BEFORE THE UNITED STATES DEPARTMENT OF AGRICULTURE AGRICULTURAL MARKETING SERVICE

IN RE:	:	**7 CFR Parts 1005, 1006, and 1007**
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Milk in the Appalachian,	:	**Docket No. 23-J-0019**
Southeast, and Florida	:	
Marketing Areas	:	**AMS-DA-23-0003**

Franklin, Tennessee

February 28, 2003

Testimony of Elvin Hollon
(Part 2)

On behalf of the Dairy Cooperative Marketing Association

Proposed Amendments to the Orders Regulating the Handling of Milk in the Appalachian, Southeast and Florida Marketing Areas

DISTRIBUTING PLANT DELIVERY CREDITS

Our second set of proposals deal with establishing a Distributing Plant Delivery Credit system (DPDC), very similar in operation to the existing Transportation Credit Balancing Fund, that partially reimburses the cost of transporting milk from farm to market where the farm, with limited exceptions, is located in the Marketing Area of the southeastern Orders and where the plant is a pool distributing plant on the southeastern Orders. We will provide more specific information about farm and plant location later in our testimony. The DPDC is proposed for all three Southeastern Orders.

REGULATORY SUPPORT FOR THE DISTRIBUTING PLANT DELIVERY CREDIT

Historically, the U.S.D.A., in addressing the mission of generating sufficient revenue to assure an adequate supply of milk, has relied upon the Class I differentials to attract milk where needed. The Reform Decision provided the following definition for the differential.

> The adopted Class I pricing structure utilizes USDSS model results adjusted for all known plant locations and establishes differential levels that will generate sufficient revenue to assure an adequate supply of milk while maintaining equity among handlers in the minimum prices they pay for milk bought from dairy farmers.

https://www.ams.usda.gov/sites/default/files/media/Class%20I%20pricing%20structure.pdf

In this hearing, we are not suggesting a revision in the differential prices in the Orders. What we are proposing is the establishment of a Distributing Plant Delivery Credit system as an allowable marketwide service program to assist in meeting the objective of "assuring an adequate supply of milk".

In the southeastern Orders, as we have seen, USDA has long supported the use of out-of-area transportation credits to supplement the Class I differential and inter-Order blend differences in attracting milk to the Class I markets. This marketwide service program assists the regulatory

goal of moving milk to the highest use classification, hence a higher value. The Distributing Plant Delivery Credit system, which we are proposing, is specifically authorized in the Act's 'marketwide service payment' provisions which allow order terms for the purpose of, "*transporting milk from one location to another for the purpose of fulfilling requirements for milk of a higher use classification*". 7 U.S.C. 608c (5)(J)(iii). The DPDC, as proposed, specifically targets payments directly to the service provided, that of transporting milk from one location to another. Since DPDCs are specifically limited to milk, which is delivered to pool distributing plants, by definition this is a movement of milk to the highest use classification,

We have demonstrated in earlier testimony regarding the updating of the existing transportation credit system that the southeastern Orders draw significant volumes of milk from in-area sources to meet pool distributing plant needs **(Exhibit _____)**. For Order 5, the in-area deliveries account for 54% of needs; for Order 6 in-area production meets 82% of needs and for Order 7 in-area production supplies 44% of needs. Obviously, the converse percentage of these numbers is drawn from other areas, negotiated for and partially paid for with the assistance of the existing transportation credit system.

While the TCBF provisions have covered some costs of supplemental milk, the Southeastern orders, which themselves cover a very broad geographic area with sparser farms delivering to fewer distributing plants, have never provided transportation compensation for the marketwide service of obtaining in-area milk for Class I needs on a year-round basis. This year-round transportation cost burden has fallen on the handlers supplying the Class I needs of the market, predominately the DCMA cooperatives and their members, through a reduced price or higher hauling charge. It is time to address this year-round marketwide service with order

provisions that compensate deliveries to distributing plants in a fashion similar to the system which has compensated handlers for imports of supplemental milk.

