**United States Department of Agriculture**
**Before The Secretary of Agriculture**

**In re: [Docket No. 23-J-0067; AMS-DA-23-0031]**
**Milk in the Northeast and Other Marketing Areas**

**Hearing beginning August 23, 2023**

**Testimony Presented By:**
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**Hearing Subject Area: Class I and II Differentials**

Hello, my name is Steve Stout and I work for Dairy Farmers of America, Inc. (DFA), a global, farmer-owned milk-marketing cooperative. I am a CPA licensed in the state of Utah since 1986. I have been with DFA and its predecessor cooperatives for over 30 years and was the CFO of Western Dairymen Cooperative, Inc. that was one of the original 4 cooperatives that formed DFA back in 1998. I am the last employee of DFA of the original 8 employees (CEO and CFO of each entity) to then form DFA. Since inception, the structure of DFA is separated into seven distinct operating areas. For DFA, I have served as the Regional Controller for Mountain and Western Areas from 1999 to 2001, the Regional Controller for Mountain, Southwest, and Western Areas from 2001 to 2004, and currently a VP and Regional Controller for Mountain and Western Areas since 2004. In this role, I oversee all areas of fluid accounting for both areas that encompasses the states of California, Nevada, Idaho, Utah, Montana, and Colorado.

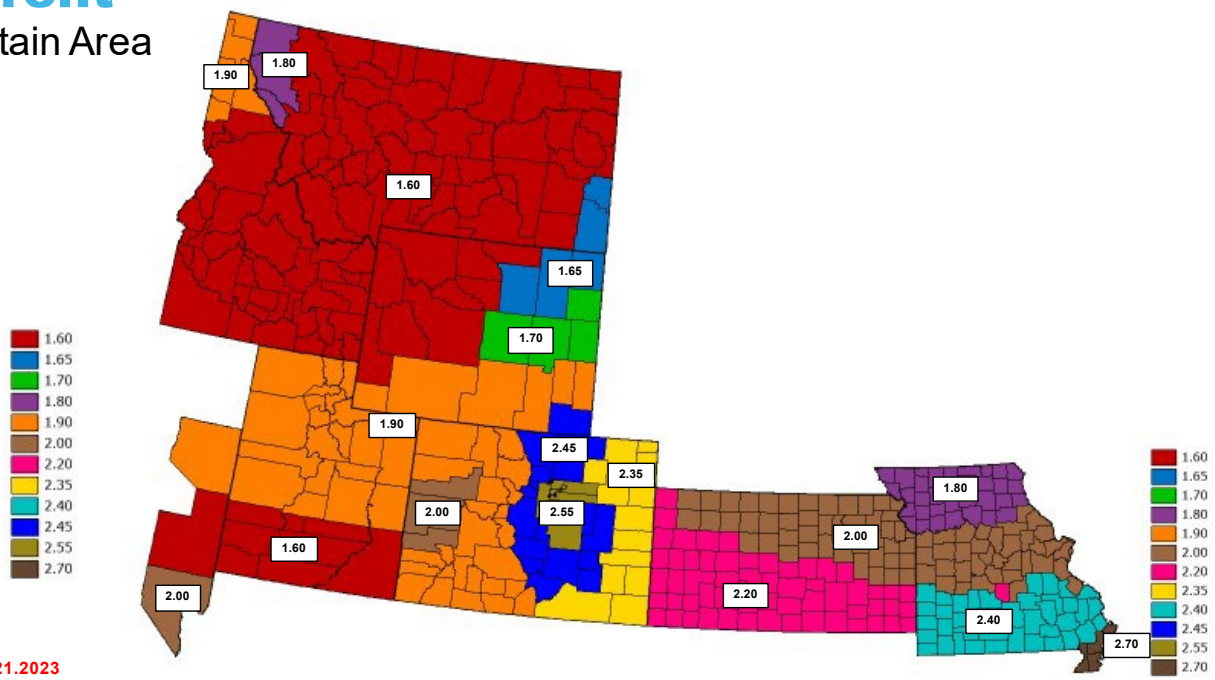
DFA is a global, milk-marketing cooperative that includes membership and operations within the Mountain region of the United States. Currently, DFA has 216 farmer-owners within its Mountain Area, producing approximately 8.5 billion pounds of milk per year and

marketing an additional 0.2 billion pounds. Approximately 60 percent of that milk is pooled on Federal Order 32 with the rest being marketed in both an unregulated area as well as a pool of milk marketed through a state order in Montana. Roughly 70 percent of our farmer-owner milk is picked up and delivered across the region by DFA's transportation fleet. Additionally, DFA owns and operates 9 dairy manufacturing facilities within the Mountain Area that receive raw milk to make a variety of products including, but not limited to, HTST and ESL fluid milk and milk products, cream, condensed skim, and nonfat dry milk—2 of these plants are within Federal Order 32, 2 are within the Montana state order, 3 are in unregulated areas of Utah and Idaho, and 1 plant is a partially-regulated plant in Federal Order 51 or 124 depending on their sales. There is 1 additional DFA-owned plant within the Mountain Area that does not receive raw milk but does receive milk components to make ice cream products.

