

**Testimony of
Dean Foods Company by Evan Kinser
Milk Marketing Order Hearing
Docket No. AO-388-A17 and AO-366-A46; DA-05-06
Louisville, Kentucky
January 11,2006**

Introduction

Hello, my name is Evan Kinser. I am employed by Dean Foods Company as Director of Dairy Policy and Commodities. My business address is 2515 McKinney Avenue, Suite 1200, Dallas, TX 75201.

Dean Foods owns and operates 8 plants regulated by the Appalachian Marketing Federal Order and 10 plants regulated by the Southeast Marketing Federal Order. I am appearing today to support and explain the philosophy of Dean Foods in arriving at Proposals #4 and #5. I will further explain our position on the remaining proposals.

Historical Position

I would like to begin my testimony by reminding those considering the evidence presented at this hearing that Dean's position and testimony around this issue is consistent with the past perspective of Dean Foods, its predecessors and representatives. The consistent message of transportation credits has been cautious support balanced by a concern that such credits could be abused resulting in undesired results whether anticipated or not. We continue to have that concern, which has led us to propose and support Proposals #4 and #5.

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Case US Dept Agriculture
Deponent _____
Reporter Daniel Carpenter CRS File # 89-16
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While our proposals and other proposals suggest the idea of looking at the marketing areas of FMMO #5 and #7 as a common area for procurement of supplemental supplies, we want to be clear that we propose that only as a matter of convenience. We continue to hold strongly to the view that these Orders need to remain as separate Orders. While we know it is not a part of this hearing notice, we continue to believe these Orders are too large and should be reduced in size, rather than increased. This position is again consistent with our historical positions and testimony.

Definition of the Problem – large orders

The problem extends back to the 1980's. Illustrating it will require a hopefully quick and insightful history lesson. There are a lot of people in this room with first hand experience of these events making them much more equipped and experienced to offer the historical perspective, so I would like to apologize in advance to them for the simplicity that I use to explain what took years and years to do. One could take it back to 1988 when the Federal Order system had 41 Federal Orders. The beauty of the system back then is that the pools were small and markets that had large population bases relative to producer milk had high utilizations to attract the supplemental milk needed to serve their marketplace. The inverse was also true. Those markets with significant supplies of milk and minimal populations had much lower utilization and suppliers in those markets were always willing to look for the higher value. Philosophically, nothing has changed, particularly as it relates to the propensity for pseudo handlers who do not operate a fluid plant yet have control of a milk supply and want to tap a Federal Order pool for additional revenue to pay their suppliers without serving the fluid market any more than is absolutely necessary. Federal Order Reform changed the size and scale of

Orders dramatically and eliminated the minus X cents per 10 mile rule for diverted milk (more on this to follow). These changes created more opportunities for handlers to attach and divert now larger amounts of milk to fewer Federal Order for the purpose of extracting dollars from the marketplace for minimal fluid service. Addressing this challenge should be at the center of any change that results from this hearing.

Since the late 1980's the change in Federal Orders that are the subject of this hearing has been a reduction from 11 Orders to two. The old Orders were obviously much smaller thus limiting the ability of a handler to pool diversions on a particular Order. For example, if a handler had sales into Louisville, KY there were only so many pounds of Class I pounds available in that market that could be used for pooling diversions. The pooling of diversions (and not serving the fluid market) is where pseudo handlers capture the real value. Diverted milk typically doesn't travel to serve the market, yet it is able to draw the value from the market where it is pooled. So if there is a handler pooling a group of out-of-area farms selling into Louisville, the milk that stays at home gets the Louisville Order price as opposed to the local Order price. The pounds of milk that could be diverted were limited by the pounds of milk sold to fluid plants regulated by the Louisville Order. If this pseudo handler wanted to pool more milk, it needed more sales and if those sales couldn't be gained in Louisville, the pseudo handler had to resort to another pooling location. To get the higher price at that next location milk had to be hauled further. This meant more miles had to be driven with a fully loaded milk truck, making the return for such activity lower due to higher transportation costs. Thus, multiple small Orders created a disincentive to have out-of-area milk diversions attached to an Order because of the distance of the entry points from the farms shipping the milk. Today this problem has been significantly changed. The entry

point(s) to a much larger area and volume of sales has been made closer. To use the above example of pseudo handler with out-of area farms, sales to Louisville would provide a gateway to ride on the entire Appalachian area (allowing more pounds), versus in the past that would have only been a part of the Louisville market.

