



**TESTIMONY OF KEITH PAGEL
FOR USE IN PUBLIC HEARING, DOCKET NO. AO-361-A39; DA-04-04
BLOOMINGTON, MN
AUGUST 2004**

I am Keith Pagel and I hold the title of President / General Manager of Cass Clay Creamery, Inc. Cass Clay Creamery, Inc. is a farmer owned Dairy Cooperative headquartered in Fargo, North Dakota. Forty five percent of our volume is Class I, 9% Class II, 42% Class III, 4% Class IV with most of our growth coming in the Class I market.

The Board of Directors and Management of Cass Clay Creamery, Inc. supports proposal #2 and the testimony that will be presented by Dennis Tonak of Midwest Dairymen.

In April of 2004, Cass Clay Creamery started pooling distant milk for a fee for services. This milk which is not part of the normal market has the potential of creating a negative PPD. With the fee for service from the pooling of distant milk we are able to offset some of the negative PPD's. It also has been instrumental in supporting our mailbox prices to our members as we have direct competition for our member's milk from processors that are pooling distant milk for a fee. Cass Clay is not in favor of pooling Idaho milk, but we see it as a method of business survival in a very competitive market place. With that, I would like to defer all questions regarding proposal #2 to Dennis Tonak who is representing the proponents of proposal #2.

Keith Pagel

Keith Pagel

President / General Manager

Cass Clay Creamery, Inc.



Statement of Bill Averback

Docket No. AO-361-A39; DA-04-03

August 16, 2004

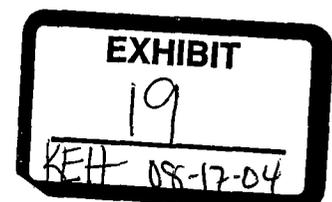
Minneapolis Minnesota

My name is Bill Averback. My address is N8150 Townline Road, Fond du Lac, Wisconsin 54937. Fond du Lac is located in Southeast Wisconsin midway between Milwaukee and Green Bay.

I operate Century Farms with my wife Mona and two of my sons. We farm 500 acres and milk 220 cows. I am a member – owner of Dairy Farmers of America (DFA) and market all my milk thru the cooperative. I serve as a director for Dairy Farmers of America on both the Central Area Council and Corporate Board of Directors. Both Board have reviewed and approved Proposal 2. I currently serve as a district director for the Wisconsin Federation of Cooperatives and am actively involved in my community. My wife is a director of the Wisconsin Milk Marketing Board. The Averback family earns its livelihood and participates off of the farm in the dairy industry. Our farm has an active risk management program as a part of our overall management practices.

Even though I have been actively involved in my cooperative for several years and have heard many reports on Federal Order activities I do not claim to be a Federal Order expert – however I feel I have a fair understanding of how they work and why they are important to farmers. I have been to other hearings and often discuss milk-pricing issues with my neighbors and other dairy farmers.

I'd like to briefly address the depooling and distant milk issue and also I'd like to discuss how these two issues affect my ability to use risk management tools on my farm



The dairy industry is always front-page news in Wisconsin. Issues commonly termed "distant milk" and "depooling" are well known there. Most every dairy farmer has seen the recent headline that the top milk production county in Order 30 is not located in Wisconsin. It would be more reasonable if it were in Illinois or Minnesota – but unbelievable that it is in Idaho.

Every dairy farmer understands that they produce a product, deliver it to the market and expect the remaining dollars to show a profit – they are businessmen. All of us understand that there is no way that milk can be delivered from as far away as Idaho to Order 30 regularly and return a profit to the dairy farmer who produced it. Even though I am not an expert in pooling rules I think the Secretary needs to review them to see if they make sense and are fair. The Order rules should reflect economic reality.

On the issue of depooling I also feel that the rules should be reviewed. All dairy farmers supply a market. That may be a Class I market or a Class III market – that is their choice. But no market is willing to have suppliers that deliver only when they want to. Buyers demand, as they should, steady performance from their suppliers. I expect that from any of my dairy farm suppliers. The fluid milk market has a steady regular demand. If any dairyman wants to share in the returns from that market demand you should be prepared to deliver every month and not bounce in and out. It is not unreasonable for all the producers who supply the same market and share in the market returns to get the same minimum price.

Even though the Class I utilization is lower in Order 30 than other markets it is still a component of my farm's returns. Dairy farming is not a high margin business. All parts of the revenue stream are important. My neighbors and I are concerned about these issues because we pay attention to every dollar that comes in our milk check.

Finally I'd like to express a concern related to risk management. Our farm regularly forward contracts our milk to try to assure our business of a profitable price. I'm not here to debate the pros and cons of contracting – I'll do that out in the hallway if anyone wants to do that. Our accountant, county agent, university professors, bankers and USDA representatives are always urging us to use all the management tools we can to make us better businessmen. Contracting is one of those tools. In general we look at the difference between our farms mailbox milk price and the Class III price to establish a relationship that we can expect in the future – we call that basis. Predicting the future about milk prices is much like predicting the weather – a lot of variables have to be accounted for. But this is still a tool we are learning to work with. However when negative PPD's occur at the rate of this past spring, all of the historical relationships we have observed in the past get way off and adversely affect our basis. The price relationship we had tried to achieve was destroyed by factors we could never have foreseen or predicted.

If we try to account for them at the rates we have experienced recently the variation would be so large that contracting likely would be useless.

I realize the Federal Order system is not in place to assist me in forward contracting my milk price – but the abnormality of depooling certainly damages its usefulness. Congress instructed USDA to take an active role in educating and encouraging dairy farmers to use risk management tools such as forward contracting. The situation we find our farm in now seems counter productive. I think the Secretary should take that into consideration in her decision.

Thanks for listening to my concerns and I will try to answer any questions that I can.

My name is Randall Geiger and I live at 4227 Hickory Hills road in Reedsville, WI. My wife and I own and operate Ran Rose Dairy Farm and I have been engaged in dairy farming my entire life. I am currently President of Manitowoc Milk Producers Cooperative in Manitowoc, WI. Manitowoc Milk Producers Cooperative is a bargaining and service cooperative that serves over 2,900 dairy producers. The services we provide are required by the Federal Order System and include establish or verification of producer component tests, verification of weights and measures and others.

The greatest share of our member's milk is pooled on Order 30, with smaller amounts on Order 32 and 33. We represent producers in both cheese plants and fluid operations.

I am here today to testify on behalf of our Cooperative in support of proposal number two. On the issue of distant milk pooling on Order 30, our Cooperative currently has a small group of members in Idaho. Even though this group is small in numbers it represents a significant amount of milk. If proposal number two is adopted, it may significantly lower the bottom line of our Cooperative. Why did we accept these members into our Cooperative? There are two similar Cooperatives that provide the same service as Manitowoc Milk Producers Cooperative. If we would not have taken them as members, I am sure one of the other two would have. Our Cooperative has a 2-cent per hundred weight checkoff on member milk for the services we provide. I do not know how much the milk from Idaho or other regions has reduced the producer price differential, but even if it was the same 2-cents as our members pay into the cooperative, when calculated over all over members milk it would be a considerable amount of

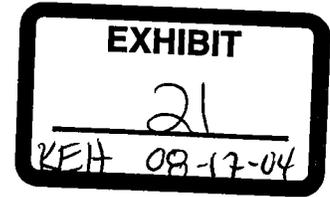


money. Is it better for our Cooperative to have the 2 cents per hundred weight on our bottom line with the Idaho members or have our producers have that same amount in their pockets? We feel it would be better in all our members' pockets.

As far as pooling and depooling, I currently ship to a fluid dairy plant. When the \$4.11 negative producer price differential was announced, I waited anxiously for my milk check to arrive. Fortunately my dairy plant was able to absorb this negative. Can they continue to do this? I personally do not think they can. It is my understanding that one of the functions on the Federal Order is to provide producer equity. If my plant would not have absorbed the negative producer price differential, a producer living next door to me shipping to a cheese plant would have received an additional \$4.11 cents due to their plants ability to pool or not pool their milk. With the cheese plants ability to pool when times are good and not pool at times of negative producers price differentials, in my eyes this is not producer equity.

Thank you for your time and this concludes my testimony.

Statement of Steve Matthees



Docket No. AO-361-A39; DA-04-03

August 16, 2004

Minneapolis, Minnesota

My name is Steve Matthees. My address is 23216 County 9 Blvd, Goodhue, Minnesota 55027. Goodhue is located in southeast Minnesota about 70 miles from the Twin Cities area.

I operate a family dairy with my son, my daughter, and my brother. We farm 760 acres and milk 200 cows. My family and I are active participants in the dairy industry both off and on our farm; Amie, my daughter, is Chairperson of Goodhue County American Dairy Association (ADA).

I am a member-owner of Dairy Farmers of America (DFA) and market all our milk thru the cooperative. I serve as a corporate director for Dairy Farmers of America. Our farm is located in DFA's Central Area Council, which spans portions of Order 30 and 32. Our Council Board of Directors, of which I am Chairman, has reviewed Proposal 2 made by our cooperative in conjunction with several other Upper Midwest Cooperatives and supports its intent.

I am not a technical expert in the inner workings of Federal Orders and do not expect to answer many technical questions about them or the proposal. Because of my industry involvement, I do get many questions from other producers in my area-both DFA members and farmers from other cooperatives, asking me to explain negative PPDs and why they occur.

I do the best I can by trying to explain volatile pricing conditions, why they happens, and how that makes pricing of milk difficult. To some extent farmers understand volatility and can make some sense of it. We deal with it in grain markets, as well as the input costs of farming. When commodity prices like cheese and butter are low, our milk prices are low and when cheese and butter high, milk prices go up. When milk production is up, milk prices go down; and when milk production decreases, milk price goes up. Sometimes that happens pretty fast and even unexpectedly. That much I can explain pretty well.

But I struggle to explain when production is tight and commodity prices are high – why some part of my milk’s blend price is negative. When I try to explain to my neighbors that there are buyers of milk who whenever it is to their advantage financially, they can simply choose not to be in the pool – but they can get right back in when there is money to be shared. They always ask: “Is that very fair?” And I have to answer, “Probably not.”

I understand that my Cooperative “depools” whenever we can so that we can try to have as competitive a pay price as possible in the county. But we are also here

today trying to change the rules to a more reasonable position – and one that will affect DFA as well. Most of my neighbors and fellow DFA members agree that if you want to share in the fluid market returns you should be a regular supplier. The fluid market demand is every day and fairly constant. If you want to share in it, you should commit to the market every day and not just when it is convenient or profitable. If a dairy farmer chooses to supply milk only to a manufacturing market, that should be his decision, but it seems unreasonable to be able to pick and choose – no buyer would expect to have a supplier relationship like that.

I also support the proposal that has been made which attempts to better define how dairy farmers, who live a long way away from the market, also can share in the pool. It seems unreasonable that a farm located in Idaho can be a regular supplier. I do not think the price is high enough to justify making that delivery every day. I don't think any farmer would regularly supply a market if he lost several dollars per hundredweight on every load. It seems amazing that the largest county for milk supply in Order 30 is in Idaho now. Surely the Secretary can see that the rules need to be reviewed to see if this practice really makes sense and is fair. I understand that this milk rarely delivers to the market and would not be considered by any buyer as their regular supply.

Thanks for listening to my concerns and I will try to answer any questions that I can.



Milwaukee Milk Producers

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Testimony of Marvin Anderson

Representing Milwaukee Cooperative Milk Producers

& Lakeshore Federated Dairy Cooperative

Before the

United States Department of Agriculture

Regarding

Request for Hearing on Order 30 Pooling Limits and Transportation Credits and Distant Milk Performance Levels

A Statement In Support of Proposal 2

Comments by Marvin Anderson

August 17th, 2004

My name is Marvin Anderson. I am a dairy producer from Hillsboro, Wisconsin. My wife Helen and I began our farming career back in 1967; and 5 years later we purchased my father's family farm. Our life on the farm includes working 520 acres of cropland and caring for 85 head of registered Holstein cows and young stock. Producing lots of good quality healthy milk for our consuming public remains a top priority in our operation. Our rolling herd average stands at over 22,000 pounds per animal with monthly average quality count of 200,000 cell count and bacteria count of 15. I serve on the Board of Directors of Milwaukee Cooperative Milk Producers for the past 7 years, currently in the capacity of treasurer. Milwaukee Cooperative Milk Producers is a milk marketing and service cooperative organized way back in 1916. We are the oldest bargaining milk cooperative in the Upper Midwest.

One of our qualified cooperative duties is to ensure proper test and weight verification on raw milk sales for member's in accordance with Federal Order provisions. Our membership consists of over 900 dairy producers located primarily in Wisconsin. We also have members located in Indiana, Illinois, Iowa and Nebraska. Our family dairy owners ship their milk and receive payment through 38 different proprietary plants and cooperative handlers in the Midwest. We also provide various other services for our members such as; state and national legislative representation, health insurance options, water testing services, a milk loss disaster assistance program and federal order involvement; such as this hearing.

I am also on the Board of Directors of Lakeshore Federated Dairy Cooperative: a group consisting of Mid-West Dairymen's Co., Milwaukee Cooperative Milk Producers, and Manitowoc Milk Producers Cooperative. In the past I have also served two terms as a Board Member of the Wisconsin Federation of Cooperatives.

I feel honored to appear at this hearing to express my views **in support of Proposal # 2**, which in essence limits the pooling of distant milk on this Order and to offer a solution to minimize the amount of re-pooling of milk after de-pooling in this market to help increase monetary returns and restore equitable treatment to hard working dairy producer families, throughout the upper Midwest milk marketing geography. I've read many articles over the last 3 months on this subject talking about the need to limit these large swings in PPD pool values that not only I have experienced, but also other members of our cooperative who have been negatively impacted. My milk for the past 5 years is delivered to Westby Co-op a manufacturing plant, located about 30 miles from my farmstead. The plant produces primarily cottage cheese, along with some cheese, and sells a portion of its supply to the fluid market and other cheese manufacturers.

When I went to my mail box on June 20th my May final milk payment check was there. Milk prices as you know have been very favorable these last 4 month's, and boy we sure needed it to recoup our losses over the prior 1 & ½ years of painfully low prices. But upon opening that check I was not only surprised but also thoroughly disappointed when I saw a negative \$1.97 as my PPD value of my check. I calculated this negative PPD cost me about \$1900 dollars and almost feel like it was taken right out of my pocketbook. I contacted several of my neighbors who ship to other markets and compared what their milk payments for the month were. Well low and behold their PPD amounts were at zero. I feel this great variance has disadvantaged me price wise. Our cooperative has always been strong proponents in recognizing the value that Federal Orders play in stabilizing and propping up prices to producers. I feel strongly that changes have to be made in the Federal Order system that now, due to unfavorable conditions, allows this type of unfair competitiveness between handlers to evolve.

My understanding of proposal number 2 is that it will help correct this situation. In regard to the growing distant milk issue, I feel that if these distant handlers want to collect money from the Order 30 pool then they should ship and serve our market.

In closing I feel the large amounts of de-pooling has to be addressed by limiting the amount of re-pooling and the pooling of distant milk on Order 30 when virtually no shipments to fluid markets are made. I implore USDA to right an inequity that exists in our marketplace that is taking dollars away from all local producers supplying the fluid market.

I appreciate the opportunity to give my views and thank you for your consideration of our proposal.

Upper Midwest Order

Producer Price Differential

Actual vs. Estimated by Including No Eligible

Class III Producer Milk in Pool

	<u>Actual</u> <i>Per Cwt.</i>	<u>Estimated</u> <i>Per Cwt.</i>
July 2003	\$ (0.41)	\$ (0.47)
August 2003	(1.58)	(1.72)
September 2003	(1.07)	(1.13)
October 2003	(0.88)	(0.91)
November 2003	(0.07)	(0.11)
December 2003	0.54	1.63
January 2004	\$ 0.37	\$ 1.02
February 2004	0.47	1.63
March 2004	0.21	0.16
April 2004	(4.11)	(4.24)
May 2004	(1.97)	(2.09)

Prepared by:
 Market Administrator's Office
 Minneapolis, Minnesota
 August 2004

At the Request of:
 Marvin Beshore



Upper Midwest Order
Producer Price Differential
Actual vs. Estimated by Including No
Eligible Class IV Producer Milk in Pool

	<u>Actual</u> <i>Per Cwt.</i>	<u>Estimated</u> <i>Per Cwt.</i>
January 2003	\$0.58	\$0.58
February 2003	0.47	0.49
March 2003	0.54	0.53
October 2003	(0.88)	0.17
November 2003	(0.07)	0.64
December 2003	0.54	0.72



Prepared by:
Market Administrator's Office
Minneapolis, Minnesota
August 2004
At the Request of:
Marvin Beshore

ELVIN HOLLON

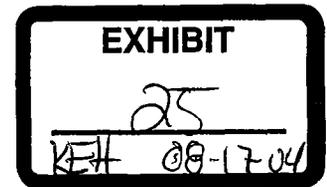
Testimony of Dairy Farmers of America

Milk in the Upper Midwest Marketing Areas

Docket Number AO-361-A39; DA-04-03

Minneapolis Minnesota

August 16, 2004



Dairy Farmers of America

Dairy Farmers of America, Inc. (DFA) is a qualified Capper-Volstead cooperative that represents 13,445 farms located in 47 states. In 2003 DFA marketed 56.5 billion pounds of milk of its member owners, for other cooperatives and for non-member dairy farmers. Our primary market is selling bulk milk to other milk processors.

We support the Federal Order system because we believe it is the most fair and equitable manner to market dairy farmer's milk that will insure them of a reasonable price and common terms of trade. We have participated in nine Federal Order hearings and several subsequent court proceedings since the implementation of Federal Order Reform, in an effort to make Federal Orders function the best way possible for dairy farmers. This is why we are here today to participate in this hearing.

We pool milk on Federal Order 30. We are appearing here in coordination with the other proponents of Proposal 2 - Cass Clay Creamery, Inc., Land O' Lakes, Inc., Manitowoc Milk Producers Cooperative, Mid-West Dairymen's Company, Milwaukee Cooperative Milk

Producers, Plainview Milk Producers Cooperative, Swiss Valley Farms Company, Westby Cooperative Creamery and Woodstock Progressive Milk Producers Association.

We agree that the issues of better defining the performance standards for milk that is located so far from the market that it can never be a regular supplier to the market and providing a solution to the depooling issue are important problems to solve in Federal Order 30. We note that nearly all participants in the hearing support tightening the performance standards for distant milk and most support an elimination or reduction in the ability to depool. We also note for the record that we participate in both activities in an effort to have sufficient revenue streams to pay our members milk prices equivalent to that of our competitors. While we feel both practices need to be corrected in some way we cannot disregard day-to-day impact of the revenue stream in our business operations.

Our management and Board of Directors at both the Corporate and Area Council level have reviewed the issues that will be discussed at this hearing. We have also reviewed the issues in several member communications with the entire DFA membership. We support Proposal 2 as the best solution to remedy the problems.

Discussion of DFA Exhibits 1 - 2

Exhibit 1 Freight Mileage / Return Tables

Exhibit 1 is composed of 9 tables. Tables 1 thru 8 are similar constructs and Table 9 a summary. The purpose of this exhibit is to show the economic results obtainable from attaching milk produced in Idaho to the Order 30 pool under various pooling and classification alternatives.

All alternatives have the following identical assumptions:

- 1) The comparison is for a hypothetical 1,000,000 pound producer;
- 2) The distance from Twin Falls Idaho to Minneapolis is 1,283 miles;
- 3) The haul volume is assumed to be 47,500 pounds;
- 4) The haul rate is based on \$2.10 per loaded mile;
- 5) The haul cost calculation includes the benefit of 400 miles of transportation credit from the Order 30 pool as currently allowed.
- 6) The PPD calculation is reduced by 20 cents to reflect the \$1.80 versus \$1.60 difference in location adjustment between the Order 30 base zone and Twin Falls county Idaho;
- 7) The time period covers the 54 months between January 2000 and June 2004;
- 8) No consideration is given for a "pooling fee" arrangement.

The scenarios vary as follows:

- 1) Assume "once and done" touch base, pool every month and a CIII PPD;
- 2) Assume "10%" touch base, pool every month and a Class III PPD;
- 3) Assume "once and done" touch base, depool the maximum amount when the PPD is negative and a CIII PPD;
- 4) Assume "10%" touch base, depool the maximum amount when the PPD is negative and Class a III PPD;
- 5) Assume "once and done" touch base, pool every month and a CIV PPD;
- 6) Assume "10%" touch base, pool every month and a Class IV PPD;
- 7) Assume "once and done" touch base, depool the maximum amount when the PPD is negative and a CIV PPD;
- 8) Assume "10%" touch base, depool the maximum amount when the PPD is negative and a Class IV PPD;

The calculations show that if the milk were to deliver every day to meet the market demand it would never ship because the return (column I and II in each of tables 1 thru 8) would be

negative. This is totally logical since the haul is \$5.44 per cwt and the PPD is never larger than \$1.23 per cwt.