Exhibit _____, Producer Milk Originating in FO 5 Marketing Area by Pooling Order; Exhibit _____, Producer Milk Originating in FO 6 Marketing Area by Pooling Order; and Exhibit _____, Producer Milk Originating in FO 7 Marketing Area by Pooling Order, demonstrate that the producers located in each of the southeastern Orders deliver nearly all of the local milk production to the local Order. For the Appalachian Order, approximately 90% of the local milk delivers to the local Order. For the Florida Order, the data shows nearly 95% of the local milk deliveries to Order 6. For the Southeast Order, slightly less than 75% of the local production delivers to an Order 7 plant. Note, that in each situation in the three Orders, the second largest delivery Order is another southeastern Order. DCMA proposes that it is time that locally produced milk be on at least equal footing to imported milk – if not on a better footing. After all, locally produced milk will travel fewer miles to milk plants than imported milk, and as such, the lower travel miles are more supportive of a healthy environment.

DCMA proposes to address these cost inequities through a program of Distributing Plant Delivery Credits (DPDC), detailed in Proposals 3, 4, and 5 in this hearing. A detailed review of the market structure, particularly the number and location of plants and data on milk production, substantiates the timeliness and necessity of the Delivery Plant Distribution Credit.

MARKET STRUCTURE SUPPORTING THE CREATION OF A DISTRIBUTING PLANT DELIVERY CREDIT

The milk supply in the southeastern Orders' marketing area continues to constrict. Earlier testimony and **Exhibit _____, Number of Total Farms and In-Area Farms Appalachian, Southeast, and Florida Orders 2000 and 2015 to 2022,** demonstrates this trend. In-area farms,

for the period shown, decline every year in all three Orders. In only a single year comparison, 2021 versus 2022, the in-area decrease for Order 5 was 1.8%; for Order 6 was 10.9% and Order 7 was 28.4%. This trend is becoming a downward spiral where fewer local farms means less local milk, and less local milk is available to support a local viable processing system. Without question, the most economical supply of milk for Southeast consumers and processors is milk produced in the southeastern Orders' marketing areas. Consequently, the trendline of losses of in-area farms is undesirable and the DCMA proposal, designed to help curb the declining trend, should be accepted.

Exhibit _____, Milk Production Federal Order No. 6 May 2021, provides a clear example why the DCMA proposed DPDC program is necessary to more efficiently and effectively attract milk to distributing plants in the southeast. As shown on the map, significant milk production in Order 6 is located in the center of the state with the primary market for this supply due south, approximately 230 miles into the Miami metropolitan area. This milk movement is "differential friendly" as the Class I differential in the middle counties of Order 6 is $5.40 per cwt and that for Miami is $6.00 per cwt. So, the Order pricing provides $0.60 of transportation assistance inadequate, but better than no assistance in getting milk where it is needed. But, when the total production exceeds the demand from the Miami plants, there is no alternative but to move the milk north, where there is available demand in Orlando (46 miles away) or Orange City (76 miles away). However, there is no transportation assistance from the differentials in shipments to these locations as all are in the same $5.40 per cwt zone – even though there is a transportation cost to move the milk to those markets. The DPDC system would recognize this cost and the need for the milk to these markets and provide partial assistance to offset some of the transport cost.

Compounding the transportation situation in the Southeast is the sharply declining numbers of pool distributing plants. The following set of maps and legends for January 2000 and December 2022 depict this picture in detail. **Exhibit _____, Pool Distributing Plants – January 2000 FO 5, 6 and 7** is constructed as follows: the area shaded in red is Order 5; shaded in blue is Order 7; and shaded in green is Order 6. Each of the 14 states are labeled. Each pool distributing plant is represented by a number and a colored pinhead shaped icon. If the color is blue, the plant was in business the entire period of January 2000 to December 2022; orange means the plant closed prior to December 2022 and green means the plant was a pool distributing plant (PDP) in January 2000 but not in December 2022.