Illustration of the Problem – large orders

I would like to offer a more concrete example to make the implications of the Order Reform on creating easier entry points to pool riding equally clear to all. In order to keep this fairly simple I am going to make some assumptions. I am going to focus on the Appalachian Order and its predecessor Orders (Louisville-Lexington-Evansville, Eastern Tennessee and Carolinas). The purpose of this example is to focus on the implications of the entry point and not all the nuances of changes that were a part of reform.

Illustration Assumptions

- Current Appalachian Order regulation was the same for the predecessors.
 - Example will use shipping requirements for September
 - Diverted milk shall not exceed 25%
 - 1 M pounds delivered would allow 1.33 M pounds pooled
 - Touch-base requires 6 days production
- Blend prices for predecessor orders were equal to each other and equal to current order
- Handler Sales Assumptions
 - Louisville, KY Sales 10 M Lbs (Louisville-Lexington Order)
 - Chattanooga, TN Sales 10 M Lbs (Eastern Tennessee Order)
 - Charleston, SC Sales 10 M Lbs (Carolinas Order)
 - Handler has reasonably sufficient milk supplies close to the above listed plants.
 - Handler has a very large supply of milk in Jasper County Indiana.
 - Farms average 1.5 million pounds monthly production.
- Freight \$2.20 per loaded mile

Pre-reform pooling example

Louisville Sales

13.3 million pounds could be pooled
3.3 million pounds available for diversion
Decision is made to pool 2 farms
Requires 6 trips per farm so a total of 12 trips
223 miles per load, costing \$490.60 per trip
Total transportation costs is \$5,887.20

Chattanooga Sales

13.3 million pounds could be pooled
3.3 million pounds available for diversion
Decision is made to pool 2 farms
Requires 6 trips per farm so a total of 12 trips
527 miles per load, costing \$1,159.40 per trip
Total transportation costs is \$13,912.8

Charleston Sales

13.3 million pounds could be pooled
3.3 million pounds available for diversion
Decision is made to pool 2 farms
Requires 6 trips per farm so a total of 12 trips
838 miles per load, costing \$1,843.60 per trip
Total transportation costs is \$22,123.20

Jasper County Pre-Reform Results – theoretical

Total of 6 farms pooled meaning 9 M lbs. of milk
The remaining 7.2 million pounds stay home but received the draw off each of the orders.
The cost of delivering the 1.8 M lbs was \$41,923.20

It is very unlikely that the pool draw would have been sufficient in Chattanooga or Charleston to justify paying the freight costs. So, the likely outcome would have been.

Jasper County Pre-Reform Results – likely

Total of 2 farms pooled meaning 3 M lbs. of milk
The remaining 2.4 million pounds stay home but received the draw off each of the orders.
The cost of delivering the 0.6 M lbs was \$5,887.20

Post-reform pooling example

Louisville Sales – no change

13.3 million pounds could be pooled
3.3 million pounds available for diversion
Decision is made to pool 2 farms
Requires 6 trips per farm so a total of 12 trips
223 miles per load, costing \$490.60 per trip
Total transportation costs is \$5,887.20

Chattanooga Sales – deliveries are

13.3 million pounds could be pooled

3.3 million pounds available for diversion

Decision is made to pool 2 farms – through deliveries to Louisville

Requires 6 trips per farm so a total of 12 trips

223 miles per load, costing \$490.60 per trip

Total transportation costs is \$5,887.20

Charleston Sales

838 miles per load, costing \$1,843.60 per trip

13.3 million pounds could be pooled

3.3 million pounds available for diversion

Decision is made to pool 2 farms – through deliveries to Louisville

Requires 6 trips per farm so a total of 12 trips

223 miles per load, costing \$490.60 per trip

Total transportation costs is \$5,887.20

Jasper County Post-Reform Results

Total of 6 farms pooled meaning 9 M lbs. of milk

The remaining 7.2 million pounds stay home but received the draw off each of the orders.