However if one considers the "once and done" touch base situation (current Order 30 provisions) the return is very attractive totaling \$79,018 or an average of \$0.146/cwt for pooling in each of the 54 months. (Table 1) Whenever the distant milk must perform based on its' own deliveries and at the 10% standard that other milk performs, it would never pool because the return would be negative – \$212,767 or an average of -\$0.394 / cwt. (Table 2)

When the option to "depool at will" is factored into the equation the "once and done" calculation is even more lucrative, totaling \$194,418 or an average of \$0.423 / cwt for the 46 months of positive PPD's only. (Table 3) When "depool at will" is combined with the 10% shipping standard the result remains negative at -\$53,875 or an average of -\$0.117 / cwt. (Table 4)

Shifting the comparison to a PPD driven by a Class IV utilization the "once and done" pool every month return is \$31,018 or an average of \$0.057 / cwt for the 54 month period, reflecting the many months early in the period when Class IV prices were very high. (Table 5) Retaining the Class IV PPD calculation and combining it with a 10% shipping standard the return and pooling every month yields a -\$260,767 or an average of -\$0.483 / cwt. (Table 6)

Finally, retaining the Class IV PPD calculation a "once and done" and "depool at will" ability yields the most profitable return of \$302,100 or an average of \$1.079 / cwt. Year to date 2004 the monthly gain from this strategy would return a average of \$1.992 / cwt gain. (Table 7) Requiring this supply (Class IV PPD and "once and done" and "depool at will") to deliver at the 10% shipping rate would still yield a positive return for the 28 months of positive PPD's of \$149,880 or an average of \$0.535 / cwt. (Table 8)

The conclusions drawn from these tables would be that:

- 1) If milk from Idaho delivered to the Order 30 fluid market every day it would never choose to be a market supplier.
- 2) If the distant milk supply is able to continue to access the market via the "once and done" touch base requirement it will continue to draw funds away from the pool at a large rate. Yet this milk will not ever become a regular supplier because it is too far away.
- 3) If the distant milk is required to perform on its' own merit (ship at the 10% rate) it will likely not choose to pool on Order 30.
- 4) Anytime the milk can "depool at will" the return potential increases dramatically. Thus without addressing both problems together the prospects for improved returns for local regular market suppliers are limited.
- 5) To the extent the distant milk supply is Class IV based at 2003/4 price relationships it may continue to pool on Order 30.

Order provisions should bear resemblance to real world economic consequences. Current provisions yield results that are too far from actual economic reality to be effective and equitable. The provisions should be changed. Proposal 2 is a reasonable way to correct the current inadequate performance provisions.

Exhibit 2 Location Economics and Location Adjustments for the Indianapolis Marketing Area - 1961

The Von Thunen Theorem is a theoretical construct for describing the relationship between production costs, market price and transportation costs. The most productive activities or those with the highest transport costs are located the closest to the market. Conversely, activities that have lower transport costs are located further away from the market. While there are many classroom explanations it is frequently described using agricultural examples.

In the case of a dairy farmer Von Thunen would say that on farm profit would be defined by market price less the cost of production less the transport cost to the market. For Federal Order pricing this is the under pinning logic for having market prices vary by transport costs. That is milk supplies located closer to the market have a higher value than supplies located further away. Location adjustments accomplish that purpose. They attempt to recognize that milk has a value depending on its' relative distance to the market.

When there is not a commensurate price adjustment between the supply location and the demand point in a Federal Order the other factors of the value sharing mechanism of the Order need to be adjusted to recognize the still existing economic reality of location value.

The *Decision on Proposed Marketing Agreement and Order for the Indianapolis Marketing Area* published in the January 5, 1961 Federal Register explains the rationale and logic for the institution of location adjustments and "zone outs" in the promulgation of the Indianapolis Order. We call attention to this Decision because the logic presented is a good description of why such adjustments are needed. Simply said there should be some relative adjustment factor to account for the increased distance that a milk supply lies from a market. Note there are no proposals in this hearing for the institution of "zone outs" and we have no intentions to make or support any. That is not our intent.

However, our proposal aims for a similar economic result – a relative relationship between the market return and the distance from the market that a milk supply must travel in order to supply that market.

This decision recognizes:

"A schedule of location differentials should be incorporated in the Order to provide an appropriate adjustment of order prices at the location of any plant from which milk is moved into the marketing area."

The reasons for the need for the price adjustments are:

"Unless provision is made in the order for the application of location differentials, producers delivering milk to plants located at some distance from the marketing area would be paid the same uniform prices as producers delivering to plants in the marketing area.

It is economically more feasible to meet the needs of the market for fluid purposes from those farms or plants nearest the market before bringing in milk from more distant plants. The value of milk to the market for fluid purposes is greater at the location of a plant in the marketing area which packages it for distribution than at a plant from which milk must be moved to the market for Class I use. Recognition in the Order through the medium of a location differential should be given to this difference in value."

The Decision noted that economic theory and practice were common in the marketplace and should be reflected in the Order language:

"It is customary in both regulated and unregulated markets for handlers to pay dairy farmers delivering milk to farther removed from the market a lesser price per hundredweight than is paid to dairy farmers delivering directly to plants in the marketing area. To the extent that this represents a lower price because of the location of the milk, such a difference in value should be recognized under the Order."

Furthermore the Decision noted that "not all location adjustments are created equal" and some should have a variation in scale – reflecting some combination of an absolute difference in value and a relative difference in value.

"Accordingly the Class I price should be reduced by 10 cents for 80 miles and 1.5 cents for each additional 10 miles or fraction thereof with respect to approved milk received at a plant which is not less than 70 miles from Monument Circle in Indianapolis."

Finally, the Decision noted that the above price adjustments, which were for Class I milk should be reflected in prices paid to producers as well and for the same reasons:

"Prices paid producers supplying plants at which location differentials apply should be reduced to reflect the lower value of such milk f.o.b. the point to which delivered."

These points support our contention that there must be a better measure for the relationship of milk value and distance in Federal Order 30. This principle is well grounded in economic theory, a standard practice in Order language and operation and needs attention here as part of the discussion of how best to decide what performance standard should apply in Order 30.

Exhibits of Dairy Farmers of America

Milk in the Upper Midwest Marketing Areas

Docket Number AO-361-A39; DA-04-03

Minneapolis Minnesota

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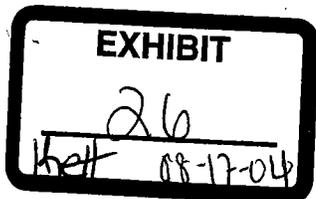


Table of Contents

- Table 1 - Comparison of Producer Price Differential versus Hauling Charge, "Once and Done" touch base, pool every month, CIII PPD**
- Table 2 - Comparison of Producer Price Differential versus Hauling Charge, "Pool 10 Percent touch base", pool every month, CIII PPD**
- Table 3 - Comparison of Producer Price Differential versus Hauling Charge, "Once and Done touch base", depool maximum when possible, CIII PPD**
- Table 4 - Comparison of Producer Price Differential versus Hauling Charge, "Pool 10 Percent touch base", depool maximum when possible, CIII PPD**
- Table 5 - Comparison of Producer Price Differential versus Hauling Charge, "Once and Done" touch base, pool every month, CIV PPD**
- Table 6 - Comparison of Producer Price Differential versus Hauling Charge, "Pool 10 Percent touch base", pool every month, CIV PPD**
- Table 7 - Comparison of Producer Price Differential versus Hauling Charge, "Once and Done touch base", depool maximum when possible, CIV PPD**
- Table 8 - Comparison of Producer Price Differential versus Hauling Charge, "Pool 10 Percent touch base", depool maximum when possible, CIV PPD**
- Table 9 - Summary of Tables 1 - 8**
- Excerpt - Page 76 Docket No. AO – 319**
- Federal Register volume 26 number 2 January 5,1961**
- Milk in the Indianapolis Indiana Marketing Area***
- Page 76 contains the entirety of the discussion on Location Differentials**

Comparison of Delivery Charges versus Producer Price Differential

Idaho Delivery to Minneapolis

January 2000 - June 2004

1,000,000 LB Producer

Touch Base Requirement of 32,787 pounds & maximum benefit from the Transportation Credit

PPF Class III Base Zoned to Idaho location - \$1.60

Totals Charges Assume Pool Every Month

Assumptions		Idaho
Transport Volume		47,500
Rate Per Mile		\$ 2.10
Miles		1,283
Haul Credit @400 miles		\$ 112.00
Rate per CWT		\$ 5.44

FO 1030 Monthly PPD	Column I Return After Daily Delivery Million Pound Producer Idaho per cwt		Column II Return After Monthly Delivery Million Pound Producer Idaho total dollars		Column III Monthly Return One Time Touch Base Million Pound Producer Idaho total dollars	
	Jan-00	\$ 0.23	\$ (5.21)	\$ (52,064)	\$ 518	
Feb	\$ 0.36	\$ (5.08)	\$ (50,764)	\$ 3,600		
Mar	\$ 0.44	\$ (5.00)	\$ (49,964)	\$ 4,400		
Apr	\$ 0.54	\$ (4.90)	\$ (48,964)	\$ 5,400		
May	\$ 0.70	\$ (4.74)	\$ (47,364)	\$ 7,000		
Jun	\$ 0.77	\$ (4.67)	\$ (46,664)	\$ 7,700		
Jul	\$ 0.50	\$ (4.94)	\$ (49,364)	\$ 5,000		
Aug	\$ 0.64	\$ (4.80)	\$ (47,964)	\$ 6,400		
Sep	\$ 0.50	\$ (4.94)	\$ (49,364)	\$ 5,000		
Oct	\$ 0.66	\$ (4.78)	\$ (47,764)	\$ 6,600		
Nov	\$ 1.23	\$ (4.21)	\$ (42,064)	\$ 12,300		
Dec	\$ 1.03	\$ (4.41)	\$ (44,064)	\$ 10,300		
Jan-01	\$ 0.83	\$ (4.61)	\$ (46,064)	\$ 8,300		
Feb	\$ 0.68	\$ (4.76)	\$ (47,564)	\$ 6,800		
Mar	\$ 0.58	\$ (4.86)	\$ (48,564)	\$ 5,800		
Apr	\$ 0.63	\$ (4.81)	\$ (48,064)	\$ 6,300		
May	\$ 0.47	\$ (4.97)	\$ (49,664)	\$ 4,700		
Jun	\$ 0.30	\$ (5.14)	\$ (51,364)	\$ 3,000		
Jul	\$ 0.25	\$ (5.19)	\$ (51,864)	\$ 2,500		
Aug	\$ 0.31	\$ (5.13)	\$ (51,264)	\$ 3,100		
Sep	\$ 0.18	\$ (5.26)	\$ (52,564)	\$ 1,800		
Oct	\$ (0.05)	\$ (5.49)	\$ (54,864)	\$ (500)		
Nov	\$ 0.94	\$ (4.50)	\$ (44,964)	\$ 9,400		
Dec	\$ 0.19	\$ (5.25)	\$ (52,464)	\$ 1,900		
Jan-02	\$ 0.23	\$ (5.21)	\$ (52,064)	\$ 2,300		
Feb	\$ 0.21	\$ (5.23)	\$ (52,264)	\$ 2,100		
Mar	\$ 0.40	\$ (5.04)	\$ (50,364)	\$ 4,000		
Apr	\$ 0.30	\$ (5.14)	\$ (51,364)	\$ 3,000		
May	\$ 0.28	\$ (5.16)	\$ (51,564)	\$ 2,800		
Jun	\$ 0.43	\$ (5.01)	\$ (50,064)	\$ 4,300		
Jul	\$ 0.60	\$ (4.84)	\$ (48,364)	\$ 6,000		
Aug	\$ 0.46	\$ (4.98)	\$ (49,764)	\$ 4,600		
Sep	\$ 0.34	\$ (5.10)	\$ (50,964)	\$ 3,400		
Oct	\$ 0.11	\$ (5.33)	\$ (53,264)	\$ 1,100		
Nov	\$ 0.39	\$ (5.05)	\$ (50,464)	\$ 3,900		
Dec	\$ 0.39	\$ (5.05)	\$ (50,464)	\$ 3,900		
Jan-03	\$ 0.38	\$ (5.06)	\$ (50,564)	\$ 3,800		
Feb	\$ 0.27	\$ (5.17)	\$ (51,664)	\$ 2,700		
Mar	\$ 0.34	\$ (5.10)	\$ (50,964)	\$ 3,400		
Apr	\$ 0.26	\$ (5.18)	\$ (51,764)	\$ 2,600		
May	\$ 0.20	\$ (5.24)	\$ (52,364)	\$ 2,000		
Jun	\$ 0.18	\$ (5.26)	\$ (52,564)	\$ 1,800		
Jul	\$ (0.61)	\$ (6.05)	\$ (60,464)	\$ (6,100)		
Aug	\$ (1.78)	\$ (7.22)	\$ (72,164)	\$ (17,800)		
Sep	\$ (1.27)	\$ (6.71)	\$ (67,064)	\$ (12,700)		
Oct	\$ (1.08)	\$ (6.52)	\$ (65,164)	\$ (10,800)		
Nov	\$ (0.27)	\$ (5.71)	\$ (57,064)	\$ (2,700)		
Dec	\$ 0.34	\$ (5.10)	\$ (50,964)	\$ 3,400		
Jan-04	\$ 0.17	\$ (5.27)	\$ (52,664)	\$ 1,700		
Feb	\$ 0.27	\$ (5.17)	\$ (51,664)	\$ 2,700		
Mar	\$ 0.01	\$ (5.43)	\$ (54,264)	\$ 100		
Apr	\$ (4.31)	\$ (9.75)	\$ (97,464)	\$ (43,100)		
May	\$ (2.17)	\$ (7.61)	\$ (76,064)	\$ (21,700)		
Jun	\$ 0.10	\$ (5.34)	\$ (53,364)	\$ 1,000		
CY 2000 Avg	\$ 0.633		CY 2000 Total	\$ 74,218	\$ 0.618	
CY 2001 Avg	\$ 0.443		CY 2001 Total	\$ 53,100	\$ 0.443	
CY 2002 Avg	\$ 0.345		CY 2002 Total	\$ 41,400	\$ 0.345	
CY 2003 Avg	\$ (0.253)		CY 2003 Total	\$ (30,400)	\$ (0.253)	
CY 2004 Avg	\$ (0.988)		CY 2004 Total	\$ (59,300)	\$ (0.988)	
54 Mo Avg	\$ 0.150		54 Mo Total	\$ 79,018	\$ 0.146	

Comparison of Delivery Charges versus Producer Price Differential

Idaho Delivery to Minneapolis

January 2000 - June 2004

1,000,000 LB Producer

Touch Base Requirement of 100,000 pounds & maximum benefit from the Transportation Credit

PP Class III Base Zoned to Idaho location - \$1.60

Total Charges Assume Pool Every Month

Assumptions	Idaho
Transport Volume	47,500
Rate Per Mile	\$ 2.10
Miles	1,283
Haul Credit @400 miles	\$ 112.00
Rate per CWT	\$ 5.44

FO 1030 Monthly PPD	Column I Return After Daily Delivery Million Pound Producer Idaho per cwt		Column II Return After Monthly Delivery Million Pound Producer Idaho total dollars		Column III Monthly Return Ten Percent Touch Base Million Pound Producer Idaho total dollars	
	Jan-00	\$ 0.23	\$ (5.21)	\$ (52,064)	\$ (3,136)	
Feb	\$ 0.36	\$ (5.08)	\$ (50,764)	\$ (1,836)		
Mar	\$ 0.44	\$ (5.00)	\$ (49,964)	\$ (1,036)		
Apr	\$ 0.54	\$ (4.90)	\$ (48,964)	\$ (36)		
May	\$ 0.70	\$ (4.74)	\$ (47,364)	\$ 1,564		
Jun	\$ 0.77	\$ (4.67)	\$ (46,664)	\$ 2,264		
Jul	\$ 0.50	\$ (4.94)	\$ (49,364)	\$ (436)		
Aug	\$ 0.64	\$ (4.80)	\$ (47,964)	\$ 964		
Sep	\$ 0.50	\$ (4.94)	\$ (49,364)	\$ (436)		
Oct	\$ 0.66	\$ (4.78)	\$ (47,764)	\$ 1,164		
Nov	\$ 1.23	\$ (4.21)	\$ (42,064)	\$ 6,864		
Dec	\$ 1.03	\$ (4.41)	\$ (44,064)	\$ 4,864		
Jan-01	\$ 0.83	\$ (4.61)	\$ (46,064)	\$ 2,864		
Feb	\$ 0.68	\$ (4.76)	\$ (47,564)	\$ 1,364		
Mar	\$ 0.58	\$ (4.86)	\$ (48,564)	\$ 364		
Apr	\$ 0.63	\$ (4.81)	\$ (48,064)	\$ 864		
May	\$ 0.47	\$ (4.97)	\$ (49,664)	\$ (736)		
Jun	\$ 0.30	\$ (5.14)	\$ (51,364)	\$ (2,436)		
Jul	\$ 0.25	\$ (5.19)	\$ (51,864)	\$ (2,936)		
Aug	\$ 0.31	\$ (5.13)	\$ (51,264)	\$ (2,336)		
Sep	\$ 0.18	\$ (5.26)	\$ (52,564)	\$ (3,636)		
Oct	\$ (0.05)	\$ (5.49)	\$ (54,864)	\$ (5,936)		
Nov	\$ 0.94	\$ (4.50)	\$ (44,964)	\$ 3,964		
Dec	\$ 0.19	\$ (5.25)	\$ (52,464)	\$ (3,536)		
Jan-02	\$ 0.23	\$ (5.21)	\$ (52,064)	\$ (3,136)		
Feb	\$ 0.21	\$ (5.23)	\$ (52,264)	\$ (3,336)		
Mar	\$ 0.40	\$ (5.04)	\$ (50,364)	\$ (1,436)		
Apr	\$ 0.30	\$ (5.14)	\$ (51,364)	\$ (2,436)		
May	\$ 0.28	\$ (5.16)	\$ (51,564)	\$ (2,636)		
Jun	\$ 0.43	\$ (5.01)	\$ (50,064)	\$ (1,136)		
Jul	\$ 0.60	\$ (4.84)	\$ (48,364)	\$ 564		
Aug	\$ 0.46	\$ (4.98)	\$ (49,764)	\$ (836)		
Sep	\$ 0.34	\$ (5.10)	\$ (50,964)	\$ (2,036)		
Oct	\$ 0.11	\$ (5.33)	\$ (53,264)	\$ (4,336)		
Nov	\$ 0.39	\$ (5.05)	\$ (50,464)	\$ (1,536)		
Dec	\$ 0.39	\$ (5.05)	\$ (50,464)	\$ (1,536)		
Jan-03	\$ 0.38	\$ (5.06)	\$ (50,564)	\$ (1,636)		
Feb	\$ 0.27	\$ (5.17)	\$ (51,664)	\$ (2,736)		
Mar	\$ 0.34	\$ (5.10)	\$ (50,964)	\$ (2,036)		
Apr	\$ 0.26	\$ (5.18)	\$ (51,764)	\$ (2,836)		
May	\$ 0.20	\$ (5.24)	\$ (52,364)	\$ (3,436)		
Jun	\$ 0.18	\$ (5.26)	\$ (52,564)	\$ (3,636)		
Jul	\$ (0.61)	\$ (6.05)	\$ (60,464)	\$ (11,536)		
Aug	\$ (1.78)	\$ (7.22)	\$ (72,164)	\$ (23,236)		
Sep	\$ (1.27)	\$ (6.71)	\$ (67,064)	\$ (18,136)		
Oct	\$ (1.08)	\$ (6.52)	\$ (65,164)	\$ (16,236)		
Nov	\$ (0.27)	\$ (5.71)	\$ (57,064)	\$ (8,136)		
Dec	\$ 0.34	\$ (5.10)	\$ (50,964)	\$ (2,036)		
Jan-04	\$ 0.17	\$ (5.27)	\$ (52,664)	\$ (3,736)		
Feb	\$ 0.27	\$ (5.17)	\$ (51,664)	\$ (2,736)		
Mar	\$ 0.01	\$ (5.43)	\$ (54,264)	\$ (5,336)		
Apr	\$ (4.31)	\$ (9.75)	\$ (97,464)	\$ (48,536)		
May	\$ (2.17)	\$ (7.61)	\$ (76,064)	\$ (27,136)		
Jun	\$ 0.10	\$ (5.34)	\$ (53,364)	\$ (4,436)		

CY 2000 Avg	\$ 0.633		CY 2000 Total	\$ 10,763	\$ 0.090
CY 2001 Avg	\$ 0.443		CY 2001 Total	\$ (12,137)	\$ (0.101)
CY 2002 Avg	\$ 0.345		CY 2002 Total	\$ (23,837)	\$ (0.199)
CY 2003 Avg	\$ (0.253)		CY 2003 Total	\$ (95,637)	\$ (0.797)
CY 2004 Avg	\$ (0.988)		CY 2004 Total	\$ (91,919)	\$ (1.532)
54 Mo Avg	\$ 0.150		54 Mo Total	\$ (212,767)	\$ (0.394)