Exhibit _____, Pool Distributing Plants – December 2022 FO 5, 6 and 7, is a similar depiction but only shows PDPs that were in business in 2022. The blue icon has the same meaning – in business the entire period -- and the orange icon identifies a plant operating in 2022 which was not in existence in 2000.

There are 73 plants noted on the map/legend for January 2000 and 39 on the 2022 map, a reduction of 47%. Of the 39, eight started up sometime in the period and 31 operated over the entire span. In 2000, every state but Missouri had at least two plants. Note, that Missouri has more than two plants in the state but the others are pooled in the Central Order. In 2022, only seven of the states have more than two plants; four have one plant and Alabama had no plants. Assuming farms and their cooperatives are rational and would choose to deliver to their closest plant, if possible, delivery miles and costs become significantly greater as plant locations become more distant. The reduction in farms and plants puts at risk the long-held marketing relationships that have supported the availability of fresh local milk to consumers and school children everywhere in the southeastern U.S. Both sets of exhibits (milk production and plant numbers) solidly support

the concept that the DPDC should be implemented to assist "assuring an adequate supply of milk" to southeastern consumers. The DPDC program allows for all handlers to have similar benefits in meeting that objective.

MARKETING RATIONALE FOR A DISTRIBUTING PLANT DELIVERY CREDIT

Marketing factors which support the creation of the DPDC include:

1. The current Class I differential structure is not sufficient to meet day to day market situations in the southeastern Orders and the DPDC will somewhat alleviate the problem. Due to the shrinking number of farms and plants, as just reviewed, costs to serve the pool distributing plants have increased and there is a need to meet those needs differently through the Order system. The North/South only makeup of the locked-in place differential surface does not work when milk moves counter to, or not in sync with, the differential surface. We have referred to one situation involving large milk supplies in central Florida where market needs south into Miami plants have the benefit of the differential but similar needs to the north derive no benefit from the Order. Similarly, one of the few growing milk supplies in the southeastern Orders is in southwest Georgia, but markets for that supply regularly move long distances: both south into Florida, as well as, north into Atlanta or northeast into South Carolina. To the extent that the milk moves into a lower priced zone (north and northeast) not only is the transport cost large but price revenues are lost from the regulated prices as milk is sold from a higher differential location farm supply to a lower differential level plant location.
2. We are not proposing a change in the differential structure. Differentials by their very nature can only incentivize milk to move in one direction. Fixed differentials not only are not equipped to attract milk in multiple directions, they can, and do, actually penalize

efficient and necessary movements of milk against the differential grain. Fixed differentials do not have self-adjusting components like the Transportation Credits and the DPDC we are proposing. Our proposal results in a more modern system with a combination of differential and transportation credit to attract milk to where it is needed and compensate in part for the movement.

3. In addition, substantial differential changes may require a more-than-regional hearing process. This circumstance prevents the opportunity to focus only on changes for a unique regional situation. Our proposal will allow for change without the national conversation being a factor.
4. Many of the original milk sheds undergirding the current differential structure have generally declined and new ones have taken their place. Population growth has increased and moved more so into the Southeast since the differential structure was put into place. Both of these developments point to the appropriateness of addressing the issues on a regional basis. Our proposal reflects these changes and provides some relief.
5. The monies that constitute the order blend price absorb all of the differential value and offer no funds to specifically meet increased transportation costs. The TCBF system, which operates apart from the pool differential values, offers specifically targeted funds to meet transportation costs. Our proposal adopts the same principles for in-area producers and their milk supply.
6. The DPDC transportation credit system has the following operational dynamics and advantages:
    a. It provides the ability to target funds specifically to the cost of transportation within the market.

b. It has self-adjusting features to allow for built-in fine tuning of changing market situations such as rapid increases or decreases in fuel costs or plant closures.

