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March 2, 2012

Candace Gates
CDFA Dairy Marketing Branch
2800 Gateway Oaks
Sacramento, CA 95833

Regarding: Petition for Hearing Regarding Adoption of Amended Milk Pricing Formula

Dear Ms. Gates:

Western United Dairy Men respectfully requests a public hearing to address and implement necessary and legally required changes to the Stabilization and Marketing Plans for Northern and Southern California. Specifically, Western United seeks modification of the whey value portion of the Class 4b formula (the "Formula"). While we appreciate that the Department modified the Formula after the June 30, 2011 hearing, we believe the modification does not provide a fair or legally sufficient means of determining the whey value as part of the Formula. Our members are concerned about and are suffering significant financial losses as a result of the large discrepancy between the whey value contribution in the Formula and Federal Orders' Class III. 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, Western United seeks adjustment to the Formula that would result in a Class 4b whey value that more closely tracks the market direction of the Class III whey value, thus bringing California and national pricing into the reasonable and sound relationship required under the Code.

Western United proposes modifying the current sliding scale in the Class 4b formula to allow the whey factor to more closely reflect the whey value generated by the current Class III formula. We have attached a chart (Exhibit A) to this Petition that highlights the scale changes. Also attached are extracts from the current Stabilization and Marketing Plans for Northern and Southern California reflecting Western United's proposed amendments.

The recovery of dairy prices seen over summer 2011 was short lived. Producers' margins are pressured by both extremely high feed prices and significantly lower milk prices. The economic outlook for the first half of 2012 remains bleak. The new formula was implemented in September 1, 2011; it is already abundantly clear that it does not track the federal orders whey value in a reasonable and sound manner. In fact, since the new sliding scale was implemented, the California whey value averaged \$1.93/cwt lower than in federal orders.


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California dairy families are suffering financially under the current Formula. The Department must amend the Formula to accurately capture whey value. We ask that the Department promptly call a hearing to find a more fair method of doing so.

Very truly yours,

A handwritten signature in black ink, appearing to read "Michael L. H. Marsh". The signature is stylized and cursive.

Michael L. H. Marsh, CPA
Chief Executive Officer

MM/ng

cc: Western United Dairymen board of directors

Exhibit A

Average Western Monthly Dry Whey per lb	Whey Value per cwt
Less than \$0.2000	\$0.0000
\$0.2000 to \$0.2099	\$0.0329
\$0.2100 to \$0.2199	\$0.0886
\$0.2200 to \$0.2299	\$0.1443
\$0.2300 to \$0.2399	\$0.2000
\$0.2400 to \$0.2499	\$0.2557
\$0.2500 to \$0.2599	\$0.3114
\$0.2600 to \$0.2699	\$0.3671
\$0.2700 to \$0.2799	\$0.4228
\$0.2800 to \$0.2899	\$0.4786
\$0.2900 to \$0.2999	\$0.5343
\$0.3000 to \$0.3099	\$0.5900
\$0.3100 to \$0.3199	\$0.6457
\$0.3200 to \$0.3299	\$0.7014
\$0.3300 to \$0.3399	\$0.7571
\$0.3400 to \$0.3499	\$0.8128
\$0.3500 to \$0.3599	\$0.8685
\$0.3600 to \$0.3699	\$0.9242
\$0.3700 to \$0.3799	\$0.9800
\$0.3800 to \$0.3899	\$1.0357
\$0.3900 to \$0.3999	\$1.0914
\$0.4000 to \$0.4099	\$1.1471
\$0.4100 to \$0.4199	\$1.2028
\$0.4200 to \$0.4299	\$1.2585
\$0.4300 to \$0.4399	\$1.3142
\$0.4400 to \$0.4499	\$1.3699
\$0.4500 to \$0.4599	\$1.4256
\$0.4600 to \$0.4699	\$1.4814
\$0.4700 to \$0.4799	\$1.5371
\$0.4800 to \$0.4899	\$1.5928
\$0.4900 to \$0.4999	\$1.6485
\$0.5000 to \$0.5099	\$1.7042
\$0.5100 to \$0.5199	\$1.7599
\$0.5200 to \$0.5299	\$1.8156
\$0.5300 to \$0.5399	\$1.8713
\$0.5400 to \$0.5499	\$1.9270
\$0.5500 to \$0.5599	\$1.9828