The cost of delivering the 1.8 M lbs was \$17,661.60

If the pool draw prior to reform would have been sufficient in Louisville for milk to pool, then

Reform just allowed for those same sales to Louisville to grow diversions. Now, with no new

market service, an additional 4 farms were added to the Order and with it 4.8 million pounds of

milk that did not serve the market. If somehow all the milk had made economic sense to pool

earlier it could now be pooled at a savings of \$24,261.60.

Definition of the Problem – connected producer price surface

Another change that came with Federal Order reform that had a material effect of the economic

value of pooling distant diversions was the relationship between the producer value of the distant

milk and announced price. Prior to order reform the value of milk at the diverted location was

based on a formula that account for the miles and a defined point (definition varied depended on

the Order at the time being examined) and the plant to which the milk was diverted. This meant

that the further the milk was from the defined point the less likely the milk attained enough economical value from being a pooled diversion to justify it being attached to the pool. This resulted in each plant having a different location adjustment depending on the Order it was pooling milk on.

Federal Order reform changed that. Under the current Order provision the relationship between the producer value at the plant where it was diverted is the difference in the Class I differentials at the price announced county and the county where the diversion plant was located. The result is the location adjustment is the same for each plant regardless of the Order where the milk is pooled.

This change significantly flattened the surface as it relates to milk being diverted to plants great distances from the market. Under Reform, mileage is not a consideration. The consideration is the spread in the Class I differentials and as you move to the central part of the country and north those zones become quite wide, allowing many miles to be traveled with minimal or no change in the diversion price.

This new flatter surface has made it more economically desirable to pool additional diversions than existed prior to reform. The combination of this and closer access points strengthen it also. With the current provisions a handler would look at the cost of moving milk to get it touch-base, which is partially offset by transportation credits, any lost value for the use that wasn't available if it had stayed at home and the value for all the pounds that stayed at home, but received the higher Order price. Any time this value is greater than the value of the local Order, handlers are

more than eager to call up the truckers and begin transporting milk. Such games should not be encouraged and should force new thoughts to prevail and return to a disconnected relationship between the Class I pricing surface and diverted milk value.

Illustration of the Problem- connected producer price surface

I would like to offer a more concrete example to make the implications of the reform on creating a flatter pricing service for pool riding equally clear to all. In order to keep this fairly simple I am going to make some assumptions. I am going to focus on the Appalachian Order and its predecessor Orders (Louisville-Lexington-Evansville, Eastern Tennessee and Carolinas). The purpose of this example is to focus on the implications of the old pricing methodology for milk diversion versus the current and not all the nuances of changes that were a part of reform.

Illustration Assumptions

Blend prices for predecessor orders were equal to each other and equal to current order
Diversions are going to plant located in Portales, NM
Assigned point Assumptions

Louisville-Lexington-Evansville Order	Madisonville, KY	1,095 miles
Eastern Tennessee Order	Chattanooga, TN	1,187 miles
Carolinas Order	Ashville, NC	1,350 miles

Diverted milk is discounted 2.5 cents for each 10 miles to the closest pool distributing plant.

Pre-reform diverted milk value example

Louisville-Lexington-Evansville Order
Diverted milk would be priced by discounting the blend based on a formula using 1,095 divided by 10 and multiplied by 2.5 cents. This would result in a price of \$2.74 below blend for milk diverted to Portales, NM off the Louisville-Lexington, Evansville Order.