c. Its cost reimbursements through the Order system are transaction based and easily and confidently verifiable by the Market Administrators.

d. It assures that handlers get the reimbursements only when they do the work.

e. It assures that all market participants pay identical assessments and receive similarly calculated payments for transporting milk.

f. It provides a transparent payment calculation that will assist all market participants in making future marketing plans in the face of changing fuel costs.

g. It provides partial payment for counter differential movements where the cost is not recognized by the existing differential price surface, but is nevertheless incurred.

h. It provides a reimbursement system superior to over order prices which are challenging to maintain, and even more challenging to increase. Having a portion of transportation costs within the Order pricing system treats all suppliers and buyers equitably. Handlers are generally more capable of passing through to packaged fluid milk wholesalers/retailers Class I price changes which are specifically outlined on Federal Order price announcements.

GENERAL FUNCTION OF OUR PROPOSED DISTRIBUTING PLANT DELIVERY CREDIT

Distributing Plant Delivery Credits will function similarly to the current (and proposed to be amended) Transportation Credits in Orders 5 and 7. A new source of funds will be created in each Order, and those funds will be used to incentivize movements of farm milk to pool

distributing plants in each Order. The source of DPDC funds will be a new assessment on Class I producer milk.

Adding a new flat Class I assessment will not disturb the current Class I differential surface in each Order, yet will provide additional funds that will be strategically directed to those handlers actually delivering milk to Class I plants. Since the DPDC's are mileage-based, there is greater cost reimbursement the greater the distance that milk moves.

As with the existing Transportation Credit funds (TC), DPDC funds will be separate from the producer pool funds, thus there will be no impact on each Order's blend price, and no impact on the quantity of reserve milk supplies which can be associated with each Order.

If monthly available DPDC funds are insufficient to pay all DPDC claims, the payments will be prorated, like the current Order 5 / Order 7 Transportation Credit process.

As with the existing Transportation Credit assessment provisions, DPDC language in each Order will contain a range of permissible DPDC Class I assessment rates. The range of rates will be specific to each Order, and the provisions will provide guidance for the Market Administrator on how to set the DPDC assessment rate within the allowable range. The Market Administrator will also be able to completely waive DPDC assessments for one or more months, if deemed preferable to lowering the assessment rate. The payment calculation will be the same for all three Orders.

Net shipment provisions will be utilized to assure that handlers do not "pump milk in and pump milk out the same day" and collect DPDC payment on two volumes. Each Order will contain a provision allowing the Market Administrator to disallow DPDC claims if they determine that certain milk movements were persistently and pervasively uneconomic. Handlers will have an opportunity to explain why any suspect milk movements occurred, in advance of any disallowance

of the DPDC claims by the Market Administrator. This action would be similar in intent with the provisions of Section 1030(13)(f)(4) where the Market Administrator can initiate investigation on their own to review action by handlers that might be considered unreasonable. Also, the knowledge that a transaction might be negatively viewed by the Market Administrator will provide some level of oversight.

CALCULATION OF ASSESSMENT, LIST OF ELIGIBLE COUNTIES THAT QUALIFY FOR PAYMENT AND THE ALLOWANCE OF POOL SUPPLY PLANTS TO RECEIVE A PAYMENT

Calculation of Assessment

The provisions for the DPDC are nearly identical for all three Orders. However, three areas where they differ are in the level of assessment for each Order reflecting the market conditions in each one, the definition of what producer milk qualifies geographically for payment of the DPDC and in Order 5 the inclusion of milk deliveries from pool supply plants as qualified recipients.