Comparison of Delivery Charges versus Producer Price Differential

Idaho Delivery to Minneapolis

January 2000 - June 2004

1,000,000 LB Producer

Tour Requirement of 32,787 pounds & maximum benefit from the Transportation Credit

PPL Class III Base Zoned to Idaho location - \$1.60

Totals / Averages Assume Depool When PPD is Negative

Assumptions		Idaho
Transport Volume		47,500
Rate Per Mile		\$ 2.10
Miles		1,283
Haul Credit @400 miles		\$ 112.00
Rate per CWT		\$ 5.44

FO 1030 Monthly PPD	Column I Return After Daily Delivery Million Pound Producer Idaho per cwt		Column II Return After Monthly Delivery Million Pound Producer Idaho total dollars		Column III Monthly Return One Time Touch Base Million Pound Producer Idaho total dollars	
	Jan-00	\$ 0.23	\$ (5.21)	\$ (52,064)	\$ 518	
Feb	\$ 0.36	\$ (5.08)	\$ (50,764)	\$ 3,600		
Mar	\$ 0.44	\$ (5.00)	\$ (49,964)	\$ 4,400		
Apr	\$ 0.54	\$ (4.90)	\$ (48,964)	\$ 5,400		
May	\$ 0.70	\$ (4.74)	\$ (47,364)	\$ 7,000		
Jun	\$ 0.77	\$ (4.67)	\$ (46,664)	\$ 7,700		
Jul	\$ 0.50	\$ (4.94)	\$ (49,364)	\$ 5,000		
Aug	\$ 0.64	\$ (4.80)	\$ (47,964)	\$ 6,400		
Sep	\$ 0.50	\$ (4.94)	\$ (49,364)	\$ 5,000		
Oct	\$ 0.66	\$ (4.78)	\$ (47,764)	\$ 6,600		
Nov	\$ 1.23	\$ (4.21)	\$ (42,064)	\$ 12,300		
Dec	\$ 1.03	\$ (4.41)	\$ (44,064)	\$ 10,300		
Jan-01	\$ 0.83	\$ (4.61)	\$ (46,064)	\$ 8,300		
Feb	\$ 0.68	\$ (4.76)	\$ (47,564)	\$ 6,800		
Mar	\$ 0.58	\$ (4.86)	\$ (48,564)	\$ 5,800		
Apr	\$ 0.63	\$ (4.81)	\$ (48,064)	\$ 6,300		
May	\$ 0.47	\$ (4.97)	\$ (49,664)	\$ 4,700		
Jun	\$ 0.30	\$ (5.14)	\$ (51,364)	\$ 3,000		
Jul	\$ 0.25	\$ (5.19)	\$ (51,864)	\$ 2,500		
Aug	\$ 0.31	\$ (5.13)	\$ (51,264)	\$ 3,100		
Sep	\$ 0.18	\$ (5.26)	\$ (52,564)	\$ 1,800		
Nov	\$ 0.94	\$ (4.50)	\$ (44,964)	\$ 9,400		
Dec	\$ 0.19	\$ (5.25)	\$ (52,464)	\$ 1,900		
Jan-02	\$ 0.23	\$ (5.21)	\$ (52,064)	\$ 2,300		
Feb	\$ 0.21	\$ (5.23)	\$ (52,264)	\$ 2,100		
Mar	\$ 0.40	\$ (5.04)	\$ (50,364)	\$ 4,000		
Apr	\$ 0.30	\$ (5.14)	\$ (51,364)	\$ 3,000		
May	\$ 0.28	\$ (5.16)	\$ (51,564)	\$ 2,800		
Jun	\$ 0.43	\$ (5.01)	\$ (50,064)	\$ 4,300		
Jul	\$ 0.60	\$ (4.84)	\$ (48,364)	\$ 6,000		
Aug	\$ 0.46	\$ (4.98)	\$ (49,764)	\$ 4,600		
Sep	\$ 0.34	\$ (5.10)	\$ (50,964)	\$ 3,400		
Oct	\$ 0.11	\$ (5.33)	\$ (53,264)	\$ 1,100		
Nov	\$ 0.39	\$ (5.05)	\$ (50,464)	\$ 3,900		
Dec	\$ 0.39	\$ (5.05)	\$ (50,464)	\$ 3,900		
Jan-03	\$ 0.38	\$ (5.06)	\$ (50,564)	\$ 3,800		
Feb	\$ 0.27	\$ (5.17)	\$ (51,664)	\$ 2,700		
Mar	\$ 0.34	\$ (5.10)	\$ (50,964)	\$ 3,400		
Apr	\$ 0.26	\$ (5.18)	\$ (51,764)	\$ 2,600		
May	\$ 0.20	\$ (5.24)	\$ (52,364)	\$ 2,000		
Jun	\$ 0.18	\$ (5.26)	\$ (52,564)	\$ 1,800		
Dec	\$ 0.34	\$ (5.10)	\$ (50,964)	\$ 3,400		
Jan-04	\$ 0.17	\$ (5.27)	\$ (52,664)	\$ 1,700		
Feb	\$ 0.27	\$ (5.17)	\$ (51,664)	\$ 2,700		
Mar	\$ 0.01	\$ (5.43)	\$ (54,264)	\$ 100		
Jun	\$ 0.10	\$ (5.34)	\$ (53,364)	\$ 1,000		

C Avg	\$ 0.633		CY 2000 Total	\$ 74,218	\$ 0.618
CY 2001 Avg	\$ 0.487		CY 2001 Total	\$ 53,600	\$ 0.487
CY 2002 Avg	\$ 0.346		CY 2002 Total	\$ 41,400	\$ 0.345
CY 2003 Avg	\$ 0.281		CY 2003 Total	\$ 19,700	\$ 0.281
CY 2004 Avg	\$ 0.138		CY 2004 Total	\$ 5,500	\$ 0.138
46 Mo Avg	\$ 0.427		54 Mo Total	\$ 194,418	\$ 0.423

Comparison of Delivery Charges versus Producer Price Differential

Idaho Delivery to Minneapolis

January 2000 - June 2004

1,000,000 LB Producer

Touch Requirement of 100,000 pounds & maximum benefit from the Transportation Credit

PPD - Class III Base Zoned to Idaho location - \$1.60

Totals / Averages Assume Depool When PPD is Negative

Assumptions	Idaho
Transport Volume	47,500
Rate Per Mile	\$ 2.10
Miles	1,283
haul Credit @400 miles	\$ 112.00
Rate per CWT	\$ 5.44

FO 1030 Monthly PPD	Column I Return After Daily Delivery Million Pound Producer Idaho per cwt		Column II Return After Monthly Delivery Million Pound Producer Idaho total dollars		Column III Monthly Return Ten Percent Touch Base Million Pound Producer Idaho total dollars	
	Jan-00	\$ 0.23	\$ (5.21)	\$ (52,064)	\$ (3,136)	
Feb	\$ 0.36	\$ (5.08)	\$ (50,764)	\$ (1,836)		
Mar	\$ 0.44	\$ (5.00)	\$ (49,964)	\$ (1,036)		
Apr	\$ 0.54	\$ (4.90)	\$ (48,964)	\$ (36)		
May	\$ 0.70	\$ (4.74)	\$ (47,364)	\$ 1,564		
Jun	\$ 0.77	\$ (4.67)	\$ (46,664)	\$ 2,264		
Jul	\$ 0.50	\$ (4.94)	\$ (49,364)	\$ (436)		
Aug	\$ 0.64	\$ (4.80)	\$ (47,964)	\$ 964		
Sep	\$ 0.50	\$ (4.94)	\$ (49,364)	\$ (436)		
Oct	\$ 0.66	\$ (4.78)	\$ (47,764)	\$ 1,164		
Nov	\$ 1.23	\$ (4.21)	\$ (42,064)	\$ 6,864		
Dec	\$ 1.03	\$ (4.41)	\$ (44,064)	\$ 4,864		
Jan-01	\$ 0.83	\$ (4.61)	\$ (46,064)	\$ 2,864		
Feb	\$ 0.68	\$ (4.76)	\$ (47,564)	\$ 1,364		
Mar	\$ 0.58	\$ (4.86)	\$ (48,564)	\$ 364		
Apr	\$ 0.63	\$ (4.81)	\$ (48,064)	\$ 864		
May	\$ 0.47	\$ (4.97)	\$ (49,664)	\$ (736)		
Jun	\$ 0.30	\$ (5.14)	\$ (51,364)	\$ (2,436)		
Jul	\$ 0.25	\$ (5.19)	\$ (51,864)	\$ (2,936)		
Aug	\$ 0.31	\$ (5.13)	\$ (51,264)	\$ (2,336)		
Sep	\$ 0.18	\$ (5.26)	\$ (52,564)	\$ (3,636)		
Nov	\$ 0.94	\$ (4.50)	\$ (44,964)	\$ 3,964		
Dec	\$ 0.19	\$ (5.25)	\$ (52,464)	\$ (3,536)		
Jan-02	\$ 0.23	\$ (5.21)	\$ (52,064)	\$ (3,136)		
Feb	\$ 0.21	\$ (5.23)	\$ (52,264)	\$ (3,336)		
Mar	\$ 0.40	\$ (5.04)	\$ (50,364)	\$ (1,436)		
Apr	\$ 0.30	\$ (5.14)	\$ (51,364)	\$ (2,436)		
May	\$ 0.28	\$ (5.16)	\$ (51,564)	\$ (2,636)		
Jun	\$ 0.43	\$ (5.01)	\$ (50,064)	\$ (1,136)		
Jul	\$ 0.60	\$ (4.84)	\$ (48,364)	\$ 564		
Aug	\$ 0.46	\$ (4.98)	\$ (49,764)	\$ (836)		
Sep	\$ 0.34	\$ (5.10)	\$ (50,964)	\$ (2,036)		
Oct	\$ 0.11	\$ (5.33)	\$ (53,264)	\$ (4,336)		
Nov	\$ 0.39	\$ (5.05)	\$ (50,464)	\$ (1,536)		
Dec	\$ 0.39	\$ (5.05)	\$ (50,464)	\$ (1,536)		
Jan-03	\$ 0.38	\$ (5.06)	\$ (50,564)	\$ (1,636)		
Feb	\$ 0.27	\$ (5.17)	\$ (51,664)	\$ (2,736)		
Mar	\$ 0.34	\$ (5.10)	\$ (50,964)	\$ (2,036)		
Apr	\$ 0.26	\$ (5.18)	\$ (51,764)	\$ (2,836)		
May	\$ 0.20	\$ (5.24)	\$ (52,364)	\$ (3,436)		
Jun	\$ 0.18	\$ (5.26)	\$ (52,564)	\$ (3,636)		
Dec	\$ 0.34	\$ (5.10)	\$ (50,964)	\$ (2,036)		
Jan-04	\$ 0.17	\$ (5.27)	\$ (52,664)	\$ (3,736)		
Feb	\$ 0.27	\$ (5.17)	\$ (51,664)	\$ (2,736)		
Mar	\$ 0.01	\$ (5.43)	\$ (54,264)	\$ (5,336)		
Jun	\$ 0.10	\$ (5.34)	\$ (53,364)	\$ (4,436)		

CY 2000 Avg	\$ 0.633		CY 2000 Total	\$ 10,763	\$ 0.090
CY 2001 Avg	\$ 0.487		CY 2001 Total	\$ (6,201)	\$ (0.056)
CY 2002 Avg	\$ 0.345		CY 2002 Total	\$ (23,837)	\$ (0.199)
CY 2003 Avg	\$ 0.281		CY 2003 Total	\$ (18,355)	\$ (0.262)
CY 2004 Avg	\$ 0.138		CY 2004 Total	\$ (16,246)	\$ (0.406)
46 Mo Avg	\$ 0.427		54 Mo Total	\$ (53,875)	\$ (0.117)

Comparison of Delivery Charges versus Producer Price Differential

Idaho Delivery to Minneapolis

January 2000 - June 2004

1,000,000 LB Producer

Touch Base Requirement of 32,787 pounds & maximum benefit from the Transportation Credit

PPC Class IV Base Zoned to Idaho location - \$1.60

Total Charges Assume Pool Every Month

Assumptions	Idaho
Transport Volume	47,500
Rate Per Mile	\$ 2.10
Miles	1,283
Haul Credit @400 miles	\$ 112.00
Rate per CWT	\$ 5.44

FO 1030 Monthly PPD	Column I	Column II	Column III
	Return After Daily Delivery Million Pound Producer Idaho per cwt	Return After Monthly Delivery Million Pound Producer Idaho total dollars	Monthly Return One Time Touch Base Million Pound Producer Idaho total dollars
Jan-00	\$ (0.45)	\$ (5.89)	\$ (6,282)
Feb	\$ (0.90)	\$ (6.34)	\$ (9,000)
Mar	\$ (1.02)	\$ (6.46)	\$ (10,200)
Apr	\$ (1.43)	\$ (6.87)	\$ (14,300)
May	\$ (1.84)	\$ (7.28)	\$ (18,400)
Jun	\$ (2.15)	\$ (7.59)	\$ (21,500)
Jul	\$ (0.71)	\$ (6.15)	\$ (7,100)
Aug	\$ (1.10)	\$ (6.54)	\$ (11,000)
Sep	\$ (0.68)	\$ (6.12)	\$ (6,800)
Oct	\$ (1.13)	\$ (6.57)	\$ (11,300)
Nov	\$ (3.20)	\$ (8.64)	\$ (32,000)
Dec	\$ (2.87)	\$ (8.31)	\$ (28,700)
Jan-01	\$ (1.31)	\$ (6.75)	\$ (13,100)
Feb	\$ (1.75)	\$ (7.19)	\$ (17,500)
Mar	\$ (1.46)	\$ (6.90)	\$ (14,600)
Apr	\$ (1.72)	\$ (7.16)	\$ (17,200)
May	\$ (0.74)	\$ (6.18)	\$ (7,400)
Jun	\$ (0.01)	\$ (5.45)	\$ (100)
Jul	\$ 0.90	\$ (4.54)	\$ 9,000
Aug	\$ 0.80	\$ (4.64)	\$ 8,000
Sep	\$ 0.49	\$ (4.95)	\$ 4,900
Oct	\$ 1.78	\$ (3.66)	\$ 17,800
Nov	\$ 0.28	\$ (5.16)	\$ 2,800
Dec	\$ 0.20	\$ (5.24)	\$ 2,000
Jan-02	\$ 0.17	\$ (5.27)	\$ 1,700
Feb	\$ 0.30	\$ (5.14)	\$ 3,000
Mar	\$ (0.37)	\$ (5.81)	\$ (3,700)
Apr	\$ 0.06	\$ (5.38)	\$ 600
May	\$ 0.53	\$ (4.91)	\$ 5,300
Jun	\$ 0.00	\$ (5.44)	\$ 0
Jul	\$ (0.52)	\$ (5.96)	\$ (5,200)
Aug	\$ (0.41)	\$ (5.85)	\$ (4,100)
Sep	\$ 0.04	\$ (5.40)	\$ 400
Oct	\$ 0.33	\$ (5.11)	\$ 3,300
Nov	\$ (0.35)	\$ (5.79)	\$ (3,500)
Dec	\$ (0.36)	\$ (5.80)	\$ (3,600)
Jan-03	\$ 0.09	\$ (5.35)	\$ 900
Feb	\$ 0.12	\$ (5.32)	\$ 1,200
Mar	\$ (0.34)	\$ (5.78)	\$ (3,400)
Apr	\$ (0.06)	\$ (5.50)	\$ (600)
May	\$ 0.17	\$ (5.27)	\$ 1,700
Jun	\$ 0.17	\$ (5.27)	\$ 1,700
Jul	\$ 1.22	\$ (4.22)	\$ 12,200
Aug	\$ 1.88	\$ (3.56)	\$ 18,800
Sep	\$ 2.98	\$ (2.46)	\$ 29,800
Oct	\$ 3.15	\$ (2.29)	\$ 31,500
Nov	\$ 2.90	\$ (2.54)	\$ 29,000
Dec	\$ 1.69	\$ (3.75)	\$ 16,900
Jan-04	\$ 0.81	\$ (4.63)	\$ 8,100
Feb	\$ (0.05)	\$ (5.49)	\$ (500)
Mar	\$ 0.40	\$ (5.04)	\$ 4,000
Apr	\$ 0.78	\$ (4.66)	\$ 7,800
May	\$ 3.91	\$ (1.53)	\$ 39,100
Jun	\$ 4.06	\$ (1.38)	\$ 40,600

CY 2000 Avg	\$ (1.457)	CY 2000 Total	\$ (176,582)	\$ (1.472)
CY 2001 Avg	\$ (0.212)	CY 2001 Total	\$ (25,400)	\$ (0.212)
CY 2002 Avg	\$ (0.048)	CY 2002 Total	\$ (5,800)	\$ (0.048)
CY 2003 Avg	\$ 1.164	CY 2003 Total	\$ 139,700	\$ 1.164
CY 2004 Avg	\$ 1.652	CY 2004 Total	\$ 99,100	\$ 1.652
54 Mo Avg	\$ 0.061	54 Mo Total	\$ 31,018	\$ 0.057

Comparison of Delivery Charges versus Producer Price Differential

Idaho Delivery to Minneapolis

January 2000 - June 2004

1,000,000 LB Producer

Tour Requirement of 100,000 pounds & maximum benefit from the Transportation Credit

PPI Class IV Base Zoned to Idaho location - \$1.60

Totals Averages Assume Pool Every Month

Assumptions	Idaho
Transport Volume	47,500
Rate Per Mile	\$ 2.10
Miles	1,283
Haul Credit @400 miles	\$ 112.00
Rate per CWT	\$ 5.44

FO 1030 Monthly PPD	Column I	Column II	Column III
	Return After Daily Delivery Million Pound Producer Idaho per cwt	Return After Monthly Delivery Million Pound Producer Idaho total dollars	Monthly Return Ten Percent Touch Base Million Pound Producer Idaho total dollars
Jan-00	\$ (0.45)	\$ (5.89)	\$ (9,936)
Feb	\$ (0.90)	\$ (6.34)	\$ (14,436)
Mar	\$ (1.02)	\$ (6.46)	\$ (15,636)
Apr	\$ (1.43)	\$ (6.87)	\$ (19,736)
May	\$ (1.84)	\$ (7.28)	\$ (23,836)
Jun	\$ (2.15)	\$ (7.59)	\$ (26,936)
Jul	\$ (0.71)	\$ (6.15)	\$ (12,536)
Aug	\$ (1.10)	\$ (6.54)	\$ (16,436)
Sep	\$ (0.68)	\$ (6.12)	\$ (12,236)
Oct	\$ (1.13)	\$ (6.57)	\$ (16,736)
Nov	\$ (3.20)	\$ (8.64)	\$ (37,436)
Dec	\$ (2.87)	\$ (8.31)	\$ (34,136)
Jan-01	\$ (1.31)	\$ (6.75)	\$ (18,536)
Feb	\$ (1.75)	\$ (7.19)	\$ (22,936)
Mar	\$ (1.46)	\$ (6.90)	\$ (20,036)
Apr	\$ (1.72)	\$ (7.16)	\$ (22,636)
May	\$ (0.74)	\$ (6.18)	\$ (12,836)
Jun	\$ (0.01)	\$ (5.45)	\$ (5,536)
Jul	\$ 0.90	\$ (4.54)	\$ 3,564
Aug	\$ 0.80	\$ (4.64)	\$ 2,564
Sep	\$ 0.49	\$ (4.95)	\$ (536)
Oct	\$ 1.78	\$ (3.66)	\$ 12,364
Nov	\$ 0.28	\$ (5.16)	\$ (2,636)
Dec	\$ 0.20	\$ (5.24)	\$ (3,436)
Jan-02	\$ 0.17	\$ (5.27)	\$ (3,736)
Feb	\$ 0.30	\$ (5.14)	\$ (2,436)
Mar	\$ (0.37)	\$ (5.81)	\$ (9,136)
Apr	\$ 0.06	\$ (5.38)	\$ (4,836)
May	\$ 0.53	\$ (4.91)	\$ (136)
Jun	\$ 0.00	\$ (5.44)	\$ (5,436)
Jul	\$ (0.52)	\$ (5.96)	\$ (10,636)
Aug	\$ (0.41)	\$ (5.85)	\$ (9,536)
Sep	\$ 0.04	\$ (5.40)	\$ (5,036)
Oct	\$ 0.33	\$ (5.11)	\$ (2,136)
Nov	\$ (0.35)	\$ (5.79)	\$ (8,936)
Dec	\$ (0.36)	\$ (5.80)	\$ (9,036)
Jan-03	\$ 0.09	\$ (5.35)	\$ (4,536)
Feb	\$ 0.12	\$ (5.32)	\$ (4,236)
Mar	\$ (0.34)	\$ (5.78)	\$ (8,836)
Apr	\$ (0.06)	\$ (5.50)	\$ (6,036)
May	\$ 0.17	\$ (5.27)	\$ (3,736)
Jun	\$ 0.17	\$ (5.27)	\$ (3,736)
Jul	\$ 1.22	\$ (4.22)	\$ 6,764
Aug	\$ 1.88	\$ (3.56)	\$ 13,364
Sep	\$ 2.98	\$ (2.46)	\$ 24,364
Oct	\$ 3.15	\$ (2.29)	\$ 26,064
Nov	\$ 2.90	\$ (2.54)	\$ 23,564
Dec	\$ 1.69	\$ (3.75)	\$ 11,464
Jan-04	\$ 0.81	\$ (4.63)	\$ 2,664
Feb	\$ (0.05)	\$ (5.49)	\$ (5,936)
Mar	\$ 0.40	\$ (5.04)	\$ (1,436)
Apr	\$ 0.78	\$ (4.66)	\$ 2,364
May	\$ 3.91	\$ (1.53)	\$ 33,664
Jur	\$ 4.06	\$ (1.38)	\$ 35,164