Eastern Tennessee Order

Diverted milk would be priced by discounting the blend based on a formula using 1,187 divided by 10 and multiplied by 2.5 cents. This would result in a price of \$2.97 below blend for milk diverted to Portales, NM off the Eastern Tennessee Order.

Carolinas Order

Diverted milk would be priced by discounting the blend based on a formula using 1,350 divided by 10 and multiplied by 2.5 cents. This would result in a price of \$3.38 below blend for milk diverted to Portales, NM off the Carolinas Order.

Past-reform diverted milk value example

Diverted milk would be priced by discounting the blend based on a formula using the difference between the Class I differential for Roosevelt County, NM (\$2.10) and Mecklenburg County, NC (\$3.10). This would result in a price of \$1.00 below blend for milk diverted to Portales, NM off the Appalachian Order.

Just to review the Louisville-Lexington-Evansville Order resulted in a price discounted \$2.74.

The new flat system, improved the price by \$1.74 for all the milk that remained in Portales.

While in Eastern Tennessee the price would have been discounted \$2.97. The new flat system, improved the price by \$1.97. Finally in the Carolinas, the discounted was \$3.38, an improvement of \$2.38.

When one considers the increased value of diversion under the scheme that was a result of Federal Order reform combined with the freight savings for having closer entry point, the fact that there is a problem with these Orders should come as no surprise. It is with this very real problem that Dean Foods has proposed solution to offer for the Secretary's consideration.

Philosophy of Dean Proposed Solutions

Dean Foods continues to be concerned about the abuse and potential abuses of transportation credits, especially those that are used to attach milk produced outside the marketing area pooled with minimal deliveries. We are sympathetic to the ever-increasing challenge of a shrinking milk supply within the marketing areas covered by these two Orders and the cost associated with the milk transportation. However, we cannot ignore the fact that milk many miles from the marketplace is being pooled on these Orders when there is milk much closer. These distant diversions by handlers, while well within the bounds of the regulation, illustrate disorderly marketing and loopholes that are not consistent with the objectives of the FMMO's core principles. Furthermore, such actions come at great cost to both the local dairy farmers, which cannot be tolerated any longer in such a fragile production environment. Milk, other than necessary reserves, pooled, but not serving the fluid market, is abuse and must be curbed, and unnecessarily reduces the price to local farmers. It is because of these ongoing actions that Dean has proposed and fully supports Proposals #4 and #5 in order to prevent even greater harm by adoption of Proposals #1 and #2. Proposals #4 and #5 are needed to help curb the abuse and allow transportation credits to be used for what they were intended, to move milk that is **needed** to the marketplace.

Proposal #4

We support Proposal #4 as noticed with the noted changes. The changes are to clarify our position as we have considered the situation and evidence presented at this hearing.

1. Amend Sec. 1005.82 by:
 - (a) Revising paragraph (d)(2)(v);

- (b) Adding a new paragraph (d)(2)(vi);
- (c) Revising paragraph (d)(3)(vii); and
- (d) Adding a new paragraph (d)(3)(viii).

Sec. 1005.82 Payments from the transportation credit balancing fund.

* * * * *

(d) * * *

(2) * * *

(v) Divide ~~Z% (currently believed to be close to 30%, may provide evidence for a higher or lower number)~~ by the percent of producer milk delivered to plants other than plants qualified pursuant to Sec. 1005.7(a) and (b) and Sec. 1007.7(a) and (b) of this chapter; if the result is 100% or greater, then the percentage applicable in paragraph (d)(2)(vi) of this section shall be 100%.

(vi) Compute the result of multiplying the remainder computed in paragraph (d)(2)(iv) of this section by the percentage computed in paragraph (d)(2)(v) of this section and by the hundredweight of milk described in paragraph (d)(2) of this section.

