

Exhibit No. \_\_\_\_\_

**LONE STAR MILK PRODUCERS, INC.**

**HURRICANE COST EMERGENCY HEARING TESTIMONY**

**FLORIDA FEDERAL MILK MARKETING ORDER NUMBER 1006**

**(7 CFR Part 1006)**

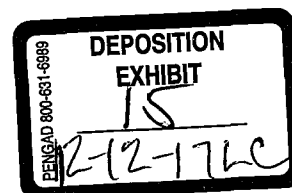
**DECEMBER 12, 2017**

**Tampa, Florida**

**[AMS-DA-17-0068; AO-18-0008]**

I am here today representing Lone Star Milk Producers, Inc., a Capper-Volstead cooperative association qualified to market milk on Federal Milk Marketing Orders, and a listed proponent of Proposal Number 1 as identified in the Notification of Hearing. Lone Star markets milk of its producer members every month on the Florida Milk Marketing Order Number 1006, and also the Southeast Order Milk Marketing Number 1007, and the Southwest Milk Marketing Order Number 1126.

Lone Star Milk Producers, Inc. is here today to provide testimony in support of Proposal Number 1, as listed in the Notice of Hearing, and as proposed to be modified, a request to install temporary emergency provisions in the Florida Federal Milk Marketing



Order which would offer reimbursement to handlers of milk regulated under the Order who experienced certain defined extraordinary milk marketing costs before, during and immediately after hurricane Irma in September 2017.

Along with the other listed proponents, Lone Star thanks the Secretary for holding this hearing and considering the temporary installation in Order 6 of a fair process for apportioning costs and reimbursing milk marketing losses incurred at a time of severe stress due to hurricane Irma.

Lone Star will not overburden this proceeding with a detailed description of the day to day and hour to hour types and examples of chaos and unruly marketing of milk which existed as hurricane Irma moved through Florida and Georgia. Suffice it to say that Lone Star experienced many of the same kinds of stresses and losses that will be described by later witnesses in this hearing, and that Lone Star truly believes that disorderly marketing conditions existed during the period of time that hurricane Irma moved through and impacted the marketing of milk in the area.

Lone Star is most likely, in terms of volume of milk marketed, one of the smallest marketers of milk on the Florida Order represented here today. It may also be true that simply in terms of total dollars lost as a result of the hurricane, Lone Star's losses may also be on the lower end of the scale. However, on a per hundredweight basis of the milk marketed on the Order, Lone Star's members had their pay prices significantly impacted due to the devastating extra costs associated with rerouting milk during the hurricane Irma disaster.

Exhibit \_\_\_\_\_ shows the extraordinary losses incurred by Lone Star as a result of hurricane Irma. In compiling these data, Lone Star actually had an easy time identifying the milk marketing losses caused by the hurricane. In the month of September, a traditional low point in the Florida Order milk shed's annual milk production seasonal cycle, one hundred percent of Lone Star's Federal Order 6 milk would have been delivered to its only pool distributing plant customer in Order 6, the Borden Dairy Company plant located in Winter Haven, Florida. Consequently, any milk movement to an alternate plant location outside of Florida during the hurricane emergency period of September 6 through 15 was directly attributable to the hurricane. There was no need to make any kind of judgement call as to where a particular load of milk might have gone but for the hurricane, it would have gone to Winter Haven.

All of Lone Star's member milk pooled on the Florida Order is produced within the state of Georgia, and as we mentioned, the milk would ordinarily in September all be delivered to its one Order 6 plant customer. Accordingly, Lone Star has excellent data supporting the hauling costs that would have been paid had the milk been delivered to Winter Haven, and the hauling costs which were actually paid for delivery of the milk rerouted to the various alternate locations as a result of the hurricane. Because of the location of Lone Star's milk supply dedicated to the Florida Order, and the location of the alternate plants to which delivered instead of Winter Haven, Lone Star did not experience an overall increase in milk hauling cost on the milk which was rerouted as a result of the hurricane. To be honest, in total, Lone Star paid less for hauling on the milk rerouted to the alternative locations than it would have paid if the milk had been delivered to Winter

Haven. In fact, on the volume of milk rerouted to the alternative plant locations, Lone Star paid about \$0.66 per hundredweight less than it would have paid had the milk all been delivered as typical. Consequently, Lone Star does not believe it is due reimbursement for its extraordinary hauling costs, because Lone Star didn't, in total, experience a net increase in its cost of milk hauling on the rerouted milk. Getting money from the proposed increase in Class I prices when Lone Star did not experience an increase in hauling costs loss would create a windfall gain, and that wouldn't be right. Lone Star, like all the marketers of milk here today, is seeking only the justifiable reimbursement of their actual identifiable net losses, no more, no less.

This is not to say that Lone Star experienced no marketing losses as a result of hurricane Irma, Lone Star most certainly did have marketing losses. Lone Star's marketing losses, at least as defined and proposed for reimbursement in this proceeding, include losses in the location value of milk. Lone Star's location losses on its hurricane induced rerouted milk exceed the savings it experienced in hauling, and seeks only to be reimbursed to the extent that the location losses are greater than the hauling savings. In other words, if Proposal Number 1, as modified, is adopted by the Secretary, we support the idea that the market administrator should offset Lone Star's location losses by its savings on hauling. To ask for full reimbursement of the location losses without offsetting the hauling savings would result in an undeserved gain, and Lone Star does not think that is right or fair. Lone Star therefore supports the clarifying modification offered to Proposal Number 1 as previously detailed at this hearing adding the word "additional" to the language in section point six zero, paragraph g, subparagraph 1,

making clear that any hauling costs savings experienced by a handler on a rerouted load should be applied against location losses claimed by such handler in section point six zero, paragraph g, subparagraph 2.