CY 2000 Avg	\$ (1.457)	CY 2000 Total	\$ (240,037)	\$ (2,000)
CY 2001 Avg	\$ (0.212)	CY 2001 Total	\$ (90,637)	\$ (0.755)
CY 2002 Avg	\$ (0.048)	CY 2002 Total	\$ (71,037)	\$ (0.592)
CY 2003 Avg	\$ 1.184	CY 2003 Total	\$ 74,463	\$ 0.621
CY 2004 Avg	\$ 1.652	CY 2004 Total	\$ 66,481	\$ 1.108
54 Mo Avg	\$ 0.061	54 Mo Total	\$ (260,767)	\$ (0.483)

Comparison of Delivery Charges versus Producer Price Differential

Idaho Delivery to Minneapolis

Jan 2000 - June 2004

1,000 LB Producer

Touch Base Requirement of 32,787 pounds & maximum benefit from the Transportation Credit

PPD Uses Class IV Base Zoned to Idaho location - \$1.60

Totals / Averages Assume Depool When PPD is Negative

Assumptions	Idaho
Transport Volume	47,500
Rate Per Mile	\$ 2.10
Miles	1,283
Haul Credit @400 miles	\$ 112.00
Rate per CWT	\$ 5.44

FO 1030 Monthly PPD	Column I		Column II		Column III	
	Return After Daily Delivery Million Pound Producer Idaho per cwt		Return After Monthly Delivery Million Pound Producer Idaho total dollars		Monthly Return One Time Touch Base Million Pound Producer Idaho total dollars	
Jul-01 \$ 0.90	\$ (4.54)		\$ (45,364)		\$ 9,000	
Aug \$ 0.80	\$ (4.64)		\$ (46,364)		\$ 8,000	
Sep \$ 0.49	\$ (4.95)		\$ (49,464)		\$ 4,900	
Oct \$ 1.78	\$ (3.66)		\$ (36,564)		\$ 17,800	
Nov \$ 0.28	\$ (5.16)		\$ (51,564)		\$ 2,800	
Dec \$ 0.20	\$ (5.24)		\$ (52,364)		\$ 2,000	
Jan-02 \$ 0.17	\$ (5.27)		\$ (52,664)		\$ 1,700	
Feb \$ 0.30	\$ (5.14)		\$ (51,364)		\$ 3,000	
Apr \$ 0.06	\$ (5.38)		\$ (53,764)		\$ 600	
May \$ 0.53	\$ (4.91)		\$ (49,064)		\$ 5,300	
Jun \$ 0.00	\$ (5.44)		\$ (54,364)		\$ 0	
Sep \$ 0.04	\$ (5.40)		\$ (53,964)		\$ 400	
Oct \$ 0.33	\$ (5.11)		\$ (51,064)		\$ 3,300	
Jan-03 \$ 0.09	\$ (5.35)		\$ (53,464)		\$ 900	
Feb \$ 0.12	\$ (5.32)		\$ (53,164)		\$ 1,200	
May \$ 0.17	\$ (5.27)		\$ (52,664)		\$ 1,700	
Jun \$ 0.17	\$ (5.27)		\$ (52,664)		\$ 1,700	
Jul \$ 1.22	\$ (4.22)		\$ (42,164)		\$ 12,200	
Aug \$ 1.88	\$ (3.56)		\$ (35,564)		\$ 18,800	
Sep \$ 2.98	\$ (2.46)		\$ (24,564)		\$ 29,800	
Oct \$ 3.15	\$ (2.29)		\$ (22,864)		\$ 31,500	
Nov \$ 2.90	\$ (2.54)		\$ (25,364)		\$ 29,000	
Dec \$ 1.69	\$ (3.75)		\$ (37,464)		\$ 16,900	
Jan-04 \$ 0.81	\$ (4.63)		\$ (46,264)		\$ 8,100	
Mar \$ 0.40	\$ (5.04)		\$ (50,364)		\$ 4,000	
Apr \$ 0.78	\$ (4.66)		\$ (46,564)		\$ 7,800	
May \$ 3.91	\$ (1.53)		\$ (15,264)		\$ 39,100	
Jun \$ 4.06	\$ (1.38)		\$ (13,764)		\$ 40,600	

CY 2001 Avg	\$ 0.742		CY 2001 Total	\$ 44,500	\$ 0.742
CY 2002 Avg	\$ 0.204		CY 2002 Total	\$ 14,300	\$ 0.204
CY 2003 Avg	\$ 1.437		CY 2003 Total	\$ 143,700	\$ 1.437
CY 2004 Avg	\$ 1.992		CY 2004 Total	\$ 99,600	\$ 1.992
28 Mo Avg	\$ 1.079		28 Mo Total	\$ 302,100	\$ 1.079

Comparison of Delivery Charges versus Producer Price Differential

Idaho Delivery to Minneapolis

January 2000 - June 2004

1,000 LB Producer

Touch Base Requirement of 100,000 pounds & maximum benefit from the Transportation Credit

PPD Uses Class IV Base Zoned to Idaho location - \$1.60

Totals / Averages Assume Depool When PPD is Negative

Assumptions	Idaho
Transport Volume	47,500
Rate Per Mile	\$ 2.10
Miles	1,283
Haul Credit @400 miles	\$ 112.00
Rate per CWT	\$ 5.44

FO 1030 Monthly PPD	Column I Return After Daily Delivery Million Pound Producer Idaho per cwt		Column II Return After Monthly Delivery Million Pound Producer Idaho total dollars		Column III Monthly Return Ten Percent Touch Base Million Pound Producer Idaho total dollars	
	Jul	\$ 0.90	\$ (4.54)	\$ (45,364)	\$ 3,564	
Aug	\$ 0.80	\$ (4.64)	\$ (46,364)	\$ 2,564		
Sep	\$ 0.49	\$ (4.95)	\$ (49,464)	\$ (536)		
Oct	\$ 1.78	\$ (3.66)	\$ (36,564)	\$ 12,364		
Nov	\$ 0.28	\$ (5.16)	\$ (51,564)	\$ (2,636)		
Dec	\$ 0.20	\$ (5.24)	\$ (52,364)	\$ (3,436)		
Jan-02	\$ 0.17	\$ (5.27)	\$ (52,664)	\$ (3,736)		
Feb	\$ 0.30	\$ (5.14)	\$ (51,364)	\$ (2,436)		
Apr	\$ 0.06	\$ (5.38)	\$ (53,764)	\$ (4,836)		
May	\$ 0.53	\$ (4.91)	\$ (49,064)	\$ (136)		
Jun	\$ 0.00	\$ (5.44)	\$ (54,364)	\$ (5,436)		
Sep	\$ 0.04	\$ (5.40)	\$ (53,964)	\$ (5,036)		
Oct	\$ 0.33	\$ (5.11)	\$ (51,064)	\$ (2,136)		
Jan-03	\$ 0.09	\$ (5.35)	\$ (53,464)	\$ (4,536)		
Feb	\$ 0.12	\$ (5.32)	\$ (53,164)	\$ (4,236)		
May	\$ 0.17	\$ (5.27)	\$ (52,664)	\$ (3,736)		
Jun	\$ 0.17	\$ (5.27)	\$ (52,664)	\$ (3,736)		
Jul	\$ 1.22	\$ (4.22)	\$ (42,164)	\$ 6,764		
Aug	\$ 1.88	\$ (3.56)	\$ (35,564)	\$ 13,364		
Sep	\$ 2.98	\$ (2.46)	\$ (24,564)	\$ 24,364		
Oct	\$ 3.15	\$ (2.29)	\$ (22,864)	\$ 26,064		
Nov	\$ 2.90	\$ (2.54)	\$ (25,364)	\$ 23,564		
Dec	\$ 1.69	\$ (3.75)	\$ (37,464)	\$ 11,464		
Jan-04	\$ 0.81	\$ (4.63)	\$ (46,264)	\$ 2,664		
Mar	\$ 0.40	\$ (5.04)	\$ (50,364)	\$ (1,436)		
Apr	\$ 0.78	\$ (4.66)	\$ (46,564)	\$ 2,364		
May	\$ 3.91	\$ (1.53)	\$ (15,264)	\$ 33,664		
Jun	\$ 4.06	\$ (1.38)	\$ (13,764)	\$ 35,164		

CY 2001 Avg	\$ 0.742		CY 2001 Total	\$ 11,881	\$ 0.198
CY 2002 Avg	\$ 0.204		CY 2002 Total	\$ (23,755)	\$ (0.339)
CY 2003 Avg	\$ 1.437		CY 2003 Total	\$ 89,336	\$ 0.893
CY 2004 Avg	\$ 1.992		CY 2004 Total	\$ 72,418	\$ 1.448
28 Mo Avg	\$ 1.079		28 Mo Total	\$ 149,880	\$ 0.535

Summary of Pooling Comparisons

FO 1030 Monthly PPD	Monthly Return Various Touch Base Options Million Pound Producer Idaho - Minneapolis Delivery			
	per cwt		dollars	per cwt
Once and Done Class III PPD Pool Every Month	CY 2000 Avg	\$ 0.633	\$ 74,218	\$ 0.618
	CY 2001 Avg	\$ 0.443	\$ 53,100	\$ 0.443
	CY 2002 Avg	\$ 0.345	\$ 41,400	\$ 0.345
	CY 2003 Avg	\$ (0.253)	\$ (30,400)	\$ (0.253)
	CY 2004 Avg	\$ (0.988)	\$ (59,300)	\$ (0.988)
	54 Mo Avg	\$ 0.150	54 Mon Sum \$ 79,018	\$ 0.146
Ten Percent Delivery Class III PPD Pool Every Month	CY 2000 Avg	\$ 0.633	\$ 10,763	\$ 0.090
	CY 2001 Avg	\$ 0.443	\$ (12,137)	\$ (0.101)
	CY 2002 Avg	\$ 0.345	\$ (23,837)	\$ (0.199)
	CY 2003 Avg	\$ (0.253)	\$ (95,637)	\$ (0.797)
	CY 2004 Avg	\$ (0.988)	\$ (91,919)	\$ (1.532)
	54 Mo Avg	\$ 0.150	54 Mon Sum \$ (212,767)	\$ (0.394)
Once and Done Class III PPD Depool Maximum	CY 2000 Avg	\$ 0.633	\$ 74,218	\$ 0.618
	CY 2001 Avg	\$ 0.487	\$ 53,600	\$ 0.487
	CY 2002 Avg	\$ 0.345	\$ 41,400	\$ 0.345
	CY 2003 Avg	\$ 0.281	\$ 19,700	\$ 0.281
	CY 2004 Avg	\$ 0.138	\$ 5,500	\$ 0.138
	46 Mo Avg	\$ 0.427	46 Mon Sum \$ 194,418	\$ 0.423
Ten Percent Delivery Class III PPD Depool Maximum	CY 2000 Avg	\$ 0.633	\$ 10,763	\$ 0.090
	CY 2001 Avg	\$ 0.487	\$ (6,201)	\$ (0.056)
	CY 2002 Avg	\$ 0.345	\$ (23,837)	\$ (0.199)
	CY 2003 Avg	\$ 0.281	\$ (18,355)	\$ (0.262)
	CY 2004 Avg	\$ 0.138	\$ (16,246)	\$ (0.406)
	46 Mo Avg	\$ 0.427	46 Mon Sum \$ (53,875)	\$ (0.117)
Once and Done Class IV PPD Pool Every Month	CY 2000 Avg	\$ (1.457)	\$ (176,582)	\$ (1.472)
	CY 2001 Avg	\$ (0.212)	\$ (25,400)	\$ (0.212)
	CY 2002 Avg	\$ (0.048)	\$ (5,800)	\$ (0.048)
	CY 2003 Avg	\$ 1.164	\$ 139,700	\$ 1.164
	CY 2004 Avg	\$ 1.652	\$ 99,100	\$ 1.652
	54 Mo Avg	\$ 0.061	54 Mon Sum \$ 31,018	\$ 0.057
Ten Percent Delivery Class IV PPD Pool Every Month	CY 2000 Avg	\$ (1.457)	\$ (240,037)	\$ (2.000)
	CY 2001 Avg	\$ (0.212)	\$ (90,637)	\$ (0.755)
	CY 2002 Avg	\$ (0.048)	\$ (71,037)	\$ (0.592)
	CY 2003 Avg	\$ 1.164	\$ 74,463	\$ 0.621
	CY 2004 Avg	\$ 1.652	\$ 66,481	\$ 1.108
	54 Mo Avg	\$ 0.061	54 Mon Sum \$ (260,767)	\$ (0.483)
Once and Done Class IV PPD Depool Maximum	CY 2001 Avg	\$ 0.742	\$ 44,500	\$ 0.742
	CY 2002 Avg	\$ 0.204	\$ 14,300	\$ 0.204
	CY 2003 Avg	\$ 1.437	\$ 143,700	\$ 1.437
	CY 2004 Avg	\$ 1.992	\$ 99,600	\$ 1.992
	28 Mo Avg	\$ 1.079	28 Mon Sum \$ 302,100	\$ 1.079
Ten Percent Delivery Class IV PPD Depool Maximum	CY 2001 Avg	\$ 0.742	\$ 11,881	\$ 0.198
	CY 2002 Avg	\$ 0.204	\$ (23,755)	\$ (0.339)
	CY 2003 Avg	\$ 1.437	\$ 89,336	\$ 0.893
	CY 2004 Avg	\$ 1.992	\$ 72,418	\$ 1.448
	28 Mo Avg	\$ 1.079	28 Mon Sum \$ 149,880	\$ 0.535

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DEPARTMENT OF AGRICULTURE

Agricultural Marketing Service

[7 CFR Part 1025]

[Docket No. AO-319]

MILK IN INDIANAPOLIS, IND., MARKETING AREA

Decision on Proposed Marketing Agreement and Order

Pursuant to the provisions of the Agricultural Marketing Agreement Act of 1937, as amended (7 U.S.C. 601 et seq.), and the applicable rules of practice and procedure governing the formulation of marketing agreements and marketing orders (7 CFR Part 900), a public hearing was held at Indianapolis, Indiana, on April 26 to 29, 1960, pursuant to notice thereof issued on March 31, 1960 (25 F.R. 2899), upon a proposed marketing agreement and order regulating the handling of milk in the Indianapolis, Indiana, marketing area.

Upon the basis of the evidence introduced at the hearing and the record thereof, the Deputy Administrator, Agricultural Marketing Service, on November 10, 1960 (25 F.R. 10872; F.R. Doc. 60-10674), filed with the Hearing Clerk, United States Department of Agriculture, his recommended decision, containing notice of opportunity to file written exceptions thereto.

The material issues of record relate to:

1. Whether the handling of milk produced for sale in the proposed marketing area is in the current of interstate commerce, or directly burdens, obstructs, or affects interstate commerce in milk or its products;
2. Whether marketing conditions show the need for the issuance of a milk marketing agreement or order which will tend to effectuate the policy of the Act; and
3. If an order is issued what its provisions should be with respect to:
 - (a) The scope of regulation;
 - (b) The classification and allocation of milk;
 - (c) The determination and level of class prices;
 - (d) Distribution of proceeds to producers; and
 - (e) Administrative provisions.

Findings and conclusions. The following findings and conclusions on the material issues are based on evidence presented at the hearing and the record thereof:

1. *Character of commerce.* The handling of milk in the proposed marketing area is in the current of interstate commerce and directly burdens, obstructs or affects interstate commerce in milk and its products.

The marketing area specified in the proposed order, hereinafter referred to as the Indianapolis marketing area, includes all the territory in the counties of Boone, Clinton, Delaware, Fayette, Grant, Hamilton, Hancock, Hendricks, Henry, Howard, Johnson, Madison, Marion, Montgomery, Morgan, Putnam, Rush, Shelby, Tippecanoe, Tipton, and Wayne, all in the State of Indiana. Milk handled in the marketing area moves in many forms over state lines. Milk that is processed and packaged in the marketing area is distributed on routes in various communities in Illinois and Ohio and, conversely, some milk from Illinois and Ohio plants is distributed in the marketing area. During those months in recent years when producer deliveries were inadequate for the needs of the market, milk for distribution in the marketing area was purchased from plants in Wisconsin and Kentucky.

When the supply of producer milk is in excess of local requirements for fluid use, substantial quantities of milk and cream for manufacturing purposes are shipped from the plants of handlers who would be regulated by the proposed order to other plants in Indiana and to plants in Kentucky, Tennessee, West Virginia, and Ohio. These plants manufacture such dairy products as butter, cheese, nonfat dry milk and condensed milk. A substantial portion of such milk products are moved over a wide area in the stream of interstate commerce.

2. *Need for an order.* Marketing conditions in the Indianapolis, Indiana, marketing area justify the issuance of a marketing agreement and order.

There is no overall plan whereby farmers supplying milk to this marketing area are assured of payment for their milk in accordance with its use. In some segments of the area there is no procedure whereby farmers may participate in price

determinations necessary for the marketing of their milk which, because of its perishability, must be delivered to the market as it is produced.

A certain amount of reserve milk in excess of the actual trade sales is necessary to assure an adequate supply of milk at all times. Fluctuations brought on by the seasonal nature of milk production, together with a relatively uniform level of consumption, necessitate the disposition of some of the Grade A milk produced for the market into manufacturing channels. This excess milk must be manufactured into butter, cheese and similar products and sold in competition with products from ungraded milk.

Milk disposed of to manufacturing outlets returns considerably less than that marketed for fluid use. Consequently, a well defined and uniformly applied plan of use classification, with the proper pricing of milk in such uses, is necessary to prevent such excess milk from depressing the market price of all Grade A milk. To be successful the classification of and payment for milk in accordance with its use requires the full participation of all those engaged in marketing milk in this market. Orderly marketing of the milk produced for fluid consumption requires uniformity of pay prices by handlers and a means whereby the lower average returns resulting from surplus milk may be shared equitably among producers.

The problems of unstable marketing encountered by producers in the Indianapolis marketing area are not uncommon in fluid milk markets. The problems which have resulted in unrest and instability in this area are similar to those characteristic of the fluid milk industry in the absence of regulation or a well-defined classified pricing plan. A marketing order as herein proposed will promote orderly marketing by assuring producers prices equivalent to those contemplated under the Act.

The buying practices of various handlers in the market have caused instability in the marketing of milk. Prices paid farmers for milk for fluid use have frequently been below the Class I prices an order would provide. Many producers have no means of ascertaining how their milk is utilized at the plants to which they deliver or whether the basis on which they are paid will be revised.

natural incentive to the movement of butterfat to the manufacture of butter at the expense of preferred outlets such as for cottage cheese and frozen desserts. Moreover, at the recommended rate the cost of butterfat in the market will be competitive with butterfat from alternative sources of supply.

A proposal by handlers to apply a somewhat lower value for butterfat used in butter and cheese is unnecessary in this market for essentially the same reason that a separate price should not apply to milk used in manufacture of such products. Handlers who would be regulated by the order do not maintain extensive butter and cheese manufacturing operations. To provide a lower butterfat differential for milk in such uses could stimulate uneconomic use of milk in these lower valued outlets while a higher use product demand is available. Thus, returns to producers would be adversely affected.

To coordinate the Class I price and Class I butterfat differential announcement date, the Class I butterfat differential should be based on the average price of butter in the preceding month. The Class II price and butterfat differential will not be announced until after the end of the month and should be based on current month prices. Although handlers will not know the exact cost of Class II milk as it is utilized, they will know that their cost tends to follow daily and weekly dairy product prices and cost of milk to their principal competitors.

The butterfat differential to producers should be calculated at the average of the Class I and Class II butterfat differentials weighted by the proportion of butterfat in approved milk classified in each class during the month. Thus, returns to producers will reflect the actual value of their butterfat at the class prices provided by the order.