(3) * * *

(vii) Divide ~~Z% (currently believed to be close to 30%, may provide evidence for a higher or lower number)~~ by the percent of producer milk delivered to plants other than plants qualified pursuant to Sec. 1005.7(a) and (b) and Sec. 1007.7(a) and (b) of this chapter; if the result is 100% or greater, then the percentage applicable in paragraph (d)(3)(viii) of this section shall be 100%.

(viii) Compute the result of multiplying the remainder computed in paragraph (d)(3)(vi) of this section by the percentage computed in paragraph (d)(3)(vii) and by the hundredweight of milk described in paragraph (d)(3) of this section.

2. Amend Sec. 1007.82 by:

- (a) Revising paragraph (d)(2)(v);
- (b) Adding a new paragraph (d)(2)(vi);
- (c) Revising paragraph (d)(3)(vii); and
- (d) Adding a new paragraph (d)(3)(viii).

Sec. 1007.82 Payments from the transportation credit balancing fund.

* * * * *

(d) * * *

(2) * * *

(v) Divide ~~Z%~~ (currently believed to be close to 30%, may provide evidence for a higher or lower number) by the percent of producer milk delivered to plants other than plants qualified pursuant to Sec. 1005.7(a) and (b) of this chapter; if the result is 100% or greater, then the percentage applicable in paragraph (d)(2)(vi) of this section shall be 100%.

(vi) Compute the result of multiplying the remainder computed in paragraph (d)(2)(iv) of this section by the percentage computed in paragraph (d)(2)(v) of this section and by the hundredweight of milk described in paragraph (d)(2) of this section.

(3) * * *

(vii) Divide ~~Z%~~ (currently believed to be close to 30%, may provide evidence for a higher or lower number) by the percent of producer milk delivered to plants other than plants qualified pursuant to Sec. 1005.7(a) and (b) of this chapter and Sec. 1007.7(a) and (b); if the result is 100% or greater, then the percentage applicable in paragraph (d)(3)(viii) of this section shall be 100%.

(viii) Compute the result of multiplying the remainder computed in paragraph (d)(3)(vi) of this section by the percentage computed in paragraph (d)(3)(vii) and by the hundredweight of milk described in paragraph (d)(3) of this section.

Explanation of Proposal #4

Proposal #4 differentiates the handler reimbursement rate based on the handler's service to the market. Current transportation credits are paid on eligible milk as long as transportation funds are available or credits are prorated when transportation funds become limited. Presently, all handlers receive the same rate of reimbursement regardless of their level of service to the market or their level of pool riding. Thus, a handler shipping 100% of producer milk to a pool distributing plant receives the reimbursement at the same rate as a handler shipping the absolute minimum.

In addition to the current calculations, Proposal #4 adds an additional two-part step, which is designed to discourage pool riding and take into consideration typical plant balancing. The first-part of this additional step considers the ratio of pounds of milk delivered to plants other than pool distributing plants to the total pounds of producer milk on the handlers report. The denominator is the total pounds of milk on the handlers report. The numerator is the pounds of milk the handler pooled that was not shipped to a FMMO #5 or #7 pool distributing plant.

The second-part addresses the fact that pool distributing plants need help balancing. Handlers serving these plants typically cannot ship the same amount of milk into those plants everyday of the week. So, not providing for appropriate diversions is to undermine the purpose of the Federal Order system. We suggested that there be an allowance for 30% diversion. This estimate considers that there are typically five strong production days at a distributing plant and seven days in the week. Five as a percent of seven is 71%. The inverse was 29%, which was rounded up to an even 30%.

Proposal #4 Example - Coop A

Coop A Assumptions	
Total Producer Milk	100 M Lbs
Distributing Plant deliveries	55 M Lbs
Diversions	45 M Lbs

The impact of Proposal #4 on Coop A would be calculated as follows:

Take the 45 million pounds of diversion pounds and divide it by the 100 million pounds of producer milk. The resulting 45% would be divided into the 30% in Proposal #4 resulting in 66.67%. When the Market Administrator establishes the amount of transportation credit that

would be payable to Coop A instead of 100% of that value their heavy diversions would result in them receiving 66.67% of the payment. The savings would remain in the fund helping to either extend the fund or allow for a higher proration to all eligible handlers.

