MIG/Shehadey Exhibit 24A

UNITED STATES DEPARTMENT OF AGRICULTURE
BEFORE THE SECRETARY OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE

In re: Milk in the Northeast and Other Marketing Areas 7 CFR Parts 1000 et seq.	7 CFR Parts 1000 *et seq.* Docket No. 23-J-0067; AMS-DA-23-0031

CARMEL, INDIANA
JANUARY 2024

TESTIMONY OF SHEHADEY FAMILY FOODS, LLC PART 3 REGARDING NATIONAL HEARING ON FEDERAL MILK MARKETING ORDER PROPOSALS

January 15, 2024

I. BACKGROUND

A. PERSONAL BACKGROUND

My name is Jed Ellis. I am the Director or Procurement for Producers Dairy Foods and Shehadey Family Foods (together, "Shehadey Family Foods") based in Fresno, California. I have been working for Shehadey Family Foods, and its various affiliates, for five years now and prior to that I worked at Dean Foods for 11 years. Prior to my role as a Director of Procurement, I worked as a Controller within the Finance and Accounting group. I also have an MBA and a bachelor's in accounting, both from Weber State University in Ogden, Utah.

I have had extensive involvement preparing, reviewing, and submitting FMMO monthly market reports for over 10 years across many different Federal Orders during my career within the dairy industry. I also prepared and filed reports for both the California and Montana State Orders. Further, within Shehadey Family Foods I am recognized as the dairy costing and FMMO reporting subject matter expert. This includes working closely with dairy farmers who supply our milk and the various Co-Ops that we use to purchase milk across the various states we operate in. In addition, I routinely lead milk component and costing training across our workforce and externally with many of the large retailers and customers we sell products to.

B. COMPANY BACKGROUND

Shehadey Family Foods has four manufacturing plants in three states. Producers Dairy in Fresno, California; Producers Dairy in Fairfield, California; Model Dairy in Reno, Nevada; and Umpqua Dairy in Roseburg, Oregon. Our corporate headquarters are at 250 E. Belmont Ave. Fresno, California. Our plants are fully regulated distributing plants in Federal Orders 51 and 124. Our facilities manufacture Class I fluid milk and Class II ice cream and cultured products and bulk items sold to food processors and cheese plants.

II. OPPOSITION TO PROPOSALS

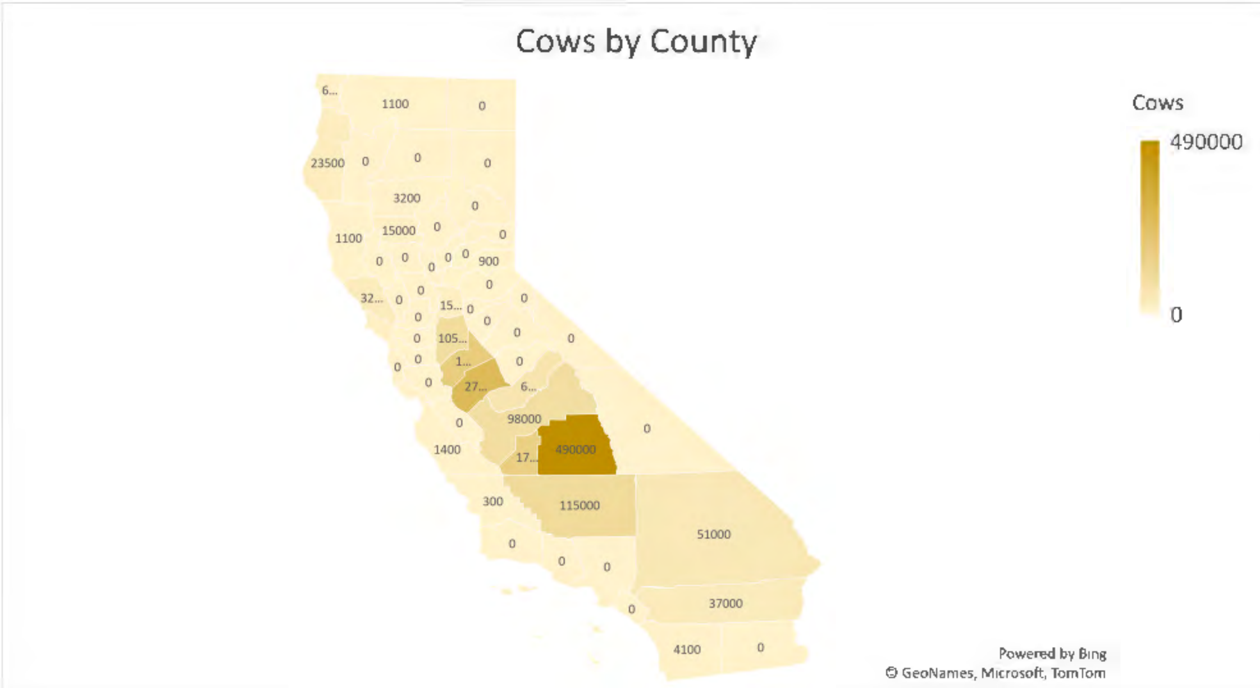
I am a member of the Milk Innovation Group ("MIG") and support its proposals at this hearing. I am here today to testify on opposition to NMPF Proposal 19 and AFBF Proposal 21.