Location differentials. A schedule of location differentials should be incorporated in the order to provide an appropriate adjustment of order prices at the location of any plant from which milk is moved to the marketing area. With the same class prices applicable, milk received at a plant outside the marketing area and moved to the marketing area for processing and packaging may be expected to be more costly to a handler than milk received directly from dairy farmers at his processing plant in the marketing area. In the same manner, additional transportation costs would be incurred by the operator of a plant from which packaged milk is moved a relatively long distance to the marketing area. Unless provision is made in the order for the application of location differentials, producers delivering milk to plants located at some distance from the marketing area would be paid the same uniform prices as producers delivering to plants in the marketing area.

It is economically more feasible to meet the needs of the market for fluid purposes from those farms or plants nearest the market before bringing in milk from more distant plants. The value of milk to the market for fluid purposes is greater at the location of a

plant in the marketing area which packages it for distribution than at a plant from which milk must be moved to the marketing area for Class I uses. Recognition in the order through the medium of a location differential should be given to this difference in value.

So as to be equitable to all handlers, the minimum Class I price to be paid for approved milk should not be dependent upon the type of plant receiving the milk. However, to the extent that milk is received elsewhere from dairy farmers and brought to the marketing area by a handler, the handler has assumed a transportation cost which might otherwise be borne by the dairy farmers. Under these circumstances, the Class I price should be adjusted downward to give consideration to the cost of hauling milk to the marketing area.

It is customary, in both regulated and unregulated markets, for handlers to pay dairy farmers delivering milk to plants farther removed from the market a lesser price per hundredweight than is paid dairy farmers delivering directly to plants in the marketing area. To the extent that this represents a lower price because of the location of the milk, such difference in value should be recognized under the order.

Indianapolis is the principal city in the marketing area and is so situated with respect to the overall sales area of regulated handlers that basing location differential mileage zones from such city would be equitable to all handlers. The Monument Circle in Indianapolis represents an appropriate point from which the mileage used in applying the location differentials should be measured.

Because the Indianapolis marketing area is spread over a relatively large territory and because milk distributed in the marketing area is moved great distances, it would be inappropriate to have location differential mileage zones applicable less than 70 miles from Indianapolis. Accordingly, the Class I price should be reduced by 10 cents for the first 80 miles and 1.5 cents for each additional 10 miles or fraction thereof with respect to approved milk received at a plant which is not less than 70 miles from Monument Circle in Indianapolis.

Marion County, in which is located the city of Indianapolis, is the most heavily populated county in Indiana. Producers shipping to plants in Marion County must pay more for hauling their milk than do their neighbors supplying plants in the smaller cities and in the more rural communities in the marketing area. To give recognition to this factor, the Class I price for approved milk received at plants outside Marion County (the base zone) should be reduced by a location differential of 5 cents if such plant is less than 70 miles from Monument Circle in Indianapolis.

The location differentials here recommended are economically sound and will be applicable to all handlers wherever located. The proposed rates approximate those contained in other nearby Federal orders and are representative of the cost of hauling milk by an efficient means to the market.

Prices paid producers supplying plants at which location differentials apply

should be reduced to reflect the lower value of such milk f.o.b. the point to which delivered.

No adjustment should be made in the Class II price because of the location of the plant to which the milk is delivered. There is little difference in the value of milk for manufactured uses associated with location of the plant receiving the milk. This is because of the low cost per hundredweight of milk involved in transporting manufactured products. The prices paid for ungraded milk received at various points within the milkshed do not indicate any difference in value associated with location.

After a handler receives milk for Class II use, he should be expected to handle and dispose of the milk by the most advantageous method possible. Prices paid producers for such milk should not be made dependent upon the method employed by the handler in disposing of such milk. To do otherwise would remove part of the incentive for keeping handling costs at a minimum.

To insure that milk would not be moved unnecessarily at producers' expense, the order should contain a provision to determine whether milk transferred between plants may receive the location differential credit. This should provide that for the purpose of calculating such location differential credit the skim milk and butterfat in fluid milk products transferred in bulk form be assigned to the available skim milk and butterfat classified in Class II in the transferee plant before being allocated to Class I milk at such plant.

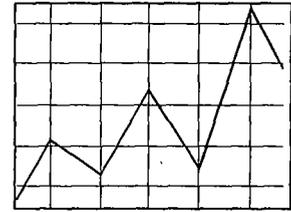
Use of equivalent prices. If for any reason a price quotation required by this order for computing class prices or for other purposes is not available in the manner described, the market administrator should use a price determined by the Secretary to be equivalent to the price which is required. Including such a provision in the order will leave no uncertainty with respect to the procedure which shall be followed in the absence of any price quotations which are customarily used and thereby prevent any unnecessary interruption in the operation of the order.

Payments on unpriced milk. The order should provide that payment be made into the producer-settlement fund with respect to unpriced milk which is allocated to Class I milk in a pool plant.

Receipt of milk in excess of Class I disposition is necessary to operate a fluid milk business. Because of seasonal fluctuations in production without corresponding changes in demand, this excess or reserve milk must be marketed in manufactured form in competition with products made from ungraded milk. The existence of this reserve Grade A milk, which must be marketed at a lower price, is the primary cause of the instability which may affect fluid milk markets.

Considerable volumes of Grade A milk must be disposed of as surplus by various unregulated plants from which the Indianapolis order handlers may obtain milk. When milk is available in substantial volumes from nonpool sources, handlers under the order could obtain such milk at prices reflecting its value

MARKETING AND POLICY BRIEFING PAPER



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Federal Milk Marketing Order Pooling, Depooling, and Distant Pooling: Issues and Impacts

Ed Jesse and Bob Cropp¹

Federal milk marketing order pooling issues have been frequent topics of discussion, especially since federal order reform was implemented in January 2000. Particularly controversial are *depooling* and *distant pooling*, both of which affect federal order producer prices. Numerous questions have been raised related to what is pooling, what producers are eligible to share in federal order pools, what is a pool milk plant, how do regulated manufacturing milk plants decide to pool or depool, and how does pooling affect producer pay prices, in particular the producer price differential (PPD) and the uniform producer price.

Two recent events focused increased attention on pooling issues. In April 2004, the PPD in many milk marketing orders was a record negative value — (\$4.11) per hundredweight in the Upper Midwest order. While the large negative difference between the April Class I and Class III prices (\$15.44 and \$19.66 per hundredweight, respectively) was the primary cause of negative PPDs, they were made even larger because many manufacturing plants and dairy cooperatives chose to depool, that is, disassociate milk from orders. The Upper Midwest market administrator estimated that 1.6 billion pounds of milk was depooled in April 2004.² Depooling resulted in April 2004 Class III utilization of only 11 million pounds (1.8 percent of total use) compared to 1.4 billion pounds (76.8 percent) in April 2003.

¹ The authors are Professor and Emeritus Professor, respectively, and Extension Dairy Marketing Specialists, Department of Agricultural and Applied Economics, University of Wisconsin-Madison/Extension. Clarifying comments on earlier drafts from Bob Wills, Cedar Grove Cheese, and Henry Schaefer, Upper Midwest Market Administrator's Office, are gratefully acknowledged.

² Federal Milk Market Administrator, U.S. Department of Agriculture. *Upper Midwest Dairy News*, Vol. 5, No. 5. May 2004.

The second event was the termination of the Western federal milk order on April 1, 2004. A significant volume of milk from Idaho producers was being pooled on the Upper Midwest order while the Western order was in effect. Termination of the order raises legitimate fears that even more Idaho milk will find a home on the Upper Midwest order, further diluting the PPD.

Two groups of dairy cooperatives operating in the Midwest have asked for a hearing to alter pooling rules in the Upper Midwest order. One group is asking for changes to limit both depooling and distant pooling. The other group is asking only for changes to restrict distant pooling. To date, the Secretary of Agriculture has not announced a hearing.

In this paper we explain the concept of pooling, why both local and distant milk is pooled, why milk is depooled and the implications of pooling and depooling on producer pay prices. The discussion pertains primarily to the Upper Midwest order; provisions of other orders may differ.

Pooling, the Producer Settlement Fund, and the PPD

The terms, *pool*, *pooled* and *pooling*, have several meanings within federal orders, which leads to some confusion. Pooling refers to both milk and money. A federal order *milk pool* refers to the amount of milk eligible to share in the federal order money pool. A federal order *money pool* is the amount of money generated by applying minimum federal order Class prices to the amount of milk used in each Class within an order.

The utilization of milk by Class for pooled handlers is monitored by the order market administrator, who (simplistically) calculates the per hundredweight value of pooled milk by dividing the money pool by the milk pool.³ Mathematically, this process involves calculating the weighted average value for milk, where the prices are minimum federal order prices by Class and the weights are the proportion of total milk pooled by regulated handlers that is utilized in each of four classes. Producers affiliated with pooled handlers indirectly receive this weighted average value (adjusted for milk composition and quality), regardless of how their handler uses the producers' milk (i.e., to which Class the milk is assigned).

A federal order's *marketing area* is defined as a geographical area where fluid milk plants compete for the sales of Class I or beverage milk.⁴ The marketing area is not where milk is produced; it is where fluid milk is sold. Pooling involves the association of both locally produced milk (milk produced within the market area) and more distant milk with

³ The process of calculating the pool value per hundredweight is considerably more complicated. Values and usage of milk components are used in the calculation rather than values and usage of standard composition milk. Several other adjustments to the weighted average value are made to derive the pool value per hundredweight, which is called the uniform price. The weighted average pool value defined here is not the same as the uniform price.

⁴ With modern transportation and packaging it is difficult to determine where one market ends and another starts. In general, a fluid milk plant is regulated by the order in which it has the largest percentage of its fluid milk sales

pool plants. For example, milk from Idaho is pooled on the Upper Midwest order, and plants located within the Upper Midwest marketing area pool milk on several other orders.

The four Classes of milk are:

- Class I – Milk used for beverage products.
- Class II – Milk used for soft manufacturing products like ice cream, cottage cheese, sour cream, whipping cream and yogurt.
- Class III – Milk used to manufacture cream cheese and hard cheese.
- Class IV – Milk used to make butter and dry milk products and evaporated and condensed milk in consumer packages.

Class II, III, and IV prices are the same across all federal orders. Class I prices vary across orders, depending on the order's Class I differential. The Class I price in any month is usually higher than the announced prices for the other classes. Accordingly, the weighted average value of milk in a market will usually vary directly with the percentage of milk used in Class I. For a given level of Class I sales, the weighted average value will usually vary inversely with the amount of milk associated with the market (the milk pool). So normally, the more milk used in Class I and the smaller producer deliveries to pool plants, the higher will be the weighted average value of milk in the pool.

The federal order money pool is divided up (on paper) among pooled federal order plants according to the plants' utilization of milk by class. This dividing up is done through the order *producer settlement fund*. The order market administrator calculates the weighted average value of milk for each pooled plant, applying the announced Class prices to the volume of milk used by the plant in each class. If a plant's weighted average milk value is greater than the weighted average value of milk for the entire market pool, then the plant will be billed for the difference multiplied by the plant's producer deliveries for the month. If the plant's weighted average milk value is less than the market value, then the plant receives a check for the difference times producer deliveries.⁵

Through these producer settlement fund pay-ins and take-outs, each pooled plant has the same amount of money per hundredweight to pay producers, regardless of what products the plant makes. With normal Class price relationships (Class I price highest), fluid milk processors pay into the producer settlement fund and manufacturing plants draw from it. Cheese plants who use all or most of their milk as Class III, will normally receive a payment from the producer settlement fund. This is called a pool draw. Eligibility to receive this pool draw is the primary reason that Wisconsin cheese plants seek pool status

⁵ For simplicity, the calculations noted here are based on standard milk composition. Producer settlement fund payments and receipts are actually based on usage of milk *components* by class, which varies significantly across classes and across handlers. Fund obligations also account for the SCC of the plants' milk and involve several other possible adjustments.

under the order. These plants are interested in making cheese, not supplying milk for fluid use. But their limited commitment to service the fluid market and the associated pool draw provides them with revenue to pay their producers beyond what they receive from selling cheese and whey.

Producers in orders where multiple component pricing is used (six of the ten orders currently in effect, including the Upper Midwest) do not receive the weighted average value directly. Rather, their federal order payment is based on pounds of butterfat, (true) protein, and other milk solids shipped during the month *plus* a producer price differential (PPD) per hundredweight of milk shipped.⁶

On a per hundredweight basis, producers with high-testing herds receive a higher value for their milk components than producers with low-testing herds. The Class III price is for milk with a specific composition: 3.50 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. So only a producer with milk composition exactly matching this composition would receive the Class III price as the component value per hundredweight.

The PPD accounts for the differences between Class I, II, and IV prices and the Class III price for the month. Simplistically, it is the weighted average pool value per hundredweight minus the Class III price. While the actual calculation is complex and involves several additions and deductions⁷, the PPD in any month is roughly equivalent to:

$$\begin{aligned} & \text{Percent Class I utilization X (Class I price – Class III price)} \\ + & \text{Percent Class II utilization X (Class II price – Class III price)} \\ + & \text{Percent Class IV utilization X (Class IV price – Class III price)} \end{aligned}$$

Producers, Pool Plants and Performance Requirements

Producers under federal milk marketing orders are dairy farmers who are eligible to share in the federal order money pool. To be designated a producer under the Upper Midwest order, one day's milk production must be delivered to an order *pool plant*. This is often called "touching base;" the producer demonstrates the one-time ability to make delivery to a pool plant.⁸ After touching base, the pool plant may thereafter divert the producer's milk to a non-pool plant (i.e., a milk plant that is not regulated by the order) and the producer continues to remain eligible to share in the money pool.

⁶ Note that the PPD is not the same as the pool draw except in the case of a plant that accounts for 100 percent of its milk as Class III.

⁷ Monthly calculation of the PPD for the Upper Midwest order is shown at the following web site: http://www.fimma30.com/Homepage/FO30_Prices.HTML#PPD. Note that the PPD is "zoned out" in 5-cent per hundredweight increments from Chicago in the same way that the Class I differential is zoned out from \$1.80 to \$1.60 per hundredweight.

⁸ In some orders, the touch base producer eligibility requirement applies monthly or several times per month.

The non-pool plant to which the producer's milk is diverted may be the same plant as the pool plant. Under the Upper Midwest order, plants may be authorized by the market administrator to operate both a pool plant and a non-pool plant on the same premises. This is called split plant status. For example, a dairy cooperative making cheese could designate some milk storage silos as its pool plant and some as its non-pool plant. Producer milk, once it has touched base, could be diverted to the non-pool silos.

There are three types of milk handlers that can be designated *pool plants* under the Upper Midwest federal milk order.

- 1) Distributing plants: Plants that process, package and sell beverage milk products within designated marketing areas. Distributing plants may procure milk directly from producers or obtain milk from supply plants and cooperatives.
- 2) Supply plants: Plants that supply raw Grade A milk to distributing plants. These are manufacturing milk plants, like cheese plants, that procure milk directly from producers or obtain milk from cooperatives. While engaged primarily in manufacturing, supply plants help assure an adequate supply of milk for fluid purposes by carrying fluid milk reserves. Supply plants also provide a balancing service by manufacturing milk that is not needed for fluid purposes on days when bottling plants are not operating and handling seasonal surpluses.
- 3) Dairy cooperatives: Some dairy cooperatives bottle milk and others have manufacturing facilities. Other cooperatives are involved exclusively in representing their members in negotiations with proprietary firms. Dairy cooperatives, like other handlers are obligated to the federal order pool for the established minimum prices. But cooperatives are not obligated to pay their member-producers the order minimum producer prices. They often "re-blend" the proceeds from milk sales across federal order markets and pay their members prices in different regions that reflect different competitive conditions.

Whether or not a milk plant or dairy cooperative is a *pool plant*, i.e., a regulated handler under a specific federal milk order, hinges on whether the plant meets the order's *performance requirements*. Performance requirements for distributing plants are different from those applying to supply plants and cooperatives.

For distributing plants, performance requirements pertain to the percentage of the plant's packaged milk that is distributed within the marketing area. If a distributing plant meets the required minimum distribution percentage under an order, it is pooled — there is no choice in the matter. Pooling is required because federal milk orders assure that all fluid milk handlers have the same minimum cost of raw Grade A milk to prevent one handler from gaining a competitive advantage over another in processing and selling packaged milk within the market area.

For supply plants and dairy cooperatives, performance requirements are called *shipping requirements*, and relate to the percentage of their milk receipts that must be shipped to a distributing plant. But, unlike distributing plants, supply plants and dairy cooperatives can decide whether they wish to meet the shipping requirements or not. These decisions can be made on a monthly basis — pooled in some months and not pooled in others.

The minimum shipping percentages required of a supply plant or dairy cooperative vary by federal milk order. Shipping requirements depend upon the local supply of milk in relation to Class I milk (beverage milk) needs. In federal milk orders with relatively high Class I use, like the Southeast, Appalachian and Florida orders, the shipping requirements are higher than the orders with relatively low Class I use, like the Upper Midwest order.

Shipping requirements also may vary by months of the year. In the South and Southeast milk production is very seasonal, with production dropping off substantially during summer and fall to the point that locally produced milk is short of meeting Class I needs and some distant milk must be purchased. Shipping requirements are higher during these short months.

The seven orders other than the Southeast, Appalachian and Florida have far more than an adequate supply of local milk for Class I needs during any month of the year. Consequently, they have minimal shipping requirements. The Upper Midwest order has a shipping requirement of 10 percent, meaning that to qualify as a pool plant, supply plants and cooperatives need to ship 10 percent of their monthly milk receipts to distributing plants.⁹

Each Upper Midwest supply plant and cooperative does not have to meet this requirement individually. Supply plants and cooperatives are allowed to form *systems* for purposes of collectively meeting the shipping requirement. The system must adhere to the 10 percent fluid shipment rule, but some members of the system can use all of their milk all of the time for manufacturing.¹⁰

This relatively small shipping requirement in the Upper Midwest order exists because most of the time the bulk of producer milk delivered to supply plants is not needed to supply Class I needs. Pooled manufacturing plants hold a reserve Grade A milk supply for Class I use if and when needed, and are allowed to share in the federal pool to compensate them for this service. This makes sense. To require regular shipments from all supply plants and cooperatives would be both unnecessary and wasteful in terms of elevated hauling costs.

⁹ However, the order's market administrator may alter shipping requirements for supply plants and cooperatives if distributing plants have difficulty acquiring enough milk to meet their needs.

¹⁰ Such plants would typically compensate other members of the unit for their increased cost of "giving up" milk for fluid use.

Distant Pooling

Because of the Upper Midwest order's one-time touch base producer qualification provision and liberal non-pool diversion provisions, it can be economically advantageous for cooperatives and other plants located quite distant from the order marketing area to affiliate producers and their milk with the Upper Midwest order — that is, to pool milk on the Upper Midwest order.

For example, a cooperative operating a cheese plant in Idaho might identify several Idaho producers to affiliate with the Upper Midwest order. The cooperative would ship the milk of those producers to a pooled plant in the Upper Midwest to meet the Upper Midwest order's "touch base" requirement for being designated a producer. All of the subsequent milk deliveries of the designated producers would then be priced under the Upper Midwest order even though only one day's production was actually shipped to an Upper Midwest pool plant. After touching base, all other deliveries would stay in Idaho for use in manufacturing.

The pool qualification of the distant milk could be through an Upper Midwest distributing plant. It could also be through a supply plant or dairy cooperative that had sufficient "cushion" in meeting the shipping requirement of the Upper Midwest order — that is, a pool plant that individually or through a system shipped more than 10 percent of its milk to a distributing plant. The plant that qualified the distant milk would receive a fee for providing qualification.

Distant pooling is advantageous to the cooperative if the difference in the PPDs between the order regulating the Idaho cooperative and Upper Midwest order is more than enough to offset the one-time hauling costs necessary to meet the Upper Midwest order's touch base producer qualification standard. The distant pooled milk may also come from producers whose milk is not pooled on any order; i.e., the milk is unregulated. In that case, distant pooling is economically advantageous if the Upper Midwest order PPD applied to all of the pooled milk more than offsets the cost of hauling enough milk to meet the order's touch base requirement.