Proposal #4 Example – Coop B

Coop B Assumptions

Total Producer Milk	100 M Lbs
Distributing Plant deliveries	85 M Lbs
Diversions	15 M Lbs

The impact of Proposal #4 on Coop B would be calculated as follows:

Take the 15 million pounds of diversion pounds and divide it by the 100 million pounds of producer milk. The resulting 15% would be divided into the 30% in Proposal #4 resulting in 200%. When the Market Administrator establishes the amount of transportation credit that would be payable to Coop B they would receive the full 100% of that value. The rule change does not allow for a handler to get more than they are eligible for under the current regulation

Proposal #5

We support Proposal #4 as noticed with the noted changes. The changes are to clarify our position as we have considered the situation and evidence presented at this hearing.

1. Revise Sec. 1005.13(d)(6) to read as follows:

Sec. 1005.13 Producer milk.

* * * * *
(d) * * *

(6) Milk diverted to plants located in the marketing area described in 7 CFR parts 1005 and 1007, shall be priced at the location of the plant to which diverted; milk diverted to plants located outside the marketing area described in either Sec. Sec. 1005.2 or 1007.2, shall be priced at the lower of A) the location of the closest pool distributing plant located in the marketing area less an adjustment calculated by multiplying ~~Y (currently believe~~

~~this to be close to 4.0, but may provide evidence for a higher or lower number~~) cents per cwt. for each 10 miles or fraction thereof (by the shortest hard surface highway as computed by the market administrator) between the plant to which the milk was diverted and the closest pool distributing plant located in the marketing area, or B) the location of the plant to which diverted; and

* * * * *

2. Revise Sec. 1005.75 to read as follows:

Sec. 1005.75 Plant location adjustments for producer milk and nonpool milk.

For purposes of making payments for producer milk and nonpool milk: Except milk diverted to plants located outside the marketing area described in either Sec. Sec. 1005.2 or 1007.2 of this chapter, a plant location adjustment shall be determined by subtracting the Class I price specified in Sec. 1005.51 from the Class I price at the plant's location; for milk diverted to plants located outside the marketing area described in either Sec. Sec. 1005.2 or 1007.2 of this chapter, a plant location adjustment shall be determined by subtracting the Class I price specified in Sec. 1005.51 from the result of the formula found in Sec. 1005.13(d)(6) for such milk. The difference, plus or minus as the case may be, shall be used to adjust the payments require pursuant to Sec. Sec. 1005.73 and 1000.76.

I. Revise Sec. 1007.13(d)(6) to read as follows:

Sec. 1007.13 Producer milk.

* * * * *

(d) * * *

(6) Milk diverted to plants located in the marketing area described in 7 CFR parts 1005 and 1007, shall be priced at the location of the plant to which diverted; milk diverted to plants located outside the marketing area described in either Sec. Sec. 1005.2 or 1007.2, shall be priced at the lower of A) the location of the closest pool distributing plant located in the marketing area less an adjustment calculated by multiplying \cancel{Y} (currently believe ~~this to be close to 4.0, but may provide evidence for a higher or lower number~~) cents per cwt. for each 10 miles or fraction thereof (by the shortest hard surface highway as computed by the market administrator) between the plant to which the milk was diverted and the closest pool distributing plant located in the marketing area, or B) the location of the plant to which diverted; and

* * * * *

2. Revise Sec. 1007.75 to read as follows:

Sec. 1007.75 Plant location adjustments for producer milk and nonpool milk.

