

UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE
DAIRY PROGRAMS
MILK MARKET ADMINISTRATOR

APPALACHIAN MARKETING AREA
Federal Order No. 5
Phone: 502-499-0040
Fax: 502-499-8749
E-Mail: friedly@malouisville.com

10301 Brookridge Village Blvd.
Louisville, Kentucky 40291-4467
(Mail) P. O. Box 91528
Louisville, Kentucky 40291-0528
<http://www.malouisville.com>

May 27, 2010

To: All Pool Handlers, Appalachian Marketing Area

From: Market Administrator, Louisville, Kentucky

Subject: **Transportation Credit Balancing Fund**

The Market Administrator received a request to extend the payment of transportation credits from the Transportation Credit Balancing Fund for the month of June 2010 in the Appalachian Marketing Area. The authority for the Market Administrator to make such a determination is contained in §1005.82(b).

Handlers were notified by the Market Administrator's office on May 14, 2010, of the request made by the Southern Marketing Agency (SMA) and were invited to file comments in accordance with §1005.82(b) on the request through May 26, 2010. The request made by SMA cites the substantial volumes of milk from outside the marketing area that are imported each year during the month to satisfy the Class I milk demand in the Appalachian Marketing Area. SMA believes extending the Transportation Credit Balancing Fund payment in June 2010 would provide an equitable, transparent, economically justified process for encouraging supplemental milk to move into the marketing area. SMA anticipates that the Class I use in June 2010 is expected to rival or exceed the needs in July 2010, a month when Transportation Credit payments have been made since the installation of the Transportation Credit provisions. They cite that the payments from the Transportation Credit Balancing Fund in the month of June 2010 are appropriate, are fully supported by the evidence of needed supplemental milk, provide the proper incentives and equitable cost reimbursement for those handlers securing and hauling the needed supplemental supplies, and are of market-wide benefit.

Based on written data, views, and arguments that were received regarding the request and the analysis of this office, the Market Administrator has made a determination to extend the payment of transportation credits for the month of June 2010.

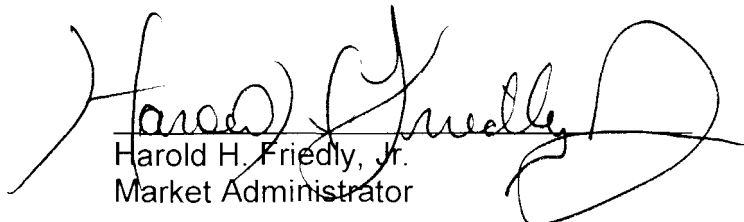
The Class I demand for Federal Order 5 pool distributing plants exceeds the total milk produced in the Federal Order 5 marketing area for all months. While the Class I demand by pool distributing plants has remained relatively constant over time, the milk production in the marketing area has continuously decreased over time.

The Class I demand for pool distributing plants during the month of June has remained relatively unchanged since 2004, while milk production within the marketing area has declined. Federal Order 5 producer milk originating from inside the marketing area has decreased by 5.4 percent in January through April 2010 compared to the same months in 2009. Due to current market conditions, milk production is expected to continue to decrease from prior year levels through June 2010. Therefore, there will be an increased demand by pool distributing plants for milk production from outside the marketing area in June 2010 to meet Class I milk demand.

The EIA Average Diesel Fuel Price used to calculate the Mileage Rate Factor in the Transportation Credit rate was announced for June 2010 to be \$3.062 per gallon. This is the highest average diesel fuel price announced since November 2008, and \$0.88 per gallon higher than the average diesel fuel price announced for June 2009.

The Transportation Credit Balancing Fund was originally established to partially offset the cost of transporting supplemental milk supplies into the Appalachian Marketing Area to meet fluid milk demands.

It is reasonable to conclude that the Appalachian Marketing Area continues to be a deficit market and the cost of transporting supplemental milk into the marketing area continues to result in higher costs to handlers of supplemental milk. The need for supplemental milk supplies to meet the expected Class I demands for pool distributing plants warrants the month of June 2010 as a payment month for transportation credits in the Appalachian Order.



Harold H. Friedly, Jr.
Market Administrator