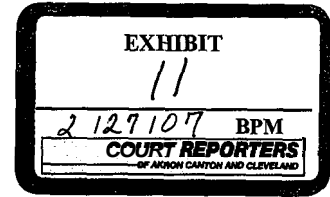


July 24, 2006



TO ALL INTERESTED PARTIES:

On June 1 and 2, 2006, the Department held a public hearing to consider amendments to the Stabilization and Marketing Plans for Market Milk (Plans). The proposed amendments to the Class 4a and 4b pricing formulas would also have a pass-through effect on the Class 2 and 3 pricing formulas.

Having carefully weighed the contents of the hearing record, the Department has decided to:

- Reduce the f.o.b. California price adjuster for Grade AA butter from \$0.0285 per pound to \$0.0168 per pound.
- Reduce the f.o.b. California price adjuster for Cheddar cheese from \$0.0290 per pound to \$0.0252 per pound.
- Increase the manufacturing cost allowance for Cheddar cheese from \$0.171 per pound to \$0.178 per pound.
- Increase the manufacturing cost allowance for skim whey powder from \$0.200 per pound to \$0.267 per pound.
- Increase the manufacturing cost allowance for nonfat dry milk from \$0.152 per pound to \$0.160 per pound.

The Department has additionally decided:

- not to change the manufacturing cost allowance for butter,
- not to adopt any form of variable manufacturing cost allowance,
- not to adopt floors or snubbers for the commodity prices,
- not to add whey protein concentrate to the Class 4b formula, and
- not to change the Cheddar cheese yield.

The f.o.b. price adjusters were changed consistent with prior Department decisions to base them on the two-year simple average for the most recent data available.

**The adjustments to the Plans will take effect for milk delivered to processing plants on or after August 1, 2006. The Department's decision however, is stayed for an estimated 60 days for the conduct of an initial study under 14 CCR 15063. The Department reserves any judgment as to how the California**

**Environmental Quality Act (CEQA) may apply pending the outcome of the study, and further reserves the right to conform its decision to any findings or recommendations the study may make.**

An estimated impact analysis of the how the changes might impact prices is shown below. It is based on the assumption that the changes were in effect over the five-year period January 2001 to December 2005. While this estimate is a good indication of what would have happened under the economic conditions at that time, it is not necessarily a good indication of what will happen in the future.

**Changes and Impacts of Hearing Determinations  
 January 2001 to December 2005, unless otherwise indicated**

|                                      | Old<br>¢/lb | New<br>¢/lb | Class Price Impact |               |
|--------------------------------------|-------------|-------------|--------------------|---------------|
|                                      |             |             | 2, 3, 4a<br>¢/cwt  | 4b<br>¢/cwt   |
| <b>f.o.b. Adjusters</b>              |             |             |                    |               |
| butter                               | 2.806       | 1.686       | +4.9¢              | -0.3¢         |
| cheese                               | 2.906       | 2.52¢       | n.a.               | +3.8¢         |
| <b>Manufacturing Cost Allowances</b> |             |             |                    |               |
| <b>NFDM</b>                          | 15.20¢      | 16.006      | -7.06              | n.a.          |
| cheese                               | 17.10¢      | 17.806      | n.a.               | -7.1¢         |
| SWP                                  | 20.00¢      | 26.70¢      | n.a.               | -38.4¢        |
| <b>TOTAL</b>                         |             |             | <b>-2.06</b>       | <b>-41.9¢</b> |

| <b>Quota and Overbase Price Impacts - ¢/cwt</b> |        |        |        |        |                      |
|---|--------|--------|--------|--------|----------------------|
|   |        |        |        |        | five year<br>average |
| 2001  | 2002   | 2003   | 2004   | 2005   |                      |
| -18.7¢  | -19.0¢ | -19.6¢ | -20.1¢ | -21.06 | <b>-19.7¢</b>        |


The changes to the Class 2, 3, 4a and 4b prices are constant over time. The changes to the Quota and Overbase prices will vary with changes in pool utilization.

Copies of the Hearing Determinations and a more detailed explanation of the Department's decision may be obtained from the Dairy Marketing Branch website at [www.dairy.ca.gov](#). From this page, click on *Hearings*, and then on the *[Dairy Hearings Progress Matrix]* link.

To All Interested Parties  
July 24, 2006  
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Media contacts and publication staff are asked to contact the Department's Public  
Affairs Office by e-mail at [publicaffairs@aphis.usda.gov](mailto:publicaffairs@aphis.usda.gov) or by phone at  
(916) 654-0462.

Sincerely,

A handwritten signature in black ink that reads "David Ikari". The signature is written in a cursive style with a large initial "D".

David K. Ikari, Chief  
Dairy Marketing Branch