For purposes of making payments for producer milk and nonpool milk: Except for milk diverted to plants located outside the marketing area described in Sec. Sec. 1005.2 and 1007.2, a plant location adjustment shall be determined by subtracting the Class I price specified in Sec. 1007.51 from the Class 1 price at the plant's location; for milk diverted to plants located outside the marketing area described in either Sec. Sec. 1005.2 of this chapter or 1007.2, a plant location adjustment shall be determined by subtracting the Class I price specified in Sec. 1007.51 from the result of the formula found in Sec. 1007.13(d)(6) for such milk. The difference, plus or minus as the case may be, shall be used to adjust the payments require pursuant to Sec. Sec. 1007.73 and 1000.76.

Explanation of Proposal #5

As has been discussed the connection of the Class 1 pricing surface and producer values has created a real opportunity for pool riding, exacerbating the already problematic geographically large orders. Proposal #5 is aimed at disconnecting the producer values outside the Order from the Class I pricing surfacing for diversion purposes only, making it less desirable for out-of-area milk to ride on the pool. This is accomplished by modifying the Order language to utilize a formula in deriving the location adjustment for locations outside of the Order in place of the current process, which looks at the difference in Class I differentials between the announced price and the pricing point.

Proposal #5 would price milk delivered to plants located outside the marketing area in a five-step process. 1) Determine the closest pool distributing plant regulated by either FMMO #5 or #7. 2) Determine the distance in miles between the two using the shortest distance on hard-surfaced roads. 3) The resulting mileage would be divided by 10. 4) That result would be multiplied by 4 cents. 5) This result would be subtracted from the price at the closest pool distributing plant regulated by FMMO #5 or #7 to price milk delivered to out-of-area plants.

The value saved by lowering the price of out-of-area milk is retained in the pool to increase the blend price. Local producers will not have their price adjusted so their milk would then increase in value. Producers actually delivering to a pool distributing plant would realize an increase in value.

It is difficult to say the exact effect of Proposal #5 because there is a degree of circular logic. First, milk will go off the pool because there is no economic value for being pooled on a distant Order. Milk going off the pool will increase the blend price making it desirable for some to come back on. It will take some amount of time for the Order to reach a new equilibrium, but the short answer is that the utilization should increase resulting in higher blend prices. The exact amount is the product of too many variables to say exactly today.

Simplistic example of Proposal #5

Proposal #5 Example - Laurel, MD Pooled on FMMO #5 (21 known instances)

Current location adjustment relative to FMMO #5 announcement	(\$0.10)
Miles to closest pool distributing plant regulated by FMMO #5 or #7	152
Current pool distributing plant location adjustment relative to FMMO #5 announcement	(\$0.30)

The current price at Laurel, MD would be the blend price in Mecklenburg County, NC less 10 cents. If Proposal #5 were adopted the price in Laurel, MD would be the blend price in Mecklenburg County, NC less 30 cents (the location adjustment at the closest Pool distributing plant regulated by FMMO #5 or #7) less \$0.61 (152 miles to the closest pool distributing plant divided by 10 multiplied by 4 cents). The resulting price at Laurel, MD would be the blend price in Mecklenburg County, NC less \$0.91. Proposal #5 lowered the price in Laurel, MD by \$0.81/cwt. making it less desirable for milk to be pooled on FMMO #5 and then diverted back to

a Laurel plant. At some points the milk would likely not pool on FMMO # 5, but instead be pooled on the Order it is located in (FMMO #1). This would have the effect of lowering the manufacturing pounds pooled on FMMO #5 there by increasing the Class I utilization and increasing the blend price.

Proposal #5 Example – Kiel, WI Pooled on FMMO #5 (17 known instances)

Current location adjustment relative to FMMO #5 announcement	(\$1.35)
Miles to closest pool distributing plant regulated by FMMO #5 or #7	458
Current pool distributing plant location adjustment relative to FMMO #5 announcement	(\$0.90)

The current price at Kiel, WI would be the blend price in Mecklenburg County, NC less \$1.35.