As can be seen from Exhibit \_\_\_\_\_, Lone Star delivered 13 loads of milk to locations outside of Florida during the September 6 to 15 period, totaling approximately 621,000 pounds of milk. During the hurricane emergency period milk was delivered to alternate plants fully regulated by other Orders and located outside of Florida in Lafayette, Louisiana; Braselton, Georgia; and Spartanburg, South Carolina; as well as unregulated manufacturing plants located outside of Florida. All of these plants have an effective Class I differential which is less than Winter Haven. The weighted average Class I differential of all of the alternate plants outside of Florida to which Lone Star delivered rerouted milk during the hurricane period is approximately \$3.60 per hundredweight. Compared to the Order 6 base zone differential of \$5.40, which is the zone where Winter Haven is located, Lone Star lost \$1.80 per hundredweight on the volume of milk rerouted to the alternative plant locations outside of the State of Florida. Due to its reduced deliveries to pool distributing plants in September resulting from the Winter Haven plant not receiving milk during the hurricane period, Lone Star was unable to pool all of its rerouted milk on the Florida Order. Consequently, the rerouted milk which was delivered to the plants regulated as pool distributing plants on Orders 5 and 7 was delivered as producer milk on those two Orders. This milk would have been pooled as Producer Milk on Order 6 but for hurricane Irma, and thus Lone Star supports modifying Proposal

Number 1 by deleting the word "producer" where it appears in section point six zero, paragraph g, subparagraph 1, and subparagraph 2.

As is the case with a number of the other proponents, Lone Star dumped milk during the hurricane Irma period, and also sold milk at distressed prices, and by distressed prices we mean sales to unregulated plants at less than the minimum Order class prices. Fortunately, Lone Star was able to find homes for all but one load of milk, and that one load was dumped. This one load of milk was dumped at a location away from the farm where it was produced. Compared to the Class IV skim milk and butterfat prices as established and announced for September 2017, Lone Star lost almost \$8,800 on this single load of dumped milk. In addition, six loads of milk were sold to unregulated plants at substantial discounts to the minimum Order Class prices. The weighted average loss on this milk was \$7.69 per hundredweight, in addition to the location value losses already enumerated. On the 288,000 pounds delivered to unregulated plants and sold at a discount to the class prices, Lone Star's distressed milk sales price loss totaled more than \$22,000.

Lone Star sees the issue of compensation for losses due to dumped milk, and losses due to distressed sales prices as related, and even inextricably linked. Fairness dictates that if one form of these losses is compensated, both forms should be compensated. For example, if the Secretary were to decide that the Class IV value, the lowest price class in September 2017, was reimbursable to handlers who dumped milk due to the hurricane, but the Secretary elected not to sanction reimbursement of below-Class price sales values, handlers who did scramble around and find plant outlets, even

though the returns were abysmal, would actually be penalized for delivering distressed milk to a plant, versus a handler who dumped milk and was then made whole back to the classified use value. This would not be appropriate. Further, such a decision by the Secretary could create the impression that in future natural disasters dumping milk might be more lucrative than finding a plant to receive the distressed milk, thus incentivizing milk to be dumped.

Lone Star recognizes that sometimes milk has to be dumped when economically and logistically reachable surplus outlets are simply unavailable. As we mentioned Lone Star had to dump a load of milk during this period too. However, there should never be Order provisions installed that suggest, or give even tacit approval to, dumping milk as a preferable option over trying to find a plant to take the milk.

In summary, as can be seen from Exhibit \_\_\_\_\_, Lone Star experienced a total net loss of more than \$38,000 on the rerouted milk, after offsetting its savings on hauling against its various milk value losses during the hurricane Irma disaster. On the 671,940 pounds of milk that was moved out of its normal marketing channel or was dumped, Lone Star lost the equivalent of approximately \$5.66 per hundredweight.

As detailed in Proposal Number 1, Lone Star supports using, when reasonable, each marketing entity's actual hauling cost data to determine the net losses, or savings, on rerouted milk experienced by that marketer of milk. The market administrator is in the unique position, and has more than sufficient data and expertise to evaluate the accuracy and appropriateness of the hauling costs and hauling cost rates submitted by marketers seeking cost reimbursement, and Lone Star supports limiting the per mile rate

for hauling to the actual rate paid or \$3.75 per loaded mile, whichever is less. Further, the market administrator has all the tools, proficiency, and information necessary to ascertain where a re-directed load of milk would have gone, and thus the extra miles travelled on the rerouted milk, if any, but for hurricane Irma's impact.

The losses to marketers of milk in the Florida Order marketing area and its milk shed which arose from the devastation of hurricane Irma are real, and are a significant blow to the industry, and in particular the dairy farmer producer suppliers to the consumers in the marketing area. The reimbursement of these costs, if Proposal Number 1 as modified is adopted by the Secretary, should be made as soon as practicable. Therefore, Lone Star supports the Department exercising its authority to make these amendments to the Florida Order as an emergency action, omitting the issuance of a recommended decision.

Lone Star Milk Producers, Inc. very much appreciates the Secretary's willingness to hear these proposals, and is pleased to be able to offer this testimony in support of a temporary provision much needed in the Florida Order. It is appropriate for the Department under the Act's authority to establish provisions which compensate handlers for providing services of marketwide benefit to use these proposed temporary Federal Order provisions to address the reimbursement of extraordinary costs incurred in supplying milk to the consumers in the marketing area at a very difficult and chaotic time.

This ends my prepared testimony, I'll be happy to answer any questions.