In order to determine assessment rates, the cost to operate the DPDC system must be determined. At the simplest point we would need Mileage Rate Factors (MRF) and miles to apply it to. To determine the MRF a base haul rate is needed as a constant of the formula. We described a survey of DCMA members who planned for supplemental milk purchases and the cost to do so in our testimony for Proposal 1. That testimony is directly supported in **Exhibit _____**. Supplemental milk purchases are most typically single stop loads from single farms and the payments are based directly on rate per mile charges. Assembly costs are not directly a factor in the negotiation. However, for "inside the market milk hauling" assembly costs are a function. There is a range of plans in the Orders that define charges for milk assembly. That may include stop charges, fixed minimum charges, volume discount adjustments, possibly a simple flat rate per hundredweight and likely other factors. We concluded that accounting for these variations would

be difficult to impossible to do in an acceptable manner so we decided to use the same MRF that would be calculated each month by the Market Administrator for the TCBF system. For our purposes, it would likely be less than the "inside the market rate" so it is a conservative choice and completely transparent. This choice solved the question of how to determine a MRF for use in calculating an assessment value in a fair and reasonable fashion.

Since there is no existing program to measure historical "inside the market" delivery activity, we asked the Market Administrator to determine the miles travelled to deliver milk to processors each month. They were able to aggregate the supply data to a county level and then associate each county level supply to its actual plant destination and measure the miles travelled.

DCMA provided the mileage rate factors to the cost calculation based on the updating process we proposed for the TCBF changes. We used $0.00754, the two - year average for the period that we had survey data for and a percentage of miles to make payment on – 85%. Our proposal language provides a bracket range for the percentage mileage paid of 75% to 95% adjustable by Market Administrator discretion. The choice of 85% for the initial setting was based on DCMA members sense of current market conditions. The 85% of the total miles incurred instead of the actual total miles reflects traditional Federal Order practice of regulated payments be targeted to lesser than actual cost.

Then using the 85% percentage of miles paid, the same MRF as used for the TCBF calculation ($0.00754 average) and the Market Administrator generated miles, a total cost estimate was calculated for the dollars of cost incurred by the DPDC. Dividing the cost by the Class I pounds yielded an assessment estimate for evaluation. Again, the DCMA members evaluated the calculations and selected assessment levels for each Order reflecting that Orders marketing conditions. For Order 5, our proposal suggests a maximum assessment of $0.60 per cwt with the

initial level set at $0.55 per cwt. For Order 6, the suggested maximum is in $0.85 per cwt with an initial setting of $0.80 per cwt and for Order 7 a maximum setting of $0.50 per cwt with and initial setting of $0.45 per cwt.

Exhibit _____, Analysis of Assessment and Cost for the DPDC Proposal Federal Order 5 2020 – 2022, is the result of this process for Federal Order 5 and an initial assessment rate of $0.55 per cwt. Note, our proposal language suggests a maximum rate of $0.60 per cwt. This initial request, based on the calculations above, is designed to be conservative but also to reflect our goal in instituting the DPDC system. There are provisions in each set of Order language allowing for a review of market conditions and the assessment rate and the possibility of adjustment by the Market Administrator if conditions warrant after a year of operation.

Exhibit _____, Analysis of Assessment and Cost for the DPDC Proposal Federal Order 5 2020 - 2022, is constructed as follows. The operational month and year is the first column. The second column is the total dollars of the assessment using the Market Administrator generated miles, less 15%, multiplied by the MRF factor. The next column is the total pounds that could qualify for a credit payment if there was a DPDC system followed by the total value of the credits at the two different MRF values. The final column is the monthly difference between the assessment and the total value at the $0.00754 MRF – which is our focus. If the final column is a positive number the assessment covered all the cost of the miles claimed and if negative there would be prorated payments. For Order 5, in 2020 assessments exceeded credits by $243,059 and were less than assessments by $2,158,885 in 2021 and also less by $1,464,269 in 2022. Several factors will impact our estimate including miles necessary to fill demands and fuel costs. More miles and higher fuel costs will result in shortfalls in monies to pay and prorated payments.