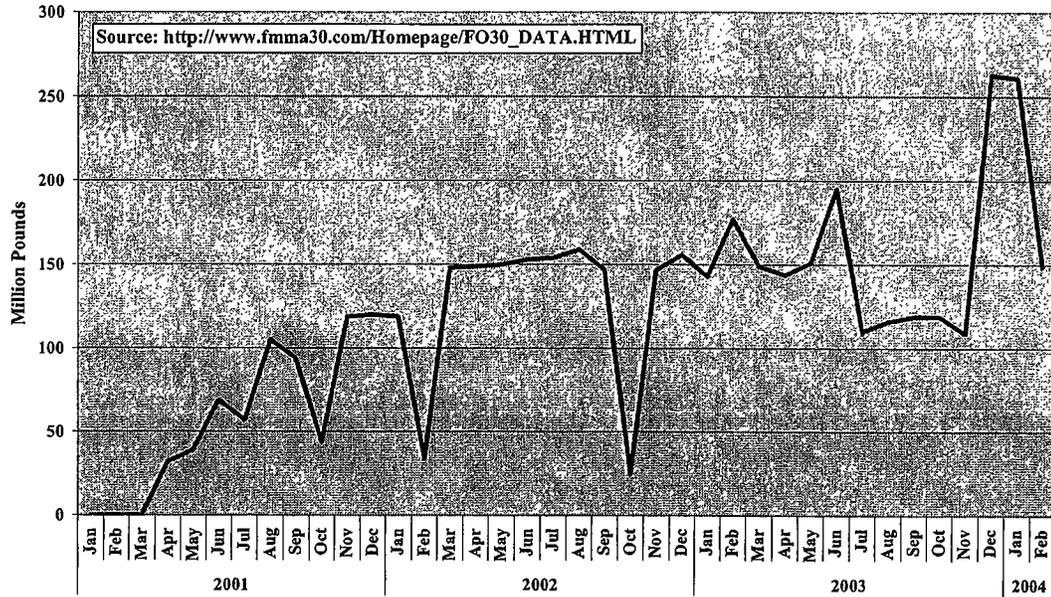
Substantial volumes of milk from Idaho have recently been pooled on the Upper Midwest order. Except for the required touch base shipments to an Upper Midwest pool plant, this pooled milk is used primarily by Idaho plants to make cheese in Idaho.

Milk sourced in Idaho accounted for 1.8 billion pounds of producer milk on the Upper Midwest order in 2003, 10.6 percent of total producer receipts. Pooled milk from Idaho exceeded the combined pooled milk from the states of Illinois, Iowa, Michigan, North Dakota and South Dakota — parts of which are within the Upper Midwest marketing area.

The effect of distant pooling is to reduce the value of the PPD in the receiving market. This occurs because the milk pool is increased more than the money pool. With more

milk pooled and constant higher-valued Class I and Class II sales in the marketing area, the weighted average value of pooled milk decreases.

Upper Midwest Federal Order: Producer Milk from Idaho

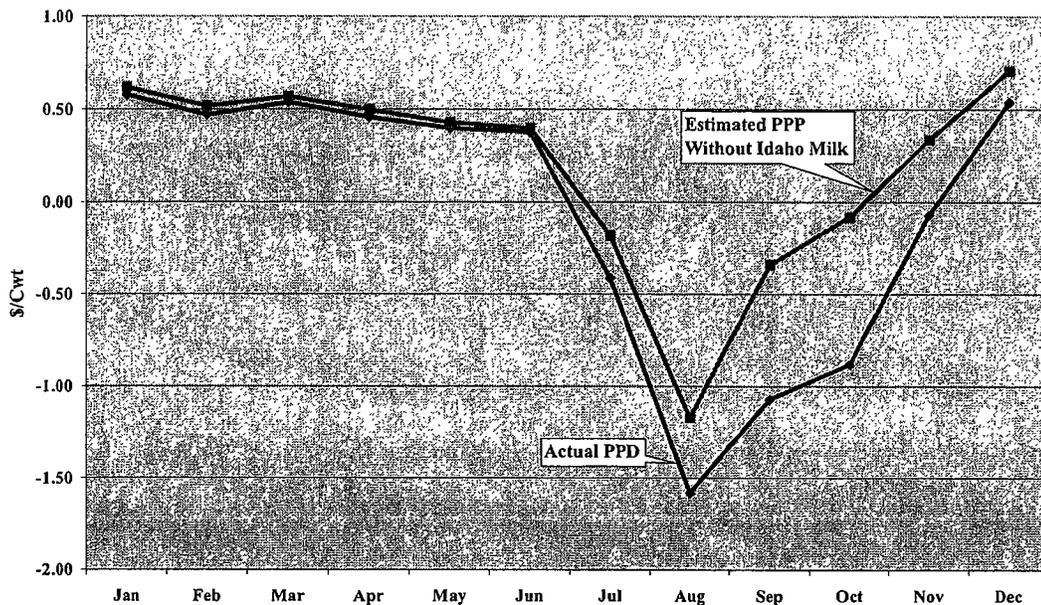


An estimate of the effect of pooling Idaho milk on the Upper Midwest PPD in 2003 was made by the order market administrator at the request of one of the groups of cooperatives seeking a hearing on distant pooling.¹¹ The results are shown below. On average for the year, the Upper Midwest monthly PPD was reduced by 25 cents per hundredweight.

The Western order was terminated effective April 1, 2004. Consequently, Idaho cheese plants are no longer regulated by a federal order. This has raised the concern that even more Idaho milk will be pooled on the Upper Midwest order. To evaluate the potential impact of more Idaho milk finding a home on the Upper Midwest order, the Upper Midwest order administrator estimated what the order monthly PPD would have been if 50 percent of the Class III and Class IV producer milk pooled on the Western order in 2003 would have been pooled on the Upper Midwest order. These larger shipments would have reduced the Upper Midwest PPD from actual by an estimated 5 cents per hundredweight; that is, by five cents more than the reduction already associated with Idaho milk pooled on the Upper Midwest order.

¹¹ See http://www.ams.usda.gov/dairy/upper_midwest/MIDWESTHearingRequest.pdf (attachment 2).

Upper Midwest Producer Price Differential, 2003: Actual and Imputed



At the time order “reform” was implemented in January 2000, several other orders had pooling requirements similar to those applying in the Upper Midwest order. Since then, the Central and Mideast orders have tightened their pooling requirements. This was in response to large quantities of milk from Minnesota and Wisconsin being pooled on these orders, reducing the orders’ Class I utilization and their PPDs. These order changes have significantly reduced the incentive for distant pooling on these orders.

Now it’s the Upper Midwest’s turn to seek restrictions on pooling milk from areas well outside the order’s marketing area. The restriction that cooperatives submitting proposals to date are asking for would prevent producer milk from outside the states included within the Upper Midwest marketing area from being diverted to non-pool plants outside the marketing area. While this would not prohibit the pooling of distant milk on the order, it would substantially weaken the incentive to do so because more milk would incur transportation costs.

Depooling

To understand why manufacturing plants and dairy cooperatives decide to pool with or depool from an order we need to understand the relationship among class prices, the timing of federal order price announcements, and the obligation of pooled handlers to the order’s producer settlement fund.

All federal order prices are based on National Agricultural Statistics Service (NASS) average prices for four manufactured dairy products: Grade AA butter, Cheddar cheese (in 40-pound blocks and 500-pound barrels), nonfat dry milk, and dry whey. NASS surveys plants selling these products and reports weekly average prices each Friday for the week ending the previous Saturday.¹²

Class I milk (and Class II skim milk) are advanced priced. These advanced prices are announced on the Friday on or before the 23rd of the month *preceding* the month to which they apply. For example, the Class I price for April 2004 was announced on Friday, March 19th. Advanced prices are based on the last two weeks of average butter, cheese, whey and nonfat dry milk prices reported by NASS on the Friday of the advanced price announcement. Normally, because of the one-week lag in NASS reporting (the Friday report covers sales for the week ending the previous Saturday), the advanced prices are based on the NASS commodity prices for the first two weeks of the month. For example, the April advanced prices were based on the average commodity prices for the weeks ending March 6th and March 13th.

The Class I price in the Upper Midwest order is built from the *advanced* Class III or Class IV price, whichever is higher. The Class I skim milk price is the “higher of” the advanced Class III or Class IV skim milk price plus a Class I differential of \$1.80 per hundredweight. The Class I butterfat price is the advanced Class III and Class IV butterfat price (the butterfat price is the same for both classes) plus \$0.018 per pound (the Class I differential divided by 100). The announced Class I price is 3.5 times the Class I butterfat price plus 0.965 times the Class I skim milk price.

Monthly Class III and Class IV prices (and the butterfat price per pound for Class II) are not announced until the Friday on or before the 5th of the month *following* the month to which they apply. For April milk, these prices were announced on Friday, April 30th. They were based on the weekly NASS commodity prices for the month available at the time of the price announcement. For April 2004, the Class III, Class IV, and the Class II butterfat prices were based on weighted average NASS commodity prices for the four weeks ending April 3rd, 10th, 17th, and 24th.

It is this difference in timing of the price announcements that gives rise to incentives to depool. The Class III price for any month is announced 6 weeks after the Class I price. If the price of cheese increases rapidly between the announcement dates, then the monthly Class III price can end up higher than the Class I price.¹³ This “price inversion” reverses the normal obligation of pooled handlers to the producer settlement fund. Fluid processors draw from the fund and cheese plants are required to pay into the fund. To avoid this payment, cheese plants depool.

¹² For a comprehensive explanation of how Federal order Class prices are derived, see Jesse and Cropp, *Basic Milk Pricing Concepts for Dairy Farmers*, Bulletin No. A3379, University of Wisconsin Extension, Cooperative Extension, July 2004. This publication is available electronically at: <http://www.aae.wisc.edu/future/> in the publications section of the web site.

¹³ Stated differently, price inversion occurs if the monthly Class III price is higher than the advanced Class III price by more than the Class I differential (\$1.80 per hundredweight). Rapidly rising nonfat dry milk prices could also cause price inversion, but that is a remote possibility at this time.

The two-week average cheese price used in deriving the April 2004 Class I skim milk price was \$1.4582 per pound. The four-week average cheese price used in deriving the Class III price was \$2.0520 per pound. So between the times of the two price announcements, the cheese price increased \$0.5938 per pound. This resulted in an Upper Midwest April Class I price (announced on March 19) of \$15.44 per hundredweight and an April Class III price (announced on April 30) of \$19.66 per hundredweight. Because of this price inversion, most of the Class III milk on the Upper Midwest order was depooled to avoid a producer settlement fund payment.

Let's look at three cases to evaluate the incentives to pool and depool and the impact of depooling on the PPD. First, let's look at the situation in April 2003, when class price relationships were more or less normal; that is, when the Class I price exceeded the Class III by approximately the Class I differential. The weighted average value of milk pooled on the Upper Midwest order in April 2003 is calculated as follows:

April 2003 Upper Midwest Pool Value				
<i>Class</i>	<i>April 2003 Announced Price (\$/Cwt)</i>	<i>April 2003 Market-Wide Utilization</i>		<i>Imputed Pool Value (\$/Cwt)</i>
		<i>%</i>	<i>Mil. Lbs</i>	
I	11.44	18.2	338.1	2.08
II	10.44	2.8	52.8	0.29
III	9.41	76.8	1,430.9	7.23
IV	9.73	2.2	41.0	0.21
Weighted Average Pool Value				9.81

Distributing plants who used all their milk for Class I would *pay* \$1.63 per hundredweight (\$11.44 - \$9.81) into the producer settlement fund in this example. Class II users would *pay* \$0.63 (\$10.44 - \$9.81). Plants using all their milk for cheese (Class III) would *draw* \$0.40 per hundredweight from the pool (\$9.41 - \$9.81) and Class IV plants would *draw* \$0.08 (\$9.73 - \$9.81). The imputed PPD is \$0.40 per hundredweight.

Because of the positive pool draw, cheese plants remained pooled in April 2003. Let's move to April 2004, when the Class III price was \$4.22 per hundredweight higher than the Class I price. First, let's look at what would have happened if the market milk utilization by class had been the same as April 2003:

April 2004 Upper Midwest Pool Value Using April 2003 Market-Wide Utilization				
<i>Class</i>	<i>April 2004 Announced Price (\$/Cwt)</i>	<i>April 2003 Market-Wide Utilization</i>		<i>Imputed Pool Value (\$/Cwt)</i>
		<i>%</i>	<i>Mil. Lbs</i>	
I	15.44	18.2	338.1	2.81
II	15.21	2.8	52.8	0.43
III	19.66	76.8	1,430.9	15.10
IV	14.57	2.2	41.0	0.32
Weighted Average Pool Value				18.66

In this scenario, the pool draws are flip-flopped. Class I plants would have *drawn* \$3.22 per hundredweight from the producer settlement fund. Class III plants would have *paid* \$1.00 per hundredweight into the producer settlement fund. The PPD would have been -\$1.00.

To avoid this pool payment, most of the Class III milk normally pooled on the Upper Midwest order was depooled by supply plants and dairy cooperatives. The actual utilization and weighted average pool value of what milk remained in the pool was:

April 2004 Upper Midwest Pool Value Using Actual Market-Wide Utilization				
<i>Class</i>	<i>April 2004 Announced Price (\$/Cwt)</i>	<i>April 2004 Market-Wide Utilization</i>		<i>Imputed Pool Value (\$/Cwt)</i>
		<i>%</i>	<i>Mil. Lbs</i>	
I	15.44	62.8	381.8	9.70
II	15.21	15.8	96.3	2.40
III	19.66	1.8	11.0	.35
IV	14.57	19.6	119.0	2.86
Weighted Average Pool Value				15.31

This calculation shows an imputed PPD of -\$4.35 per hundredweight compared to the actual PPD of -\$4.11. The difference is due to other factors that make up the PPD and accounting separately for skim milk and butterfat. The point is that depooling reduced the PPD by about \$3.00 per hundredweight. Taking the higher-priced Class III milk out of the milk pool substantially reduced the money pool and the weighted average value of the milk that remained pooled.

Depooled plants that normally pooled under the Upper Midwest order made no producer settlement fund payments in April 2004. Consequently, their producer milk checks likely showed a zero (or near-zero) PPD.

Plants that remained pooled under the order in April 2004 included distributing plants (who cannot depool), plants making Class II and Class IV products (who enjoyed a pool draw), and some supply plants and cooperatives with significant Class I sales commitments either independently or as part of a shipping unit. Producers affiliated with some of these pooled plants may have seen a large negative PPD on their May milk checks for April milk, possibly approaching the announced -\$4.11. For example, smaller distributing plants that procured milk directly from producers rather than through dairy cooperatives could not depool and may have been obligated to make producer settlement fund payments.

But very little milk was subject to the very large Class III producer settlement fund payment. And that payment was likely spread across a much larger volume of milk, some of which received a pool draw. Note from the table above that the imputed Class III producer settlement fund payment of -\$4.35 per hundredweight applied to April 2004 Class III volume of 11 million pounds (110,000 hundredweight). So the implied total producer settlement fund obligation on Class III milk was only about \$480,000. The imputed pool draw on Class IV milk was \$0.74 per hundredweight applied to 119 million pounds (1.2 million hundredweight) for an implied total draw of \$880,000. Because of these offsetting producer settlement fund payments and receipts, multi-plant/multi-product cooperatives likely experienced a net producer settlement fund draw. Accordingly, their producer milk checks did not likely reflect the announced negative April 2004 PPD.

The ability of manufacturing plants to minimize their producer settlement fund obligation varies among plants. Split status plants affiliated with shipping system units likely had, at worst, a very small obligation per hundredweight of milk receipts. Other plants may have had difficulty depooling, possibly because of Class I sales commitments larger than the 10 percent shipping requirement and the related need to keep some Class III milk pooled. These plants incurred a proportionally larger producer settlement fund payment and had limited ability to internally absorb the payment.

Producer milk checks for April 2004 milk were much less dependent on the announced PPD than on other factors. These included plant returns on sales of manufactured products, how plants handled their producer settlement fund obligation, and the ability of plants to absorb any required order payments in their operating margins. However,

producer settlement fund payments were avoided by some plants and incurred by others, which contributed to differences among plants in their ability to pay for milk. And depooling substantially reduced the PPD, increasing interplant differences in the ability to pay for milk. This represents a serious equity issue and is inconsistent with the concept of orderly marketing.

Between January 2000, when federal milk order reform was implemented, and June 2003, the Upper Midwest PPD was positive in every month. Recent increased volatility in commodity prices have made negative PPDs and depooling more common. In 2003, cheese prices increased rapidly beginning in June. Negative PPDs were experienced for the months of July through November. Even though the Class I price had caught up and surpassed the Class III price by September (\$15.51 Class I and \$14.30 Class III), the PPD remained negative because of extensive depooling of Class III milk under the order (5.7 percent Class III) combined with low Class II and Class IV prices (\$10.76 and \$10.05, respectively). These low Class II and Class IV prices relative to Class III provided an incentive for Class II and Class IV handlers to pool abnormally large volumes of milk because they were eligible for pool draws. It was not until December 2003 that utilization by class returned to more normal and the PPD become positive again.

Upper Midwest Pooling percentages and PPDs 2003-2004									
<i>Month</i>	<i>Class I %</i>		<i>Class II %</i>		<i>Class III %</i>		<i>Class IV %</i>		<i>PPD</i>
	<i>\$/Cwt</i>	<i>%</i>	<i>\$/Cwt</i>	<i>%</i>	<i>\$/Cwt</i>	<i>%</i>	<i>\$/Cwt</i>	<i>%</i>	<i>\$/Cwt</i>
Jan '03	12.36	19.7	11.29	2.3	9.78	76.0	10.07	2.0	\$0.58
Feb	12.03	18.5	10.66	2.4	9.66	74.2	9.81	4.9	\$0.47
Mar.	11.61	17.5	10.54	2.7	9.11	77.3	9.79	2.5	\$0.54
Apr.	11.44	18.2	10.44	2.8	9.41	76.8	9.73	2.2	\$0.46
May	11.51	17.9	10.43	2.5	9.71	77.9	9.74	1.7	\$0.40
Jun.	11.54	15.6	10.46	2.7	9.75	77.4	9.76	4.3	\$0.38
Jul.	11.57	49.7	10.63	15.9	11.78	11.6	9.95	22.8	(\$0.41)
Aug.	12.77	50.6	10.81	18.4	13.8	8.4	10.14	22.6	(\$1.58)
Sept.	15.51	54.0	10.76	17.6	14.3	5.7	10.05	22.7	(\$1.07)
Oct.	16.07	55.2	10.84	17.0	14.39	4.8	10.16	23.0	(\$0.88)
Nov.	16.17	35.6	10.99	11.0	13.47	36.2	10.30	17.2	(\$0.07)
Dec.	15.64	18.1	11.30	5.2	11.87	68.5	10.52	8.2	\$0.54
Jan '04	13.65	17.8	11.67	5.5	11.61	68.9	10.97	7.8	\$0.37
Feb.	13.39	18.3	12.90	4.3	11.89	74.4	12.21	3.0	\$0.47
Mar.	13.74	58.7	14.79	11.2	14.49	12.3	14.10	17.8	\$0.21
Apr.	15.44	62.8	15.21	15.8	19.66	1.8	14.57	19.6	(\$4.11)

Depooling is constrained in some orders by preventing repooling for a specified time after depooling. The proposal for the Upper Midwest hearing takes a different approach. It would limit pooled milk in any month to a specified percentage of pooled milk in the previous month. So if a plant depooled in one month, it could only partially repool in the subsequent months.

Regardless of how it is accomplished, restricting depooling deals with the symptom of a problem rather than the problem itself. The problem is price inversion caused by the combination of volatile cheese prices and advanced Class I pricing. Federal orders cannot address volatile cheese prices. But it may be time to seriously consider eliminating advanced pricing for fluid milk.

This would raise strong objections from fluid milk processors, who, unlike manufacturing plants, enjoy the benefits of knowing their raw product cost in advance. Fluid processors would legitimately argue that eliminating advanced pricing would make it difficult for them to establish list prices for retailers and other outlets and lead to unpredictable and unstable operating margins.

However, there are ways to deal with this instability. For example, if Class I prices were tied to monthly instead of advanced Class III prices, fluid processors could engage in hedging to lock in minimum prices. This would require elimination of the “higher of” Class I pricing concept — Class I prices would need to be linked exclusively to the Class III price.¹⁴

Over-order bargaining cooperatives could also serve to help stabilize processor milk costs in the absence of advanced Class I pricing. For example, over-order premiums could be adjusted to accommodate large month-to-month changes in federal order Class I prices.

Depooling results in non-uniform producer pay prices. Restricting depooling could conceivably make this problem even worse if it encouraged regulated handlers to permanently disaffiliate from the order. In that case, the reserve supply of fluid milk would shrink and shipping requirements would need to be increased for remaining pooled supply plants and dairy cooperatives.

Conclusions:

Distant pooling and depooling are distinctly different issues from the perspective of producers. Distant pooling has an unambiguous negative effect on producer pay prices by reducing the PPD for all producers. In contrast, depooling allows some handlers to protect their producers from a negative PPD while making the negative PPD even more

¹⁴ In our judgment, eliminating the higher of mover has substantial benefits besides those associated with preventing price inversion. See, for example, Jesse and Cropp, *Order Reform and Reforming Order Reform*, Marketing and Policy Briefing Paper No. 71, December 2000.

negative for producers affiliated with handlers that cannot fully depool. Distant pooling is an economic issue. Depooling is an equity issue.