I am here today representing DFA and the National Milk Producers Federation (NMPF), and I am testifying in support of Proposal 19, submitted by NMPF, to re-align the Class 1 and producer location differentials across the United States. I am specifically focusing my attention on the pricing surface in Colorado, Utah, Idaho, Southern Nevada, Montana, and Wyoming. A large part of the testimony will focus on the importance and necessity of the proposed pricing surface in Colorado. Below in Map 1, is the current location differentials for areas that will be referenced in my testimony. Map 2 below is the NMPF-proposed location differentials for areas that will be referenced in my testimony. Map 3 below identifies the differences between the NMPF proposed location differentials vs. the current differentials.

**Map 1**

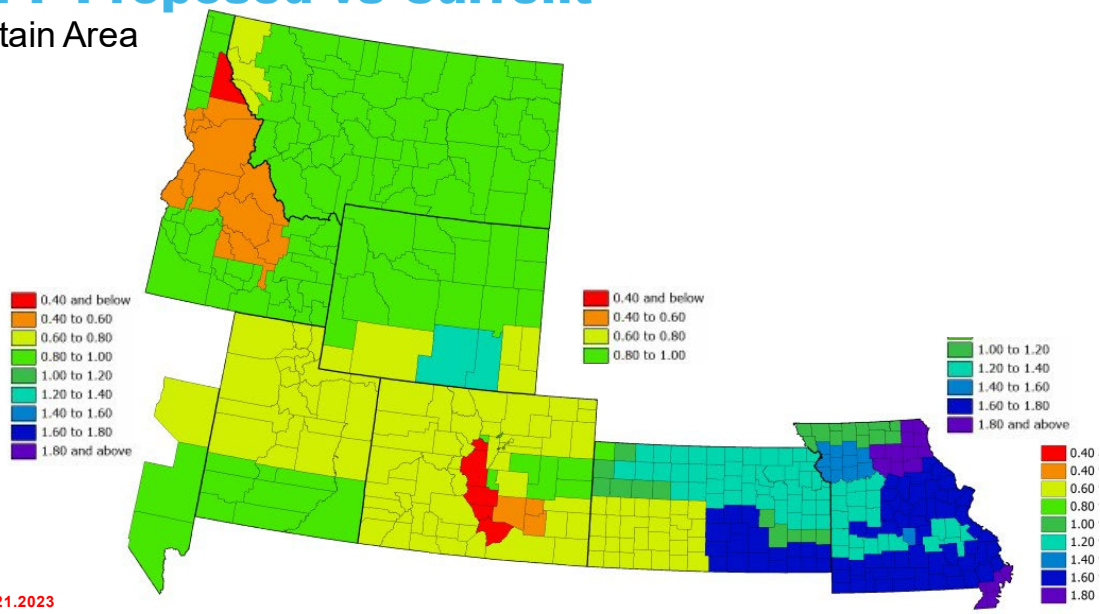
## Current
Mountain Area




Updated as of 08.21.2023

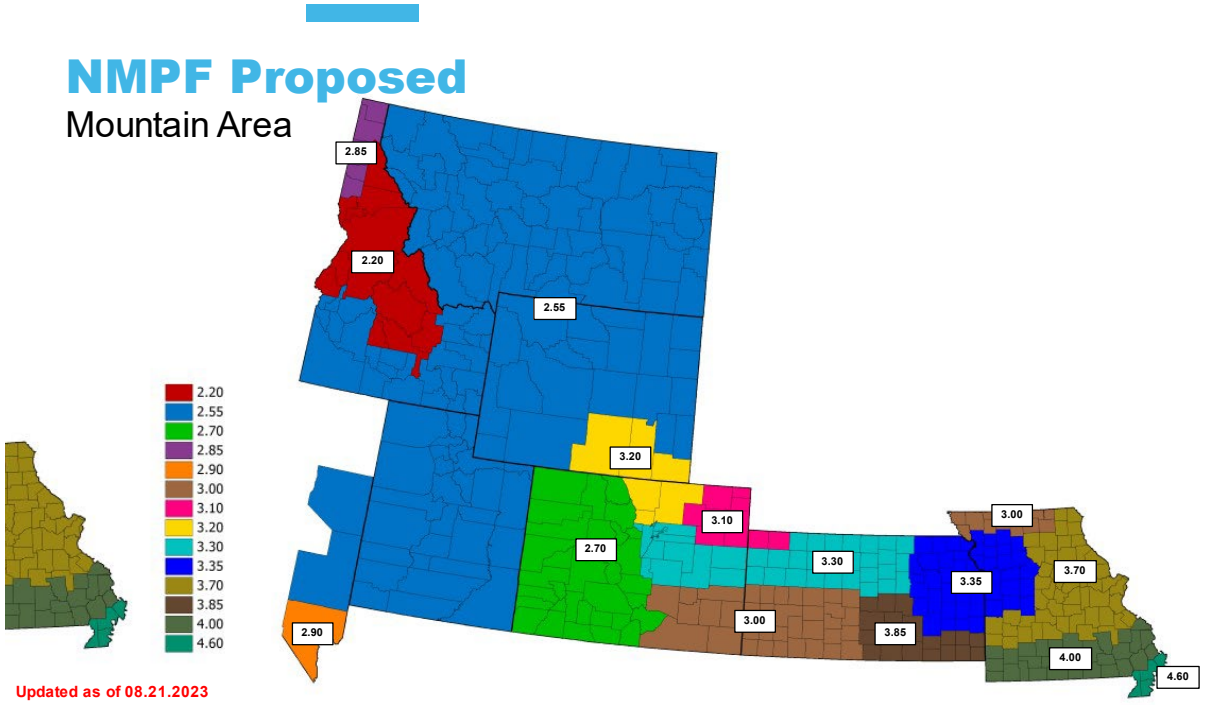
**Map 2**

## NMPF Proposed vs Current
Mountain Area




Updated as of 08.21.2023

**Map 3**




You will see in Table 1 various cities that I would like to compare multiple data points between the years of 2000 and 2022. The reason for selecting these various cities is to show that these other cities outside of Denver, but within the same regional areas, have somewhat similar changes in population, beverage consumption, etc. yet the University of Wisconsin Model shows much stronger Class 1 location differentials with these other cities than Denver. Some of these data points show relevance for a need of a higher differential for Denver than these other cities. Over this 22-year period, Colorado has seen a population growth of 35 percent, South Dakota a 20 percent growth, and both Wisconsin and Missouri a 10 percent growth. During this 22-year period, the Class 1 beverage demand in pounds of consumption has decrease between 11-28 percent for the 4 markets of Denver, Sioux Falls, Milwaukee, and Kansas City.[1]

