

and January and 35 percent for all other months. The order currently limits the formation of a supply plant system to plants located within the marketing area.

Proposal No. 3, by DFA, *et al.*, would raise the performance standards for supply plant systems by 5 percentage points for each of the months of August through November and by 3 percentage points higher in all other months. The proponent witness (representing DFA, *et al.*) testified that providing for supply plant systems extends benefits and efficiencies not otherwise available for individual handlers to reduce transportation costs by delivering milk from a more advantageously located supply plant at a volume that would satisfy the performance standards as if all supply plants not as advantageously located had individually met the indicated performance standard. According to the witness this also would avail plant efficiencies in the manufacturing operation of all supply plants that are part of the system. The witness also envisioned that the proposal could ease otherwise disruptive shipping obligations to their manufacturing operations, potentially reduce paperwork, and provide the opportunity for producers to receive prices higher than regulated minimum prices. Because system pooling offers a rewarding degree of pooling flexibility, the witness was of the opinion that a supply plant system should meet slightly higher performance standards than those applicable for a single supply plant. This rationale is consistent, the witness indicated, with the pre-reform Chicago Regional order which specified a performance standard at twice the rate for supply plant systems than was applicable for individual supply plants.

According to the DFA, *et al.*, witness, a higher performance standard for supply plant systems would contribute to making it easier to obtain additional milk supplies in the most efficient manner. Additionally, the witness was of the opinion that this change, together with other changes proposed, would eliminate the ability to "pyramid" the pooling of milk on the order and renew interest in supply plant systems for the market.

A witness from AMPI, who also testified on behalf of the Upper Midwest Cooperatives, opposed adoption of Proposal 3. The witness explained that increased performance standards would simply cause a handler to discontinue pooling its plants as a system, thus forcing the handler to ship a lower percentage of milk receipts from each of the individual supply plants. The witness asserted that this alternative

would increase transportation costs without providing additional milk to distributing plants.

The AMPI witness also testified that a supply plant system operated by multiple handlers has the potential for one handler with substantially more sales to distributing plants than needed to meet the supply plant performance standard to pool the milk receipts of other handlers. According to the witness, this could reduce the total volume of milk shipments to distributing plants while technically meeting the order's performance standards. According to the witness, such a provision allows some handlers to entirely escape responsibility for supplying the fluid market and encourages handlers to pay other handlers to qualify their milk supplies for pooling. In light of these concerns, the witness offered a modification to Proposal 3 that limits supply plant system formation to single handler entities.

A witness testifying on behalf of Foremost, AMPI, LOL, Family Dairies, Midwest Dairymen, and FDA supported the advantages supply plant systems offer as a means to promote more efficient movement of milk to distributing plants. However, given the higher performance standards called for by the proposal, the witness indicated opposition to Proposal 3. The witness was of the opinion that there is no justification for supply plant systems to be required to meet higher performance standards than individual supply plants. The witness did note that a higher performance standard for a supply plant system formed by multiple handlers may be appropriate.

Providing pooling flexibility by permitting more than a single supply plant to form into a single pooling system offers the potential to increase efficiencies by minimizing transportation costs that may not be obtainable when each supply plant of the handler would need to meet the performance standards separately for each plant. Additionally, providing for supply plant systems serves to accommodate the specialization of plant operations without otherwise encouraging such a plant to deliver milk to a distributing plant solely to retain pool status. Providing the opportunity to gain such efficiencies is intended by the supply plant system provision because it does not disrupt the flow of milk for Class I use from supply plants to distributing plants.

The record suggests that supply plant systems formed by multiple handler entities offer the potential to pool milk on the Central order without meeting

intended performance standards. The modification to Proposal 3, which would limit the formation of a supply plant system to a single handler entity, may offer a warranted change in the current supply plant system provisions without changing the current performance standards. However, the tentative decision found that the record did not provide sufficient evidence to tentatively adopt a change in the performance standards for supply plant systems or to limit the formation of supply plant systems to a single handler entity. Because there were no comments to the tentative decision on the provisions which would limit the formation of supply plant systems to a single handler entity, such provisions are not adopted in this final decision.

d. Standards Applicable for Producer Milk

Several changes to the pooling standards contained in the *Producer milk* definition of the Central Order that were previously adopted on an interim basis are proposed to be adopted on a permanent basis by this final decision. The adopted amendments were largely contained in a proposal, published in the hearing notice as Proposal 5, which was modified at the hearing by its proponents. The changes in the producer milk pooling standard are necessary to more accurately identify the milk of those dairy farmers who actually serve the Class I needs of the market. The amendments include: (1) Continue to establish year-round diversion limits, adjusted seasonally, for the amount of milk that a pool plant may divert to nonpool plants at 80 percent for each of the months of August through February and at 85 percent for each of the months of March through July. Accordingly, the provision, adopted on an interim basis, corrected the lack of diversion limits for the months of May through August; (2) Diversion limits for supply plants will continue to be based on deliveries to Central order pool distributing plants and will not include deliveries to other pool supply plants of the Central order. This eliminates the ability of a pool plant to pool increased volumes of milk by diversion to nonpool plants by diverting milk to a second pool plant; and (3) Continue to establish a net shipments feature for producer milk. These amendments maintain the integrity of the performance standards for pool plants of the Central marketing area and more appropriately identify those producers whose milk actually supplies the Central marketing area's Class I milk needs.