A. Proposals 19 (NMPF's Class I Differential)

NMPF's Proposal 19 contradicts our real-world experience regarding the value and demand for farm milk. For Shehadey Family Foods, our relative proximity to our milk supply has in large part remained unchanged over the years. Based on the NASS Livestock County Estimates for Milk Cow Inventories, 88% of the milk in California comes from the Central Valley. Our main operation is right in the heart of the Central Valley. If the Class I milk differential is relative to the supply of raw milk, our facility in Fresno, California should not be an area that is increased. At the very least, our Fresno facility should not have an increase that is disproportionate to other plants in California that are much further from the milk supply. NMPF's Proposal 19 puts us at an unfair and competitive disadvantage.

		Table 1[1]		
Region	**2022 Cows**	**2020 Cows**	**2022 % of CA Milk Supply**	**2020 % of CA Milk Supply**
Central California	1,499,700	1,505,700	88%	88%
Inland Desert	88,000	88,000	5%	5%
Northern California	50,300	49,800	3%	3%
Bay Area	42,600	42,000	3%	2%
North Central	16,800	16,900	1%	1%
Southern California	4,100	4,100	0%	0%
Total	1,701,500	1,706,500		
Change	(5,000)			

[1] United States Dep't. of Agriculture, National Agricultural Statistics Service, Livestock County Estimates (Jan. 10, 2024, 5:14 PM), https://www.nass.usda.gov/Data_and_Statistics/County_Data_Files/Livestock_County_Estimates/index.php



The above Cows by County map was developed from the data in MIG 24C.

Based upon the original model results, the four class I plants of Shehadey Family Foods would be as follows:

Table 2

Class I Differential Comparison: Current, USDSS Model, and NMPF Proposal #19

City	County	State	Current*	Model Minimum*	Model Average*	NMPF #19*	#19 – Model Min.^	#19 – Model Avg.^
Fresno	Fresno	CA	$1.60	$1.90	$1.90	$2.50	$0.60	$0.60
Fairfield	Solano	CA	$1.80	$1.90	$2.00	$2.90	$1.00	$0.90
Reno	Washoe	NV	$1.70	$1.90	$1.90	$2.50	$0.60	$0.60
Roseburg	Douglas	OR	$1.90	$2.00	$2.00	$3.00	$1.00	$1.00

Notes:
* Source Hearing Exhibit 301
^ Calculated

As expected, using the model average results, Fresno and Reno have the smallest model value increases of our facilities due to the ample milk supply in that region. However, when we look at Proposal 19, NMPF is trying to raise the differentials in those areas by significant amounts above the model results and in a disproportionate way to our direct competitors. Members of

NMPF have stated traffic patterns are a large reason why many manual adjustments have been made. It seems NMPF is correct about the model not accounting for traffic (as stated in Dr. Stephenson's testimony, the model does not adjust for abnormal traffic patterns). But I can tell you they are not correct that there is any traffic in the counties above that warrants any increase in differentials (let alone the huge increases proposed by NMPF).

