

June 8, 2015

Mr. Donald Shippelhoute Branch Chief  
Dairy Marketing Branch  
California Department of Food and Agriculture  
1220 N Street  
Sacramento, California 95814

SENT BY E-MAIL TO: Donald Shippelhoute, [donald.shippelhoute@cdfa.ca.gov](mailto:donald.shippelhoute@cdfa.ca.gov)

Re: Hearing on June 3, 2015 to Consider Amendments to the Stabilization  
and Marketing Plans for Marketing Milk for the Northern and  
Southern California Marketing Areas

Dear Mr. Shippelhoute:

Thank you for the opportunity to submit a post-hearing brief.

We would like to elaborate on our response to the panel's question to Mr. Garbani regarding the use of the price for WPC-34 in a sliding scale as a basis to derive whey value in the Class 4b formula. We have several concerns about using a WPC-34 sliding scale as defined by the alternative proposal submitted and presented by the Dairy Institute. We have the following concerns:

1. CDFA has not audited the costs and yields that underlie the WPC-34 sliding scale. Dairy Institute provided no factual basis for the assumptions about manufacturing costs, product yields and transportation costs underlying their proposal. There is no publicly available, publicly audited data on WPC-34 manufacturing costs, transportation costs or product yields.
2. WPC-34 does not represent whey's most basic, unprocessed form and making WPC-34 creates an additional by-product. Making WPC-34 requires further processing and condensing that generates a by-product, whey permeate. The Dairy Institute chooses to not include any value from this by-product in their proposal. For simplicity and consistency, we support the continued use of dry whey in the 4b formula.
3. Western pricing should be used in the WPC-34 sliding scale. Using the WPC 34% Central and West Mostly price series reported and published by USDA's Dairy Market News would depart from the CDFA's long-standing practice of using California prices, costs and yields in the Class 4b formula. Additionally, since the WPC 34% price series contains no volume data, there is no way to determine how much of the sales data represents volumes processed and sold by California cheese plants.

4. The WPC-34 scale that determines the whey contribution to the Class 4b price caps out at much lower value than is fair and appropriate. The Dairy Institute's proposal using WPC-34 reached its maximum value far more often than both the current whey factor and the whey factor proposed by the producer trade associations.
5. The use of the WPC-34 scale would make risk management even less accessible to California dairy farmers. Using WPC-34 in the Class 4b formula would contribute to increasing the variability of the basis between federal order Class III prices and the Class 4b prices. This lack of correlation between the prices makes the Class III futures market a far less effective hedge for California dairy farmers.
6. The volume of WPC-34 produced in California is not a reason to use the price of WPC-34 in the 4b formula. Even though mozzarella cheese production exceeds cheddar cheese production in California, the industry supports the continued use of cheddar cheese prices for the commodity product to include in the Class 4b formula. As explained earlier in our item 2 above, dry whey represents the most basic, unprocessed commodity form of whey.

Thank you again for the opportunity to file a brief and for your consideration of this effort to offer California's dairy producers some badly needed price relief. These issues are of critical importance to the member owners of Land O' Lakes.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Wegner". The signature is fluid and cursive, with a long horizontal stroke at the end.

Tom Wegner  
Director of Economics and Dairy Policy

cc: Hyrum Eastman