



1315 K STREET  
MODESTO, CALIFORNIA 95354-0917  
TELEPHONE (209) 527-6453  
FAX (209) 527-0630

June 10, 2011

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

***Regarding: Alternative proposal for June 30, 2011 hearing***

Dear Secretary Ross:

Western United Dairymen (WUD) supports the petition submitted by Land O'Lakes to amend the Class 4b formula. As indicated in their petition, the whey value in the Federal Order Class III formula has been generating a significantly higher value than the current Class 4b fixed 25-cents whey factor. Clearly, this concerning matter needs to be addressed by the Department.

To expand on this issue, WUD respectfully submits an alternative proposal for the June 30, 2011 consolidated public hearing to consider amendments to the Stabilization and Marketing Plans for the Northern and Southern California Marketing Areas.

The California Food and Agricultural Code states that "the methods or formulas shall be reasonably calculated to result in prices that are in a reasonable and sound economic relationship with the national value of manufactured milk products" (Section 62062). With that in mind, WUD's proposed changes would result in a 4b whey value that tracks the market direction followed by the Class III whey value, thus bringing the two into a more reasonable relationship. More specifically, WUD proposes replacing the current 25-cents fixed whey factor in the Class 4b formula with a whey factor closely reflecting the current Class III whey formula. The second page highlights the formula changes. Also attached are extracts from the current Stabilization and Marketing Plans for Northern and Southern California reflecting WUD's proposed amendments.

Despite the better outlook on dairy prices, producers' margins are pressured due to extremely high feed prices. California dairy families need a better way to capture whey value and we believe either the Land O'Lakes' proposal or this one would provide a more fair method of doing so.

Very truly yours,

Michael E. H. Marsh, CPA  
Chief Executive Officer

cc: Candace Gates, Chief, Dairy Marketing Branch  
Board of Directors, Western United Dairymen

The Honorable Karen Ross

June 10, 2011

Page 2 of 3

WUD proposes that the following formula for the cheese hundredweight price of Class 4b be adopted:

Cheese price per cwt. = (CME block Cheddar cheese price – \$0.0018 - \$0.1966)\*10.2 + (CME AA Butter price – \$0.10 – \$0.156)\*0.27 + 80%\*(Dry whey West - \$0.1991)\*5.9318.

Note: Because the Class III formula uses a skim and butterfat price to arrive at the Class III per hundredweight price and the Class 4b uses a fat and SNF price, some adjustments were made to the whey factors in the Class III formula to arrive at the same value when included in the Class 4b formula. More specifically, the yield used comes from:  $5.9318 = 1.03 * 5.9 * (0.9650 / (1/8.8 * 8.7))$ .

Proposed changes to the Stabilization and Marketing Plans for Northern and Southern California:

Section 300 (E) The minimum price to be paid for components used for Class 4b shall be computed as follows:

(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)~~ **zero and eighteen hundredths cents (\$0.0018)**, less a Cheddar cheese manufacturing cost allowance of ~~nineteen and eighty-eight hundredths cents (\$0.1988)~~ **nineteen and sixty-six hundredths cents (\$0.1966)**, 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 fifteen and six tenths cents (\$0.156), less ten cents (\$0.10), all multiplied by a yield factor of twenty-seven-hundredths (0.27).

(c) ~~The constant whey factor of twenty-five cents per hundredweight (\$0.25).~~ **The price per hundredweight computed by 80% of the formula using the dry whey price less a manufacturing cost allowance of nineteen and ninety-one hundredths cents (\$0.1991), multiplied by a factor of 5.9318.**

(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

The Honorable Karen Ross

June 10, 2011

Page 3 of 3

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) The Dry whey prices used in calculations pursuant 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 26<sup>th</sup> day of the previous month and concluding the 25<sup>th</sup> day of the current month.**

~~(6)~~ (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.

~~(7)~~ (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) In the event the Dry Whey – West Mostly price is not available to determine the per hundredweight whey values 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 whey price to determine the per hundredweight whey values to calculate the Cheese per hundredweight price.**