Fresno and Reno have an ample supply of milk with very little traffic. These facilities are built around the supply, and not so much the demand. Shehadey Family Foods bears the burden to deliver these packaged products into the higher populated areas and our costs are not offset by those that are closer for "fair competition." When questioned on this as to why Fresno County was adjusted from the model seeing as it's in the heart of the milk supply and not in the Los Angeles or San Francisco regions with high traffic, an NMPF witness stated it was due to fair competition. But there is nothing fair about NMPF's arbitrary increases in differentials in the counties where we operate.

And again, this proposal puts us at an unfair disadvantage. I had previously testified that the average distance farm milk travels to our Fresno plant is less than 26 miles. It travels less than 60 miles to get to our Reno plant. In addition, our Fresno facility is only about two miles away from the region's cooperative balancing plant. This matters because NMPF witnesses testified that plants in "inconvenient" locations would see increased differentials – but Shehadey's two California plants and Reno plant are in prime locations for both inputs and outputs. NMPF's Proposal 19 makes no sense when you look at the location of Shehadey's facilities relative to the milkshed and the population centers, as well as balancing facilities.

Our facility in Fairfield, Solano County, California is getting the largest proposed increase in California (tied with some others) versus the model. Fairfield's milk supply is a much easier haul than the Central Valley delivering to Southern California and is closer. Solano County does have more traffic than Fresno, but also isn't fair to call it part of San Francisco's traffic patterns. Raw milk does not travel through San Francisco to get to Fairfield and is located right off of a major highway. Our facility in Fairfield is on the outskirts of the Bay Area and is served by farms primarily even more inland in much more rural areas. To increase Solano County $.20 per CWT more than Los Angeles County feels disingenuous due to the location of its supply and its traffic.

Not only does Fairfield have a nearby milk supply, but we are aware of other secondary milk supplies less than three hours away. Facilities in the Los Angeles region of California have to draw their everyday raw milk supply over a steep mountain terrain, and if this is closed for whatever reason, have to pull raw milk from Arizona. Not to mention, this milk has to go through Los Angeles traffic. So compared to competitors in Southern California, that would need to look at much further supplies (even from other states), our Fairfield plant has closely located options. These two areas should not be treated the same, as the "Bay Area" facilities don't require transportation through the city and has a closer supply. In addition, the premiums, delivery charge, balancing fees and fuel surcharge that Shehadey Family Foods pays in Fairfield is much higher than in the Central Valley. NMPF Proposal 19 is putting too high of an increase on Class I bottlers in Central and Northern California.

Lastly, for Umpqua Dairy, the Shehadey Family Foods facility in Roseburg, Douglas County, Oregon has the largest variance to the model out of all our operating plants (model proposal of $2.00 per CWT, versus NMPF proposal of $3.00 per CWT). This facility until recently has secured all of its milk from Southern Oregon which would have to drive by our facility to get to anywhere else that would have a need for it if our facility weren't operating. We also recently started sourcing milk from northern Oregon and southern Washington. As this milk comes further, we understand that there is an increased cost of service. To compensate for those costs, this facility pays considerably higher amounts than any of our other facilities for premiums, delivery, balancing costs, and fuel surcharges, which we negotiated directly with the milk cooperative that we source our milk from and we do this through the over-order premiums and service charges we pay. There is no need to increase Class I differentials in order to attract milk to our Roseburg, Oregon plant, and there is no justification to raise Class I differentials because of claimed competition for the milk.