Average Western Monthly Dry Whey per lb	Whey Value per cwt
\$0.5600 to \$0.5699	\$2.0385
\$0.5700 to \$0.5799	\$2.0942
\$0.5800 to \$0.5899	\$2.1499
\$0.5900 to \$0.5999	\$2.2056
\$0.6000 to \$0.6099	\$2.2613
\$0.6100 to \$0.6199	\$2.3170
\$0.6200 to \$0.6299	\$2.3727
\$0.6300 to \$0.6399	\$2.4284
\$0.6400 to \$0.6499	\$2.4841
\$0.6500 to \$0.6599	\$2.5399
\$0.6600 to \$0.6699	\$2.5956
\$0.6700 to \$0.6799	\$2.6513
\$0.6800 to \$0.6899	\$2.7070
\$0.6900 to \$0.6999	\$2.7627
\$0.7000 to \$0.7099	\$2.8184
\$0.7100 to \$0.7199	\$2.8741
\$0.7200 to \$0.7299	\$2.9298
\$0.7300 to \$0.7399	\$2.9855
\$0.7400 to \$0.7499	\$3.0413
\$0.7500 to \$0.7599	\$3.0970
\$0.7600 to \$0.7699	\$3.1527
\$0.7700 to \$0.7799	\$3.2084
\$0.7800 to \$0.7899	\$3.2641
\$0.7900 to \$0.7999	\$3.3198
\$0.8000 to \$0.8099	\$3.3755
\$0.8100 to \$0.8199	\$3.4312
\$0.8200 to \$0.8299	\$3.4869
\$0.8300 to \$0.8399	\$3.5427
\$0.8400 to \$0.8499	\$3.5984
\$0.8500 to \$0.8599	\$3.6541
\$0.8600 to \$0.8699	\$3.7098
\$0.8700 to \$0.8799	\$3.7655
\$0.8800 to \$0.8899	\$3.8212
\$0.8900 to \$0.8999	\$3.8769
\$0.9000 to \$0.9099	\$3.9326
\$0.9100 to \$0.9199	\$3.9883
More than \$0.9200	\$4.0000

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, except as such procedures may be modified by Paragraph (H) of this Section:

(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), less a Cheddar cheese manufacturing cost allowance of nineteen and eighty-eight hundredths cents (\$0.1988), 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 sixteen and thirty-five hundredths cents (\$0.1635), less ten cents (\$0.10), all multiplied by a yield factor of twenty-seven-hundredths (0.27).

(c) The price per hundredweight for the whey factor value, corresponding to the monthly average dry whey price, based on the following schedule:

Average Western Monthly Dry Whey per lb	Whey Value per cwt
Less than \$0.2000	\$0.0000
\$0.2000 to \$0.2099	\$0.0329
\$0.2100 to \$0.2199	\$0.0886
\$0.2200 to \$0.2299	\$0.1443
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\$0.2700 to \$0.2799	\$0.4228
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\$0.6300 to \$0.6399	\$2.4284
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\$0.6900 to \$0.6999	\$2.7627
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\$0.7700 to \$0.7799	\$3.2084
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\$0.9000 to \$0.9099	\$3.9326
\$0.9100 to \$0.9199	\$3.9883
More than \$0.9200	\$4.0000

(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 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 to 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 26th day of the previous month and concluding the 25th day of the current month.

(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.

(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 that the Dry Whey – West Mostly price is not available 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 calculation of the Cheese hundredweight price.

(10) For any month in which the Secretary implements the collection of security charges provided for in Chapter 2.5, Part 3, Division 21 of the Food and Agricultural Code, the minimum Class 4b price shall be increased by the following amounts:

(a) For milk fat, three and two-tenth mils (\$0.0032) per pound.

(b) For milk solids-not-fat, one and three-tenths mils (\$0.0013) per pound.