Both issues should be addressed through order amendments. The termination of the Western order raises the prospect that even larger volumes of unregulated milk will become associated with the Upper Midwest order. Such association would be appropriate and consistent with federal order objectives if the distant milk was necessary to provide a reserve supply for Class I needs in the Upper Midwest marketing area. That is clearly not the case given the huge volume of Grade A milk produced in the Upper Midwest marketing area that is in excess of fluid needs. Distant milk is pooled on the Upper Midwest order for one purpose: to take advantage of the Upper Midwest PPD, which is intended to compensate producers for legitimately servicing the fluid market.

A major objective of federal milk orders is to assure orderly marketing. The unrestricted ability to pool and depool milk on a monthly basis, causing wildly fluctuating PPDs, does not fit any definition of orderly marketing. Handlers are not treated equally. Producers do not receive uniform prices.

With the relatively low support price for milk, cheese and butter prices will continue to be volatile, leading to volatile federal order prices. With advanced Class I pricing provisions coupled with liberal pooling standards, incentives to depool can be expected to be commonplace. Order changes need to address not only the incentive to depool, but also the order-related conditions that underlie that incentive.

Statement in Support of

Proposal 2

By Dennis Tonak

On behalf of the Proponents

Cass Clay Creamery, Inc.

Dairy Farmers of America, Inc.

Land O Lakes, Inc.

Manitowoc Milk Producers Cooperative

Mid-West Dairymen's Co.

Milwaukee Cooperative Milk Producers

Swiss Valley Farms Company

Woodstock Progressive Milk Producers Association

Upper Midwest Marketing Area

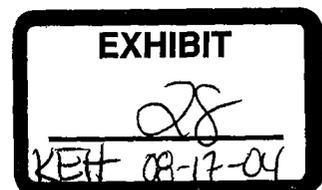
Federal Milk Order No. 30

Public Hearing

Docket No. A0-361-A39, DA-04-03

August 16-20, 2004

Bloomington, Minnesota



My name is Dennis Tonak. I am the manager of Mid-West Dairymen's Company located at 4313 West State Street, Rockford, Illinois. Mid-West is a relatively small cooperative with 137 dairy farm members in southern Wisconsin and northern Illinois. Mid-West is responsible for supplying the raw milk needs of an Order 30 distributing plant. Mid-West has a joint venture ownership interest in that plant. Mid-West also operates an Order 30 supply plant in Rockford. The majority of the Mid-West members' milk delivers to the fluid plant. Mid-West also sells milk to nonpool plants in the region.

This statement is on behalf of the proponents of Proposal 2. The original proponents are Cass Clay Creamery, Inc., Dairy Farmers of America, Inc., Foremost Farms USA Cooperative, Land O' Lakes, Inc., Manitowoc Milk Producers Cooperative, Mid-West Dairymen's Company, Milwaukee Cooperative Milk Producers, Swiss Valley Farms Company, and Woodstock Progressive Milk Producers Association. Though Foremost Farms was an original proponent this statement is not given on their behalf. Additionally this statement is supported by and given on behalf of Plainview Milk Products Cooperative and Westby Cooperative Creamery. All are qualified cooperatives representing producers in the Federal Order 30 market.

Introduction of Issues

Federal Orders are economically proven marketing tools for dairy farmers. Without them dairy farmer's livelihood would be much worse. The central issue of this hearing is to determine who may share in the marketwide pool proceeds. Among the basic purposes of the Federal Order structure are to assure an adequate supply of milk for the fluid market, equitably share the pool proceeds in an economically justifiable manner, and promote orderly marketing.

Orderly marketing would encompass principles that attract milk to the highest value use when needed and clear the market when not needed. Marketwide pooling allows qualified producers to

share in the market returns on a fair and equitable basis and establish requirements that provide the necessary incentives to efficiently supply the market. Working in conjunction with classified pricing, these principles and requirements assure an adequate supply for the fluid market.

The supporters of Proposal 2 recognize the disorderly market conditions that now exist due in large part to what we see as loopholes in the Federal Order regulations. Milk can exit the pool at any time there are negative consequences to pooling and immediately return to the pool when it is extremely advantageous to do so. Milk that is so distant from the Order 30 Class I market that it virtually never ships to fluid use, after meeting the initial one day touch base requirement, shares in the fluid earnings of the pool in an opportunistic manner.

The agricultural press in the region has widely reported on the December 2003 milk pooled by state and county information released by the Market Administrator's office. Jerome County, Idaho had more milk pooled on Order 30 than any county in Minnesota or Wisconsin. While the milk pooled from the other counties in the top 5 was relatively stable, when compared to December 2002, the milk from Jerome County has doubled. (Exh. 5, Tables 17 & 19) This leads producers to ask questions such as "How can this be?" "How much money is this taking from me?" "Does any of this milk come to the Upper Midwest on a regular basis?"

Questions were also raised about the negative PPD's in April and May and the pooled milk volumes in February through June. Exh. 5, Tables 3 & 9 shows that in February 2004 there was 1,944,216,880 pounds pooled with a PPD of \$.47; in March 2004 there was 675,051,623 pounds pooled with a PPD of \$.21; in April there was even less milk pooled – 608,028,839 pounds – with a PPD of -\$4.11; in May 2004 662,635,115 pounds pooled with a PPD of -\$1.97, and in June 2004 the pool more than tripled with 2,113,701,569 pounds pooled and a PPD of \$.30. The discussions when

the negative PPD's hit producers mailboxes were about milk jumping out of the pool and leaving others "holding the bag," about equity and fairness, about a level playing field, and about government regulations that allow this to happen.

Producers who supply milk to meet the fluid needs of the marketplace have been penalized by the very regulations that they have supported in the past. Proposal 2 is a modest step in restoring a level of equity among those who supply the fluid market and those who function primarily as a reserve supply for the market's needs. It would also mandate that milk from far outside the market area must be able to physically supply the Class I market on a continuing basis.

The adoption of Proposal 2 does not stop milk from Idaho or other distant locations from pooling on Order 30. It merely requires that this "distant milk" proves that it can and will supply the fluid market needs – not just for one day to "touch base" – but day after day, week after week.

Our proposal does not stop depooling. It does, however, limit the ability of handlers to immediately repool and grab a share of "the good times."

Proposal 2 consists of three interconnected and interwoven parts.

1. Limit the transportation credit;
2. Establish definitive performance requirements for distant milk;
3. Limit repooling after depooling.

The adoption of only one part of the proposal will not achieve fairness and equity for those producers who regularly supply the market.

Limit Transportation Credit

This may be the least controversial part of Proposal 2. The transportation credit helps offset the hauling cost on the Class I portion when milk is transported from a supply plant to a distributing plant

in Order 30. The transportation credit results in a decreased PPD since the transportation credit value is subtracted from the Producer Settlement Fund. Our proposal would limit the payment of the transportation credit to a maximum of 400 miles. It would not affect the calculation of the transportation credit in any other way.

Exh. 7, Table S-2 shows that in 2003 the maximum distance for milk that received the transportation credit to move was less than 400 miles. Conversations with the Market Administrator's staff indicated that the mileage in prior years was not significantly different. Exh. 9, Table 1B shows mileages between supply plants in the larger milk producing counties within the marketing area and selected distributing plants: AMPI - Jim Falls is located in Chippewa County, Wisconsin, the seventh largest county in terms of milk pooled; Grassland is in Clark County, Wisconsin, the third largest; Kraft-Beaver Dam, Wisconsin, is in the eighth largest county, Dodge; Melrose is in Stearns County, Minnesota, the largest county after Jerome County, Idaho; Mullins Cheese – Mosinee, Wisconsin, is in Marathon County, the fourth largest; Fond Du Lac is ranked fifth and the location of an NFO supply plant; Little Chute, Wisconsin is in the tenth largest county, Outagamie. The greatest mileage shown is from Stearns County, Minnesota (Melrose Dairy Proteins) to the now closed Swiss Valley plant in Chicago at 502 miles and to Dean Foods at Huntley, Illinois, at 477 miles. It is highly unlikely that it will be necessary to move milk from Stearns County, Minnesota to northern Illinois on an ongoing basis to meet Class I needs. It is more likely that the Stearns County milk would move to the Minneapolis area – a distance of 93 miles from Melrose to Marigold Foods. Even if milk moved from the Stearns County area to northern Illinois distributing plants on a regular basis, it would not be appropriate for the Order transportation credit to cover the full mileage when closer alternatives are available.

Exh. _____, is a modification of Exh. 9, Table 1B showing averages of the mileage from various plants to a selected plant. This illustrates that milk is available from various heavy production areas with less than 400 miles of transportation.

Milk located in the Marketing Area and associated with supply plants in those states that contain a portion of the Marketing Area is more than adequate to meet the fluid needs of the market. This is easily seen by reviewing Exh. 9, Table 3 K which shows that except during the times of massive depooling the market's Class I utilization would have averaged less than 20% annually. With a 20% Class I utilization there is no need to encourage the movement of supply plant milk when the distance between supply plant and distributing plant is greater than 400 miles.

In the 38 months from April 2001 through May 2004 3,186,515 pounds of Idaho milk delivered to Order 30 distributing plants. (Exh. 9, Table 2) This milk would not receive a transportation credit since it was not shipped from a supply plant. At least in 2003 it did not originate from a supply plant in Idaho and we do not see anything to suggest that the balance of that milk was shipped from an Idaho supply plant.

I should add that the 3.2 million pounds of Idaho milk delivered to the Order 30 distributing plants over 2.8 million pounds was delivered to the distributing plant in Rockford. Mid-West paid the going market price for this milk. Neither Mid-West nor the receiving plant paid the transportation cost to move the milk from Idaho to Rockford. Additionally it was very rare for a producer to ship more than the equivalent of one day's production to Rockford.

Since there has not been any milk that shipped over 400 miles from a supply plant to a distributing plant, our suggested change to the transportation credit would not impact any current pool participants.

A mileage limit on the transportation credit would prevent the draining of the producer settlement fund dollars if new supply plants were located great distances from the distributing plants at some time in the future. This also would help assure that those producers located in and around the Marketing Area who traditionally supplied the market would receive the maximum returns for their efforts.

Distant Milk and Market Performance

Jerome County Idaho had more milk pooled on Federal Order 30 in December 2003 than any other county. Since Jerome is between 1,200 and 1,600 miles from many of the Order 30 pool plants (Exh. 9, Table 1a) the obvious question becomes does the Jerome milk actually perform or does it just "paper pool"? And further should that milk really share in the market wide pool? We must review what is meant by "performance" to answer those questions.

The decision from the 2001 Order 32 (Central Order) hearing directly addresses the performance question. We want to highlight a few selected paragraphs from that decision:

"The pooling standards of all milk marketing orders, including the Central order, are intended to ensure that an adequate supply of milk is supplied to meet the Class I needs of the market and to provide the criteria for identifying those who are reasonably associated with the market as a condition for receiving the order's blend price. The pooling standards of the Central order are represented in the *Pool Plant, Producer, and the Producer milk* provisions of the order. Taken as a whole, these provisions are intended to ensure that an adequate supply of milk is supplied to meet the Class I needs of the market. In addition, it provides the criteria for identifying those whose milk is reasonably associated with the market by meeting the Class I needs and thereby sharing in the marketwide distribution of proceeds arising primarily from Class I sales.

...

Pooling standards are needed to identify the milk of those producers who are providing service in meeting the Class I needs of the market. If a pooling provision does not reasonably accomplish this end, the proceeds that accrue

to the marketwide pool from fluid milk sales are not properly shared with the appropriate producers. The result is the unwarranted lowering of returns of those producers who actually incur the costs of servicing and supplying the fluid needs of the market.

...

This decision finds that the milk of some producers is benefiting from the blend price of the Central order while not demonstrating actual and consistent service in satisfying the Class I needs of the Central milk marketing area.

...

The reform Final Decision, as it related to the Central marketing area, did not intend or envision that the pooling standards and pooling features adopted would result in the sharing of Class I revenues with those persons, or the milk of those persons, who would not be demonstrating a measure of service in providing the Class I needs of the Central marketing area.

...

As previously indicated, pooling milk on the Central order without demonstrating actual performance in servicing the Class I needs of the market area is neither appropriate nor intended."

The only logical way for distant milk to be part of the marketing area supply on an ongoing basis is for that distant milk to perform by delivery to meet the market's fluid needs. This would establish without a doubt that the distant milk is part of the marketwide supply and is entitled to a share of the pool.

Johann Von Thunen, who is considered to be the father of modern location economics, advanced his theories in *The Isolated State*. His theories have been refined and are applied today to such wide and diverse areas as rental values, land use and city planning, and agricultural pricing. His major hypothesis in its simplest form was the further the production area is from the consumption area the lower the value of that production, in direct relationship to transportation cost. Additionally products

with high value and high transportation costs would be produced closest to the consumption areas. When the transportation cost became so great that the production value was substantially reduced an alternative use with better returns would be found for the land, if such use were available.

Von Thunen's theory is validated with the Idaho milk. The Idaho milk cannot economically move to serve the fluid needs of the Upper Midwest market when an alternative use such as cheese is available locally in Idaho. (Exh. _____)

The Federal Order Reform decision created a new Upper Midwest marketing area through the consolidation of the old Order 68 and old Order 30 with some modifications. The major criteria used as outlined in the decision were overlapping procurement and sales areas, the production of similar manufactured products, related geography, and natural boundaries. According to the Reform Decision overlapping route disposition was generally the most important criteria for establishing the boundaries of marketing areas. The overlap of disposition would indicate competition for Class I milk sales.

Overlapping milk supplies were also used as criteria. Quoting from the Decision **"The pooling of milk produced within the same procurement area under the same order facilitates the uniform pricing of producer milk."** The Reform Decision also states that natural boundaries often inhibit the movement of milk. It is our view that these natural boundaries may also define changes in geography, topography, and land types. Such geographical changes may also be reflected in changes in dairy and other agricultural production characteristics.

Defining the marketing area so that there were as many common characteristics as possible is obviously important. From the Reform Decision:

"The pooling provisions for the consolidated orders provide a reasonable balance between encouraging handlers to supply milk for fluid use and ensuring orderly marketing by providing" and I want to emphasize the following
" a reasonable means for producers within a common marketing area to establish an association with the fluid market. Obviously matching these goals to the very disparate marketing conditions found in various parts of the country requires customized provisions to meet the needs of each market. ...In the Upper Midwest market ... a relatively small percentage of milk will be needed for fluid use. Accordingly under the pooling standards for that order smaller amounts of milk will be required to be delivered to fluid milk plants and larger amounts of milk will be permitted to be sent to manufacturing plants."

There is a thorough discussion in the Reform Decision that marketing areas should encompass areas with similar characteristics - from geography to competition for both producer milk and Class I sales to the manufacture of similar products. The Decision goes on to discuss that the pooling and performance requirements should be specific to these common areas and provide for the sharing of the marketwide pool with that milk which is consistently available to serve the fluid needs of the market. Additionally the milk within that common market area should be allowed to serve the fluid needs as efficiently as possible.

To that end, plants and more specifically supply plants, within the marketing area can form units for the purpose of meeting the minimum pooling and performance requirements. This allows for all milk within or at the margins of the marketing area to be pooled if it has demonstrated - with a one day touch base shipment - that it is available to meet the fluid needs.

This approach to pooling and performance is reasonable since any milk within the marketing area is relatively close to a fluid plant. (Exh. 5, Figure 1) Milk in the largest producing counties, with the exception of Jerome County, Idaho, is within a few hours of the major population centers. (Exh.

9, Table 1B.) Within the context of the marketing area and the immediately surrounding procurement area, it is logical and makes economic sense for a portion of the producer milk to make deliveries to distributing plants and allow the remaining milk to have the benefit of pooling. The alternative would require every producer to deliver some prescribed amount of his milk to fluid plants in order to fully participate in the marketwide pool.

Idaho Milk and Market Performance

Twelve percent of the milk pooled on the Upper Midwest order in December 2003 originated in Idaho, and, as previously mentioned, more milk was pooled on the Order from Jerome County, Idaho than from any other county. This has made Idaho a flashpoint in the discussion of pooling and performance of distant milk. The milk in Idaho cannot reasonably serve the fluid needs of the Order 30 marketplace. The distances from Idaho to the Upper Midwest fluid plants are in the 1100-1600 mile range. The Class I returns do not justify the freight cost. (Exh. _____,) The touch base delivery cost only realizes a positive return in most cases if there is ongoing pooling without further deliveries.

Idaho is geographically isolated from the Order 30 Marketing Area. There is a mountain range and the Great Plains to cross when milk leaves Idaho for the Upper Midwest. We do not know of any overlapping fluid milk sales. There is no direct milk procurement overlap, though DFA, Manitowoc, and others have members in Idaho. Mid-West and others assist in the pooling of the Idaho milk, although Mid-West has no membership in Idaho.

During the time period of 2000 through 2002 the Upper Midwest market had a range in Class III utilization from 71.1% to 81.1% and the Class IV utilization ranged from 0.4% to 2.8%. The negative PPD and subsequent depooling in some months in 2003 and 2004 make comparisons more difficult but in relatively normal months the Class III utilization ranged from 68.5% to 77.9% and the

Class IV utilization ranged from 1.7% to 8.2%. (Exh. 9, Table 3k) It appears that the Class IV utilization increase had some relation with the Idaho pooling. The Upper Midwest market has a high usage of milk in Class III products.

Milk pooled on Order 30 and diverted to nonpool plants in Idaho is 26.2% Class IV and 73.8% Class III or a ratio of 1 pound of Class IV to 3 pounds of Class III. (Exh. 9, Table 4) The ratio for milk allocated to Class III and IV in the Order 30 pool ranges from 1 pound of Class IV to between 10 and 25 pounds Class III depending on the month. Based on these relationships the milk in Idaho is not used in manufactured products in a similar ratio to the Upper Midwest milk. The Order Reform criteria for inclusion in the marketing area of the production of similar manufactured products are not met.

In December 2003 there were 33 producers from Jerome County, Idaho with milk - 102,087,118 pounds - pooled on Order 30. (Exh. 5, Table 19) This is an average production of 3,093,549 pounds per producer. Stearns County, Minnesota had 768 producers with 88,817,055 pounds pooled for an average production of 115,647 pounds per producer. In December, Idaho had a total of 263,365,666 pounds pooled from 182 producers - an average production of 1,447,064 pounds per producer. Minnesota had 548,429,503 pounds pooled from 4,569 producers for an average of 120,032 pounds. The Idaho producers average over ten times larger than the Minnesota dairy farmer.

We can find no evidence that there is a common marketing area encompassing the current Upper Midwest marketing area and the distant Idaho area. Due to the distances involved, the Idaho milk cannot function as a reliable reserve supply for the Upper Midwest market. In fact it is our recent experience that often when the Idaho milk makes a "touch base" delivery, local milk must be moved

out of the fluid plant to make room. This results in the local milk balancing shipments from Idaho and not what one would expect from a reserve supply – that is the reserve supply, or in this case Idaho milk, balancing the local milk supply.

Order 30 requires that 10% of the pooled milk deliver to a pool distributing plant. There are no pool plants in Idaho. In fact only .2% of the Idaho milk has ever delivered to a pool plant, and of that less than one third touched a fluid plant directly. The Idaho milk, plain and simple, is pooled based on the pool plant deliveries of milk that is either inside or close to the marketing area. . Some would call this “paper pooling”. It may be more appropriate to call it “fee for services.”

Mid-West is familiar with the pooling of Idaho milk and has pooled some Idaho milk for approximately three years. In a typical arrangement, the milk in Idaho pays a fee for pooling. This fee may range from a certain portion of the pool draw to a percentage of the Class III such as one or two percent or it may be a set per hundredweight fee such as ten or fifteen cents. Pooling fees have become a significant revenue stream for some Order 30 handlers.

The Upper Midwest handler then includes the Idaho milk on the Report of Receipts and Utilization sent to the Market Administrator after the close of the month. The Upper Midwest handler’s actual “handling” of the milk generally involves only making data entries on a piece of paper. Thus the term “paper pooling.” Upper Midwest located milk is used to meet the “10% shipping” requirement and the Idaho milk receives the benefits of the Upper Midwest PPD. This would generally be done by a transfer of money from the Upper Midwest handler to an Idaho plant or producer group with the Upper Midwest handler retaining the pooling fee.

The pooling fees are not shared uniformly across the market. They are not part of a marketwide pool but are retained by the individual handler. The effect of the Idaho pooling is shared uniformly

across the marketwide pool. The bottom line is that the pooling of Idaho milk decreases the PPD for all, but some receive a pooling fee that may more than offset the decrease. But the Idaho pooling very definitely has a cost to all market participants.

In Mid-West's case – and we expect with others – the benefit gained from pooling the Idaho milk is used in three interrelated ways – it helps offset the cost of supplying the fluid market, it helps make up the negative PPD's, and it helps the financial returns to our producer-members either directly on pay price or as a source of earnings. Mid-West does not particularly like the pooling of Idaho milk but if we didn't do it, someone else would. We also see it as a method of business survival in a very competitive marketplace.