If Proposal #5 were adopted the price in Kiel, WI would be the blend price in Mecklenburg County, NC less 90 cents (the location adjustment at the closest Pool distributing plant regulated by FMMO #5 or #7) less \$1.83 (458 miles to the closest pool distributing plant divided by 10 multiplied by 4 cents). The resulting price at Kiel, WI would be the blend price in Mecklenburg Country, NC less \$2.73. Proposal #5 lowered the price in Kiel, WI by \$1.38/cwt. making it less desirable for milk to be pooled on FMMO #5 and then diverted back to a Kiel plant. At some point the milk would likely not pool on FMMO # 5, but instead be pooled on the Order it is located in (FMMO #30). This would have the effect of lowering the manufacturing pounds pooled on FMMO #5 there by increasing the Class I utilization and increasing the blend price.

Proposal #5 Example – Sulphur Springs, TX Pooled on FMMO #7 (40 known instances)

Current location adjustment relative to FMMO #7 announcement	(\$0.10)
Miles to closest pool distributing plant regulated by FMMO #5 or #7	126
Current pool distributing plant location adjustment relative to FMMO #7 announcement	\$0.00

The current price at Sulphur Springs, TX would be the blend price in Fulton County, GA less ten cents. If Proposal #5 were adopted the price in Sulphur Springs, TX would be the blend price in

Fulton County, GA less zero (the location adjustment at the closest Pool distributing plant regulated by FMMO #5 or #7) less \$0.80 (126 miles to the closest pool distributing plant divided by 10 multiplied by 4 cents). The resulting price at Sulphur Springs, TX would be the blend price in Fulton County, GA less \$0.80. Proposal #5 lowered the price in Sulphur Springs, TX by \$0.70/cwt. making it less desirable for milk to be pooled on FMMO #7 and then diverted back to a Sulphur Springs plant. At some points the milk would likely not pool on FMMO #7, but instead be pooled on the Order it is located in (FMMO #126). This would have the effect of lowering the manufacturing pounds pooled on FMMO #5 there by increasing the Class I utilization and increasing the blend price.

Proposal #5 Example - Portales, NM Pooled on FMMO #7 (21 known instances)

Current location adjustment relative to FMMO #7 announcement	(\$1.00)
Miles to closest pool distributing plant regulated by FMMO #5 or #7	559
Current pool distributing plant location adjustment relative to FMMO #7 announcement	(\$0.30)

The current price at Portales, NM would be the blend price in Fulton County, GA less one dollar. If Proposal #5 were adopted the price in Portales, NM would be the blend price in Fulton County, GA less \$0.30 (the location adjustment at the closest Pool distributing plant regulated by FMMO #5 or #7) less \$2.24 (559 miles to the closest pool distributing plant divided by 10 multiplied by 4 cents). The resulting price at Portales, NM would be the blend price in Fulton County, GA less \$3.14. Proposal #5 lowered the price in Portales, NM by \$2.14/cwt. making it less desirable for milk to be pooled on FMMO #7 and then diverted back to the Portales plant. At some points the milk would likely not pool on FMMO #7, but instead be pooled on the Order it is located in (FMMO #126). This would have the effect of lowering the manufacturing pounds pooled on FMMO #7 there by increasing the Class I utilization and increasing the blend price.

Summary of desired outcome of implementation of Proposal #4 & #5

This record is already overflowing with evidence that the milk supply located within in the marketing area covered by these two Orders is shrinking. Our proposals work to accomplish the following: 1) Make existing dollars go farther to handlers who are not trying to work the system. 2) Increase revenues to local farms by A) decreasing the value of out-of-area milk for a direct benefit to local dairy farmers and B) decreasing the value of transportation credits to pool riders will increase the economic reward for such activity thus lowering the pool riding, increasing market utilization and increasing the blend price.

Therefore, urge the Secretary to adopt Proposal #4 and #5 regardless of the position taken on any of the other proposals.