

Pooling provisions of all orders are intended to define appropriate standards for the prevailing marketing conditions in assuring that the marketing area would be supplied with a sufficient supply of milk for fluid use and to identify those producers—and the milk of those producers—that actually service the Class I needs of the market. The issue before the Department regarding pooling is the consideration of amendments that will provide standards for determining reasonable performance measures and to more properly identify the milk that regularly and consistently supplies the market's Class I needs.

As discussed earlier, the pooling standards of the consolidated Federal milk orders, including the Pacific Northwest and Western orders, were not intended to exclude any milk from being pooled on any order, provided the fluid needs of a marketing area are served. The reform of Federal milk orders rejected the concept of open pooling, and provided that each market would pool the milk that actually demonstrates a reasonable level of serving the fluid needs of the market as reflected in those order's pooling standards. The determination of the boundaries of the Pacific Northwest and Western marketing areas was guided by identifying the common characteristics of the predecessor orders that could be consolidated and to promulgate a marketing order containing provisions to provide for orderly marketing conditions. The consolidation of the pre-reform orders into the current Pacific Northwest and Western orders was not intended to determine those areas from which milk should, or should not, be obtained to serve the market.

The adoption of revised pooling standards, specifically adoption of netting provisions for supply plant performance standards and diversions from distribution plants and the removal of the PBTH provision in this decision, should assure milk will be available for the market's fluid needs and properly identify the milk of those producers that actually demonstrates consistent service to the market's Class I needs. Therefore the proposal for establishing State units is unnecessary for the Pacific Northwest and Western orders. Additionally, the State-unit proposal does not adequately or specifically prohibit the practice of double dipping in either the Pacific Northwest or Western orders. Accordingly, Proposals 2 and 9 are not adopted.

### 3. Marketwide Service Payments

A proposal, published in the hearing notice as Proposal 8, seeking to establish a marketwide service payment provision in the form of a transportation and assembly credit for the Western order, should not be adopted. Currently, the Western order does not provide for transportation and assembly credits or any other form of a marketwide service payment.

Proposal 8, offered by DFA, specifically seeks to modify the Western order by establishing a transportation credit and an assembly credit. The transportation credit would provide \$0.0032 per mile for each hundredweight(cwt) of milk delivered to a pool distributing plant when the farm supplying the plant is located over 80 miles away. The credit would only apply to milk picked up directly from a farm located within the marketing area, processed at a Class I pool plant located in the order, with payment being made to the milk supplying producer or cooperative. The assembly credit of ten cents per cwt would apply to milk delivered to pool distributing plants. The proposal also recognizes that the reporting requirements of the order would also need amending to properly administer the transportation and assembly credit provision.

A witness appearing on behalf DFA testified that establishing a transportation and assembly credit is necessary to recoup costs associated with supplying the Western marketing area's Class I market. The witness argued that some producers are providing services which benefit the entire marketplace, but are unable to recoup the cost of these services from the marketplace. The DFA witness was of the opinion that the Federal milk marketing order system is structured to allow producers servicing the Class I needs of the marketing area to equitably share in the revenues generated in that marketing area. However, the DFA witness was also of the opinion that in the Western order, the costs of supplying the Class I market is noticeably higher for some, explaining that not all producers equitably share the cost of servicing the Class I market.

The DFA witness stated that large supplies of milk produced in the Western order are, in general, located far from distributing plants. As such, the witness continued, the costs of transporting milk to pool distributing plants are higher than in other Federal orders. The witness explained that a transportation credit would provide producers a means to recoup some of the cost of transporting milk to a pool

distributing plant when it must be shipped long distances.

The DFA witness testified that because of weekly and monthly fluctuations in demand for Class I milk, supplying extra milk for Class I use or processing excess milk not needed for Class I use imposes extra costs for manufacturing plants that have the capacity to process this milk. The witness presented an example that detailed a DFA manufacturing plant's 2001 average daily processing capacity, referred to as "throughput." The example illustrated that plant throughput was noticeably lower in the fall months of 2001, ranging from a low of 795,951 pounds per day to a high of 1,269,379 pounds per day in the spring months. Given such significant variation, the witness said, it is necessary that the market have the available balancing capacity to accommodate such fluctuations in demand.

The DFA witness also noted that a plant's manufacturing costs have a direct correlation to the plant's capacity that is idled during certain times of the year. During months of low Class I demand, explained the witness, manufacturing plants operate at full capacity resulting in lower per unit costs. However, during months of high fluid demand, the witness continued, manufacturing plants operate at less than full capacity but incur costs similar to when plants are operated at capacity. It is the costs arising from idled or unused capacity that is borne by a few pool manufacturing plants of the order while their service in balancing the Class I demand of the marketplace benefits the entire market, explained the witness. Therefore, concluded the witness, an assembly credit would help producers who are providing a service of marketwide benefit the means to recoup some of the costs they are unable to generate from the marketplace. The DFA witness estimated that the blend price would be reduced by approximately 2.2 cents per cwt if the assembly credit was adopted.

Two Utah dairy farmers testified in support of Proposal 8. The farmers stated that since Federal order reform, the Class I utilization in Utah has dramatically decreased which in turn has had a direct negative impact on the blend price Utah farmers receive. The dairy farmers were of the opinion that the adoption of an assembly and transportation credit would help restore some of the lost revenue represented by a lower blend price.

A witness appearing on behalf of Stoker testified in support of Proposal 8. Another witness appearing on behalf of