Exhibit _____, Analysis of Assessment and Cost for the DPDC Proposal Federal Order 6 2020 – 2022, is the result of this process for Federal Order 6 with the initial proposed assessment rate of $0.80 per cwt. For 2020, assessments exceeded credits by $1,890,199 and were less than assessments by $126,928 in 2021 and again exceeded then by $1,045,997 in 2022.

Exhibit _____, Analysis of Assessment and Cost for the DPDC Proposal Federal Order 7 2020 – 2022, is the result of this process for Federal Order 7 and an initial assessment rate of $0.45 per cwt. For 2020, costs exceeded assessments by $4,805,090 and assessments exceeded credits by $403,241 in 2021 and again exceeded them by $1,503,386 in 2022.

WHAT PRODUCER MILK QUALIFIES FOR A DPDC PAYMENT

The definition of what producer milk qualifies geographically for payment of the DPDC obviously is different for each Order. But DCMA members recognize that with fewer farms and fewer pool distributing plants, milk regularly crosses state and Federal Order borders to fill orders 3to the "fewer available plants" in the most economical manner. So, there was consideration given to allowing milk from one Order to qualify for payments from a delivery to another Order.

Provisions in Order 5 allow for milk to receive a DPDC payment for milk produced on farms located in the marketing area of Order 5 or Order 7. Additionally selected counties in Virginia and West Virginia that are not located in any Order boundary and deliver to Order 5 pool distributing plant(s) will be allowed to receive DPDC payments. The "out of any Order" counties must provide proof satisfactory to the Market Administrator that the county is a part of a milkshed that regularly supplies milk to the Order. **Exhibit _____, List of Counties NOT in the Marketing Area to Include as Eligible for Distributing Plant Delivery Credit Payment – Appalachian Order. Exhibit ____, Proposed Counties to be Added to FO 5 for DPDC Eligibility,** is a map

of the proposed counties. Additional witnesses will discuss the rationale to satisfy the inclusion of these counties based on historical marketing arrangements.

Provisions in Order 7 allow for milk to receive a DPDC payment for milk produced on farms located in the marketing area of Orders 7 or Order 5 and deliver to Order 7 pool distributing plant(s).

Provisions in Order 6 allow for milk to receive a DPDC payment for milk produced on farms located in the marketing area of Order 6 or in selected counties in Georgia that are located in Order 7 and deliver to Order 6 pool distributing plant(s). The counties selected have been a part of a milkshed that has historically delivered to Order 6 pool distributing plants. **Exhibit _____, List of Counties NOT in the Marketing Area to Include as Eligible for Distributing Plant Delivery Credit Payment - Florida Order**, lists the counties so noted for Order 6. **Exhibit _____, Proposed Counties to be Added to FO 6 for DPDC Eligibility**, is a map of these counties. Additional witnesses will discuss the rationale to satisfy the inclusion of these counties including historical marketing arrangements and somewhat new milk production trends that clearly impact current and future supply situations.

ELIGIBILITY OF DELIVERIES FROM ORDER 5 POOL SUPPLY PLANTS FOR DISTRIBUTING PLANT DELIVERY CREDITS

A witness for DCMA member Maryland and Virginia Milk Producers Cooperative Association will discuss the unique operation of a pool supply plant in Order 5 and its supply of milk to pool distributing plants.

ANALYSIS OF COMPETITIVE IMPACT OF DCMA PROPOSALS

Competitive Pairs Analysis

As an important part of our process, we reviewed the impact of the proposed increases in Transportation Credit Balancing Fund and Distributing Plant Delivery Credit Fund assessments on the competitive position of pool distributing plants in the southeastern Orders, knowing that the cost of milk is the largest cost item of the product mix in a pool distributing plant. Our analysis involved a selection of plants in the southeastern Orders and for each plant possible competitive plants that may be located inside the Orders or outside the Orders.

DCMA members suggested the chosen relationships to examine based on their ongoing market knowledge. We examined the impact on 17 possible competitive pairs for Order 5 plants; 10 pairs for Order 6; and 26 pairs for Order 7.