You might wonder why we are no longer sourcing this milk from southern Oregon – it is because those farms closed because they were not receiving sufficient pay prices. It is imperative to address the fact that Shehadey Family Foods does not control farmer pay for supplier farmers who are members of cooperatives – that is controlled by their cooperative. For the last few years, multiple farmers have reached out to Shehadey Family Foods to gauge our interest in doing a direct ship milk program in specific regions of our operation. These farmers have been very vocal about their true take-home pay and the amounts that have been deducted from their checks to cover cooperative administrative fees and, in their opinion, to help with the cost of building new manufacturing facilities. The deductions they say they face are substantial amounts of money. Similarly, we are paying significant over order premiums that we purchase milk from, so it is hard for us to reconcile the disparity between the amounts we pay and the net pay price the farmers receive.

Some of these farmers have recently decided to close their milking operation and sell their cows to other farmers. They have all stated that if they could just have received the uniform price, they would still be milking. And the cruel irony is that we want that very thing – to be directing more of our milk costs directly to the farmers that supply us instead of to a pool. That is why we supported the MIG proposals that directed more of the Class I value to the farmers directly supplying Class I. However, when those farmers are cooperative members, even with direct supplier payment it is outside of our control what is in the end check to the farmers.

Proposal 19 is not the solution to this problem – it will only exacerbate it. Given the low Class I utilization, any increase in Class I differentials will be so diluted in the pool that it will not have any real impact on producer pay prices. All it means is that we will have less money for over order premiums for our own suppliers.

B. Proposal 21 (AFBF's Class II Differential)

In regard to Proposal 21, Shehadey Family Foods strongly opposes this proposal. All four of our facilities are over 25% Class I which requires us to be fully regulated and pooled facilities.

Many large Class II processors with whom we compete in the wholesale market do not pool, therefore, would not have to pay this increased differential. This will be unfair to those of us that are required to pool. Shehadey Family Foods processes these same Class II products as those that do not have to pool and we can't decide to de-pool or pool in months where it's advantageous. Class II processors under 25% Class I have that choice, leaving an even greater benefit. There is no economic rationale, or even basic logic, that would warrant charging two plants producing identical products to pay different prices for their raw milk just because one plant also processes Class I products. This type of change would only further disadvantage Class I processors and constitute a barrier to those plants also operating Class II product lines. Due to the unfair advantage USDA should reject this proposal.

III. CONCLUSION

Shehadey Family Foods, and our operating plants of Producers Dairy, Model Dairy and Umpqua Dairy value the partnership we have with our milk suppliers and want to pay a fair value for farm milk. As I previously testified, the Shehadey Family has its own dairy farming operations and so we have a unique perspective on this issue from both sides. We have spent a considerable amount of money to become better customers of the different raw milk suppliers we buy from and will continue to do so (for example through significant capital investments made in each of our processing plants for milk storage so that we can ensure even day receiving, orders are placed in advance with weekly forecasts, seven days a week receiving capabilities, etc.). Without a doubt, farmers deserve higher pay for raw milk. However, we don't agree that the proposals submitted of simply increasing the cost for a declining Class I milk market, while not addressing the factors that drive the uniform price down, is going to accomplish any meaningful, lasting benefits for farmers or processors.

As Class I processors, we have no control over the pooling and de-pooling that takes place that has a large impact on the uniform price as well as cooperative member fees, cooperative revenue re-blending, and the performance of manufacturing plants. Each of our facilities pay in some form or another a combination of premiums, delivery costs, and a floating fuel surcharge that are above the minimum uniform price. If these are included in the cost of raw milk, they would then need to be removed from the over order premiums paid (meaning even less money going directly to the farmers supplying our facilities). We feel it best serves the market to charge rates based on actual costs on short- or long-term milk supply agreements negotiated and agreed to by suppliers and handlers.

DATED this 15th day of January 2024.

By: *_/s/ Jed Ellis_*
JED ELLIS