PPD Impact

The Idaho milk has generally had a negative impact on the PPD. (Exh. 9, Table 5A) Initially the impact of the Idaho pooling was a modest few pennies-but still a lot of money for Midwestern dairy farmers struggling with low prices. By mid 2003 the PPD impacts were becoming much larger. As an example the Idaho milk is estimated to have reduced the PPD by \$0.73 in September 2003. Not only was the volume pooled growing, thus increasing the pool dilution effect, but also there was an increasing spread between Class III and Class IV prices. Class IV milk jumped both in total pounds and in utilization percentage. (Exh. 5, Table 9 and Exh. 9, Table 3k) While these pooling gains may have been a windfall for some of the large Idaho producers, it pulled money from the pockets of family farmers in the Midwest.

There are wide swings in the volumes of Idaho milk pooled that are directly related to price relationships and that have no bearing on market performance. In other words if the return is positive - pool, if it is not- don't pool. There is no thought given to remaining in the pool – to

maintaining pool integrity or association – but only to sharing the returns of the marketwide pool if those returns are positive.

The termination of the Western Order will only magnify the pooling of distant milk, the Reform decision stated, **“Class I utilization rates are a function of how much milk is pooled on an order with a given amount of Class I use. Differences in rates, to the extent they result in differences in blend prices paid to producers, provide an incentive for milk to move from markets with lower Class I utilization percentages to markets with higher Class I use.”**

Since the termination of the Western Order there is no marketwide Class I utilization available to milk in Idaho and Utah. This milk will be driven to find a new pooling home and will only add to the PPD burdens in the Upper Midwest.

While the Reform decision anticipated some changes in milk pooling it did not – and in all likelihood could not – envision the magnitude of the changes. The Reform decision anticipated that milk primarily at the borders of marketing areas would shift until equilibrium would be reached. This has not happened. Opportunistic pooling has dramatically affected the relationships that existed before Order Reform. The industry continues to search for ways to assure that milk that pools and derives benefit from the marketwide pool is actually entitled to those benefits. This hearing is part of that process and is in keeping with principles outlined in the Reform decision.

From the Reform Decision:

“Marketwide sharing of the classified use value of milk among all producers in a market is one of the most important features of a Federal milk marketing order. It ensures that all producers supplying handlers in a

marketing area receive the same uniform price for their milk, regardless of how their milk is used.

...

A suggestion for "open pooling," where milk can be pooled anywhere, has not been adopted, principally because open pooling provides no reasonable assurance that milk will be made available in satisfying the fluid needs of the market."

The lenient Order 30 pooling requirements have worked to the advantage of those who wish to share in the marketwide pool but who do not wish to bear the burden of continually serving the needs of the market.

Distant Milk Solution

The proponents and supporters of Proposal 2 concluded that milk outside the marketing area and the adjoining defined area needed to perform, i.e. ship 10% to a fluid plant, in order to derive the benefits of the marketwide pool. If 10% of the pooled Idaho milk were actually delivering to fluid plants in the Order, then it truly would be part of the market and would be entitled to a share of the pool. The question we wrestled with was how to best accomplish this objective. There may be a better alternative to Proposal 2 but we have not found it. Under proposal 2 diversions to plants located outside the prescribed geographic area would not be allowed to pool. In order to gain pool status our proposal requires a producer to continue to touch base only once, but all other deliveries must be to either an Order 30 pool plant or a plant located within the prescribed area.

We should note a change to our proposed language is necessary to avoid conflicting interpretations. The corrected language in section 1030.7(c) (2) last sentence should read

“Cooperative associations may not use shipments pursuant to section 1000.9(c) to qualify plants located outside the **area described above.**”

The approach that Proposal 2 takes is mirrored on the Order 33 decision. That decision basically said that in area milk could not be used to qualify out of area milk. The out of area milk needs to perform on its own merit.

The predecessor orders to the current Order 30 have had a long tradition of differentiating between in area and out of area milk. Since 1976, Order 68 had a provision for reserve supply plants. Initially these plants had no regular shipping requirement except for the initial load of milk which established association with the market. There was however, one major criteria these reserve supply plants had to meet – they had to be located in the marketing area. The same criteria applied for supply plant systems in old Order 30. A supply plant had to be located in the marketing area to be part of a supply plant system. Supply plants outside the marketing area were obligated to perform on their own behalf.

Further support for the approach that out of area milk should perform on its own is found in the requirements for the formation of pool plant systems in current Order 30. A supply plant must be located in the marketing area or be a grandfathered plant. Supply plants outside the marketing area, except for the grandfathered exception, cannot be part of a supply plant system. This method for supply plants to meet the Order’s performance requirements was developed to allow milk to move to fluid use in the most economical fashion. By excluding plants from outside the marketing area there was assurance that the included supply plants had ties to the market – even if an individual plant did not ship for fluid use. From the Reform Decision:

“The only requirement affecting an individual plant within the unit is that the plant must be physically located within the marketing area. This

restriction is necessary to prevent distant plants from receiving the benefits of participating in the marketwide pool without actually having an association with the market."

The Idaho issue was raised in the Order 30 hearing held in 2001. At that time there was very little Idaho milk pooled on Order 30. The focus of many of the Hearing participants was the double dipping of the milk pooled from California.

One of the proposed distant pooling solutions at the 2001 hearing was based on performance by State units. The proposal would have required each "State unit" outside the marketing area to ship 10% of the pooled milk to a distributing plant. While this approach required the distant milk to perform, in the words of the decision it established a different standard since:

"For example, of the milk received from Idaho, the DFA proposal would establish a standard for at least 10 percent of such milk to be shipped to a distributing plant in order for this milk to be producer milk pooled on the order. However, the same would not be required, for example, that 10 percent of all Wisconsin milk be shipped to distributing plants regulated under the order."

We view the plant-based approach in Proposal 2 appropriate since supply plants or supply plant systems inside the Order area are treated no differently than supply plants located far from the Order's core. Both are responsible to ship 10% to distributing plants.

Additionally, there may have been difficulties in determining if a State unit met the shipping requirement at the time of pooling (though this would have been easily determined at audit). It is much easier to determine if an individual supply plant meets the minimum performance requirement at pool time.

Since the time of the 2001 Hearing, the market situation has changed dramatically. The Western Order, which encompassed much of Idaho, has been terminated. The formation of the CMPC supply

plant system has facilitated the availability of milk for fluid use, at least in the old Order 30 area. Class IV prices have swung from much higher than Class III to being significantly lower.

This changed relationship is primarily due to a change in purchase price of nonfat dry milk powder by the CCC under the milk support price program. This action was far outside the Federal Order realm though it has a major effect on Federal Order Class prices and pools.

The adoption of Proposal 2 will ensure that any milk, no matter how near or far from the marketing area, can and will serve the needs of the fluid market if it is going to enjoy the rewards of the marketwide pool.

Depooling and Repooling

The purpose of pooling is to share revenue. The generally accepted thinking is that through classified pricing the Class I milk will generate added revenue for the pool. Exh. 9, Table 11b shows this to be true. In each and every month since January 2000 the Class I milk added more revenue to the pool than the producers delivering to Class I received on component value, somatic cell adjustment, and PPD. During the same time period the Class I value exceeded the Class III value in all but three months. Those were three of the seven months of negative PPD's occurring since July of 2003. (Exh. 9, Table 11a) It is fair to say that the Class I milk adds significant value to the pool.

This Class I revenue is shared with everyone who meets the current order performance requirements. It does not make any difference if it is Class III milk in Minnesota or paper pooled Class IV milk in Idaho. There is a uniform return of the order value to all pooled milk – be it Class I, Class II, Class III or Class IV – when adjusted for component levels and delivery location. Participation in the marketwide pool equalizes value among all producers serving different segments

of the market. The Federal Order system, with the exception of the individual handler pools, has had marketwide pooling and revenue sharing for many years.

Over the past 20 plus years the individual handler pool structure in Federal Orders has been eliminated and replaced with marketwide pooling. With an individual handler pool the revenue from the classified prices is not shared with all market participants but it is only shared with the milk that delivered to an individual plant. There could be wide variations in the minimum prices paid to neighboring producers shipping to different plants if those plants had different milk utilizations and therefore different prices. This approach helped to assure adequate milk for the Class I needs since the Class I value was only shared with the milk that actually delivered for fluid use. It also could lead to disorderly market conditions as producers with milk delivery to lower valued uses tried to gain some of the Class I dollars.

One way to conceptualize an individual handler pool in today's markets would be to take a look at June 2004. There was a total of 2,113,701,569 pounds pooled. Of that 335,824,408 pounds were allocated to Class I with 1,475,199,200 pounds allocated to Class III. The balance was in Class II and Class IV. The PPD at Chicago on the total pooled volume was \$.30. Exh. 5, Tables 3 and 9. The net Class I contribution to that \$.30 PPD was \$15,861,902. Exh. 9, Table 11a. Under an individual handler pool the milk that delivered to Class III cheese plants would have a \$.00 PPD instead of \$.30 while the milk delivering to Class I would have a \$4.72 PPD instead of \$.30. I realize this is an over simplification, but it does point out the value of a marketwide pool to Class III milk.

Milk delivering to Class II, III and IV plants can and will depool when there is no financial gain from pooling. In May 2004, the Class I milk which always has to pool received a negative \$1.97 PPD at Chicago. At the same time a cheese plant did not have to pool and in effect created an individual

handler pool. The imputed PPD was zero. Exh. ___ . Incidentally, if the Class I milk could have created an individual handler pool in April, the PPD would have been a positive \$.68.

In 2000 and 2001, there were many months that milk delivering to Class II and Class IV plants did not pool. The reasoning was the same – sharing in the marketwide pool did not add value. This milk was quickly pooled, however, whenever there was a gain.

The ability to depool at will and then quickly repool creates large differences in pricing at Federal Order values. This is especially noticeable when comparing the Class II price and the Statistical Uniform Price in 2000 and the Class III Price and the Statistical Uniform Price since July 2003 – the last 12 months. See Exh. 5, Tables 3, 5, and 6.

These price differences create inequity among producers. We have already heard from producers who are impacted by the decisions to pool or not pool. The producer doesn't make these pooling decisions. Handlers make the decision when they fill out the Report of Receipts and Utilization. If milk is reported, it is pooled provided, of course, that it met the "once and done" touch base. If it isn't reported, it isn't pooled. This sounds a lot like paper pooling.

It also creates inequity among handlers. When there are negative PPDs, and the associated Class III depooling, it is very difficult for those supplying Class I in Order 30 to compete with cheese plants.

In April 2004 Mid-West "made up" the \$4.11 negative PPD and paid a \$00.00 PPD. We did it with the pooling fees we received from pooling Idaho milk. Not everyone has that income stream. One cooperative that supplies fluid plants and Class II and Class III markets did not pay a negative PPD, but reduced component prices below Federal Order values. At the same time there were individual cheese plants that apparently depooled since they paid positive PPD's in the 40 to 60 cent range.

There is not any way to recover the negative PPDs from the Federal Order. A handler that must pool is always at a disadvantage when there is a negative PPD. And when there is a positive PPD, the handler who depooled during the negative PPD immediately returns to share in the pool.

There has been a recent effort to recover the negative PPD's through increased fluid market service charges. While admirable and welcomed by those who supply the fluid market, this effort is not sustainable over the long term. The increased price may have contributed to the larger than normal decline in fluid milk sales this summer. The fluid plants in Order 30 where the added price has been implemented have been placed at a competitive disadvantage with fluid plants in the Central and Mideast Orders and other areas where there has not been an increase.

The fluid plant cannot always recover this increased cost from the marketplace. Many of the longer term packaged milk supply arrangements with national and regional accounts have a price adjuster for changes in the Federal Order cost of milk. There may not be any provision, however, for changes in over order prices. The fluid plant ends up "eating" this increase and the books show red ink.

Central Milk Producers Cooperative and Upper Midwest Milk Marketing Agency (CMPC and UMMA) are pricing agencies composed of some of the cooperatives who supply milk for Class I use in the Upper Midwest. CMPC and UMMA put the increased service charge (negative PPD surcharge) in place for those plants that obtain milk from the CMPC and/or UMMA membership. Mid-West is not a member of CMPC or UMMA. Woodstock is not a member of CMPC or UMMA. There are other fluid plant suppliers who are not members. This adds to the difficulty of maintaining a negative PPD surcharge premium.

On April 16, 2004 I received a call from a cheese plant inquiring if Mid-West would need additional milk at the Muller-Pinehurst fluid plant the following week. We did. During the course of our discussion I mentioned that the projections were for a fairly large negative PPD in April. They immediately concluded the phone call by telling me they would find somewhere else to sell the milk, that they had to cancel an offer made to deliver milk to another fluid plant, and they would just depool and not worry about the negative PPD. I am sure that this milk is part of the one billion, 475 million pounds that returned to the pool in June.

If the current depooling/repooling scenario is allowed to continue, everyone will become like this cheese plant and make a decision to not serve the fluid market. Carried to the extreme, no one would serve the fluid market, except perhaps when there was a positive PPD. This would be disorderly marketing raised to a new level.

The Order 30 regulations determine which milk may share in the pool. The relatively loose pooling requirements contribute to the depooling/repooling problem. We are requesting a modest change to the regulations that would improve the equity among producers and among handlers.

Depooling Solution

In the development of Proposal 2, the proponents reviewed the Order's pooling requirements. Among possible changes reviewed and discarded were changing the touch base to an every month requirement; eliminating split plants so that a plant was either a pool plant or a nonpool plant at any given location; mandate a touch base prior to pooling after milk had been depooled; institute a producer for other markets provision; and develop a type of committed supply program. All of these would have meant some change, and in some cases great change, at great cost for Order 30 handlers. Generally, the touch-base-and-done, the ability to have split plants, and the 10%

aggregate shipping requirement have worked well for producers and handlers in the marketing area. Our desire was to not change historical physical operations if possible. Under Proposal 2 not a single hauler, plant, or producer in the marketing area has to make a change in how milk is picked up, delivered or shipped.

Proposal 2 would limit how much milk a handler could add to the pool or repool each month. Milk pooled would be limited to 125% of the previous month's pooled volume with a few exceptions. It will not eliminate depooling. It does mean there are potential consequences to massive depooling. If you depool under the current regulations there are no long-term consequences. In fact there are virtually no negative impacts for those who depool.

If 100% of the eligible Class III milk had pooled in July 2003 through May 2004 the estimated PPD would have averaged \$-.098, while the actual PPD averaged \$-.773. If only 50% of the eligible Class III milk had pooled the average PPD would have been \$.289 for the eleven months. Exh. 9, Table 5d. If there had not been any Idaho milk pooled, and 100% of the eligible Class III had pooled, the average PPD would have been \$.022 and with 50% of the eligible Class III pooled, the PPD would average \$.0855. Exh. 9, Table 5e.

Under Proposal 2 someone who wants to share in the marketwide pool would need to continuously pool milk. If a very low level of milk was pooled in a current month there would be less milk eligible to share in the pool in the future months. We believe this is in keeping with the basic philosophy of Federal Orders – those who participate share in the pool benefits.

Proposal 2 limits the pooling of milk in the current month to 125% of the handler's volume pooled in the previous month. The level of this limitation was chosen after receiving information similar to that found in Exh. 9, Tables 9 and 10. The largest percentage change in Table 10 is the 111% from

February to March. The 125% limitation in our proposal should accommodate this 111% increase and allows for additional added volume. As an additional safeguard though, March has a 135% limit. We felt it was important to allow room for a handler to grow their business volume, but felt it unlikely that the business volume would grow by more than 20% in a given month. Allowances are also built in for the Market Administrator to waive the percentage limitation for new handlers or for an existing handler with a changed situation – such as a merger, acquisition, or simply a distributing plant that changes regulation.

Under our proposal there is no limitation on pooling in August. In the Upper Midwest Order, August is often seen as the start of a new marketing year. The supply plant systems are formed to start operation in August. There is an extra “draw” on fluid milk in late August to fill the school pipelines.

Restricting the pooling of milk based on prior performance is not new to Federal Orders. The Northeast Order has had a “producer for other markets” provision for many years. Under this provision, milk of a producer cannot be immediately repooled if it has been depooled and is, in fact, excluded from the pool for an extended period of time. Proposal 2 would not impose such a burden on an individual producer but limits pooling based on an aggregate total of the handler’s previous month’s pooled pounds.

Years ago, other Orders primarily in the South and/or Southeast either had a producer for other markets provision or a base plan. In these markets, the intent of such provisions was to limit the sharing of the marketwide pool during the spring months to those who pooled during the fall.

The pooling of distant milk has previously been discussed. We are concerned that if a safeguard for ongoing performance – the 125% limitation – is not in place, there would be individual months

that distant milk would meet the 10% shipment requirement in an effort to gain access to the marketwide pool. Exh. ___, Table 4, discussed by Elvin Hollon, shows there are individual months when this would be advantageous. The competition for access to the Class I market in a single month and the impact on the pool due to large volume swings would create instability. This instability could be prevented through our proposed limitation on repooling.

An additional benefit to our proposed limitation on pooling is that it would mitigate the need for an increase in the administrative assessment fee. The pool volumes would be more stable. It is our view that there would be more milk pooled and less need for a fee increase. At the very least, with stability in the pool volumes, it would be easier for the Market Administrator to make staffing and other operational decisions.

Conclusion

Milk from distant areas is being pooled on Order 30 in increasing volumes. This milk reduces the price paid to local producers who regularly supply the market. Due to distance and economic returns the distant milk does not supply the market to any appreciable amount on a regular basis.

This distant milk was not envisioned as part of the Federal Order 30 market under Federal Order Reform. It has not been part of the market from a geographical basis and has not met the performance requirements of the market on its own. The fact that this milk shares in the marketwide pool should be corrected.

Additionally, the record shows that there is local milk that shares in the marketwide pool on an opportunistic basis. This milk detracts from the prices received by those who regularly and continually serve the needs of the Order 30 market – both when it pools and when it doesn't pool. Inequity among producers and handlers is apparent due to the changes in pooling of this local milk. There

also has been chaos in the marketplace. This milk should only share in the marketwide pool if and when it demonstrates that it is regularly and continually part of the Order 30 market.

The Order 32 decision says it very well. I just want to condense and paraphrase:

1. Producers who consistently bear the costs of supplying the fluid market should share the pool.
2. Pooling standards are used to identify the producers who serve the Class I market.
3. Some producers benefit while not actually and consistently serving the market.
4. Pooling without performance is neither appropriate nor intended.

The solutions we propose are based on the rationale in prior Federal Order decisions and are sound and logical.

Emergency Request

The proponents and supporters of Proposal 2 submit that emergency marketing conditions exist that warrants the omission of a recommended decision. The volume of distant milk pooling on this market without providing any appreciable level of service to fluid plants has been growing. The termination of the Western Order will only facilitate further volume increases. Since our request for a hearing, there have been two large negative PPDs. The continuing volatility of market prices almost guarantees further negative PPDs and the associated depooling. These create destructive and disorderly conditions and make it difficult to serve the fluid marketplace.

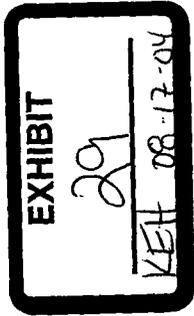


Table 1b
Mileage Matrix with
Distances Between Specified Locations^{1/}

Selected Upper Midwest Order Plants:	AMP1 Jim Falls, WI	Grassland Dairy Products Greenwood, WI	Kraft Beaver Dam, WI	Melrose Dairy Products, LLC Melrose, MN	Mullins Cheese Mostine, WI	NFO Fond du Lac, WI	Trega Foods Little Chute, WI	
Dean Foods Huntley, Illinois	396	245	103	477	241	118	184	AVERAGE 252
Foremost Farms, USA Waukesha, Wisconsin	335	204	50	416	180	57	95	191
Marigold Foods Minneapolis, Minnesota	110	143	296	93	189	295	297	203
Muller-Pinehurst Rockford, Illinois	351	224	90	432	196	118	176	227
Swiss Valley Farms Chicago, Illinois ^{2/}	419	286	137	502	265	144	194	278
AVERAGE	322	220	135	384	214	146	189	

^{1/} Based on transportation pool requirements in § 1030.55(d). Distances based on shortest mileage option on www.mappoint.com

^{2/} Plant now closed.

EXH_____.

**Comparison of Actual PPD with
Imputed PPD when Class III depools**

Month	Actual PPD	Imputed Class III PPD	
Jul-03	-0.41	0.00	depool
Aug-03	-1.58	0.00	depool
Sep-03	-1.07	0.00	depool
Oct-03	-0.88	0.00	depool
Nov-03	-0.07	0.00	depool
Dec-03	0.54	0.54	
Jan-04	0.37	0.37	
Feb-04	0.47	0.47	
Mar-04	0.21	0.21	
Apr-04	-4.11	0.00	depool
May-04	-1.97	0.00	depool
Jun-04	0.30	0.30	
Average	-0.6833	0.1575	