While it might be possible to make comparisons from every plant to every plant, the selected pairs are a satisfactory representation of the market. The pairs evaluated compared southeast Order plants for nearly every state in the orders and potential competitor plants from outside the region to the northeast, north, northwest, west northwest and west. We made no attempt to individually analyze every possible business transaction for the plants such as, for example, there might be limited backhaul transactions, an extensive maintenance project at one plant that might temporarily move products to another plant for a short time, or extraordinary weather events. Also, it is of course not possible to anticipate new entrants in the marketplace for packaged products which might establish new competitive relationships. However, where some of these factors exist (such as backhauls), we would expect the impact to be reflected in the composition

of the average line haul as reported by the ( ) DAT work which will be explained by a later DCMA witness.

To make the comparisons we constructed the following equation:

Plant A located in a southeastern Order has as its milk cost the value of its Class I differential **plus** the assessments for the transportation and delivery credit funds.

Plant B **if located outside** of the southeastern Orders has its Class I differential cost **plus** the transport cost to move packaged milk products to the market of Plant A. Plant B has no transportation credit fund assessments. If plant B is located in one of the southeastern Orders its cost is its transportation and delivery credit fund assessments plus its own Class I differential **plus** the transport cost to move packaged milk products to the market of Plant A as calculated by the DAT data.

Exhibit ____, Comparison Landed Cost Packaged Milk Selected Locations Southeastern Orders, details this calculation for the 53 competitive pairs, and is constructed as follows:

Each row (beginning with Athens, TN) is a set of pairs that we determined to be significant choices to review. Columns 1–5 represent data for the destination plants in the Southeast Orders showing city, state, Order, assessment, and Class I Differential. Columns 6–10 are the potential competitor plants showing city, state, Order, assessment, and Class I Differential. Columns 11–12 are the transport data from the DAT analysis showing miles between the locations and transport cost in dollars per cwt that would be a component of the competitor cost structure.

Columns 13–15 are the summary values of the analysis. Column 13 shows the sum of the assessment plus the Class I differential for the Southeast Order plant. (Column 4 + Column 5). Column 14 is the corresponding competitor plant's sum of the assessment if it is located

in one of the southeastern Orders, plus its Class I Differential, plus the transport cost as calculated by the DAT analysis. (Column 9 + Column 10 + Column 12).
Column 15 is the result of subtracting Column 13 from Columns 14. **A positive result in Column 15 indicates the competitor plant did not have a cost advantage at the DCMA proposed assessment level versus the southeastern Order plant.**

Note the assessment used for this analysis is the sum of the two credit systems proposed by DCMA allowing us to review the results from the position of maximum impact of the assessments. The combined updated transportation assessments plus the DPDC assessments are $0.90 per cwt for Order 5; $0.85 for Order 6 and $1.10 for Order 7.

The average cost advantage retained by in-area plants across all 53 comparisons was $2.19 per cwt. ($2.19 per cwt divided by the number of gallons in 100 pounds of milk equals $0.189 per gallon spread ($2.19/(100/8.62) = $0.189). The smallest in-area plant advantage was $0.44 per cwt or $0.379 per gallon ($0.44/(100/8.62) = $0.0379) Order 5 comparisons showed an average in-area advantage of $1.69 per cwt; the average advantage for Order 6 plants was $3.07; and for Order 7 the average advantage was $2.18.

Our analysis indicates that the assessment levels proposed by DCMA do not result in placing the in-area Southeast Order pool distributing plants at a competitive disadvantage to their competitors.

REQUEST FOR EMERGENCY HEARING PROCEDURES

Particularly because of the current inflationary economic environment and since the transportation costs have not been updated for more than 15 years and the market structure has changed dramatically due to plant closures and the loss of dairy farms, it is important that these requested order amendments be effective on an expedited basis so that this objective may be most effectively addressed.