erba:

On March 19, 2012, the Department received your letter dated March 14, 2012 requesting that the notice of the public hearing issued on March 16, 2012 be amended to expand the call of the hearing to include the Class 4a pricing formula in order to consider proposed changes to the f.o.b. price adjuster for butter and the butter and powder manufacturing cost allowances. You state that, as a standard practice, the Department has historically called hearings that consider proposed changes to both the Class 4a and Class 4b pricing formulas during a single hearing.

After carefully weighing the merits of your request, the Department has decided at this time to not expand the scope of the hearing to include the Class 4a pricing formula. The reason for not expanding the scope of the hearing is that the Department must consider your proposed changes in conjunction with the appropriate levels of the f.o.b. price adjuster for cheese and the cheese manufacturing cost allowance that are found in the Class 4b pricing formula. However, it is not currently appropriate to consider changes in these components of the Class 4b pricing formula within the public hearing process.

As you state in your letter, Class 4a and Class 4b are the manufacturing classes of milk that account for approximately 80% of the milk produced in California. The Department has the responsibility and mandate to establish minimum class prices that will encourage California's milk production to be marketed in an orderly fashion. The Class 4a and Class 4b prices must be set at a level that will "clear" the market or will facilitate the balancing of the supply and demand for milk. In order to balance the supply and demand of the state's milk production, both of these class pricing formulas need to be considered together when establishing pricing policy decisions.

As you are aware, during the Dairy Advisory Committee (DAC) Meeting held in October 2011 and two subsequent working group meetings comprised of DAC members held in November and December 2011, the long-term pricing issues of the f.o.b. price adjuster for cheese and the cheese



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manufacturing cost allowances were discussed in detail. Specifically, due to industry consolidation and data confidentiality issues of the Cheddar cheese sector in California, the Department will not be able to publish California Cheddar cheese pricing and production data or the cheese manufacturing cost study in its entirety. Since this information is necessary for the formulation of proposed changes to the f.o.b. adjuster for cheese and the cheese manufacturing cost allowance in the Class 4b pricing formula, DAC members began discussions to determine how to proceed in the future with pricing formula modifications in the face of data limitations. The process of determining how to handle these data limitations has not yet been finalized and will need to be finalized prior to being considered within the scope of a public hearing.

Because this issue facing the f.o.b. price adjuster for cheese and manufacturing cost allowance for cheese in the Class 4b pricing formula has not yet been resolved, it is not appropriate to consider changes to these factors within a public hearing. Additionally, since these Class 4b factors must be considered with corresponding Class 4a factors, such as the ones you propose to modify, it is not appropriate to consider Class 4a pricing formula modification at this time either.

Sincerely,



Kevin Masuhara
Director