[1] To determine a state's Class I demand, I multiplied the representative years per capita fluid milk beverage consumption for the United States times the state's population in that year and compared that to the state's milk production for that year.

**Table 1**

| City | State Population (in Mil's) (1) 2000 | 2022 | % Chg. | Class 1 Differential Present | Model (2) | Model (3) | Proposed (4) | Model (3) vs. Present | Proposed (4) vs. Present |
|---|---|---|---|---|---|---|---|---|---|
| Denver, CO | 4.33 | 5.84 | 35% | $2.55 | $2.50 | $2.50 | $3.30 | ($0.05) | $0.75 |
| Greeley, CO | | | | $2.45 | $2.30 | $2.40 | $3.20 | ($0.05) | $0.75 |
| Ft. Morgan, CO | | | | $2.35 | $2.40 | $2.40 | $3.10 | $0.05 | $0.75 |
| Sioux Falls, SD | 0.76 | 0.91 | 20% | $1.70 | $2.50 | $2.60 | $2.80 | $0.90 | $1.10 |
| Milwaukee, WI | 5.37 | 5.89 | 10% | $1.75 | $3.20 | $3.40 | $3.00 | $1.65 | $1.25 |
| Kansas City, MO | 5.61 | 6.18 | 10% | $2.00 | $3.20 | $3.50 | $3.35 | $1.50 | $1.35 |

| State | State Population (in Mil's) (1) 2000 | 2022 | % Chg. | Milk Production (in Mil's) 2000 | 2022 | % Chg. | Beverage Demand (in Mil's) (5) 2000 | 2022 | % Chg. |
|---|---|---|---|---|---|---|---|---|---|
| National Average Beverage Consumption (pounds/capita/year) | | | | | | | 196.68 | 129.82 | -34% |
| Colorado | 4.33 | 5.84 | 35% | 1,924 | 5,314 | 176% | 852 | 758 | -11% |
| South Dakota | 0.76 | 0.91 | 20% | 1,474 | 4,161 | 182% | 149 | 118 | -21% |
| Wisconsin | 5.37 | 5.89 | 10% | 23,259 | 31,882 | 37% | 1,056 | 765 | -28% |
| Missouri | 5.61 | 6.18 | 10% | 2,258 | 941 | -58% | 1,103 | 802 | -27% |

Sources:
(1) U.S. Census Bureau, Resident Population for each state, retrieved from FRED, Federal Reserve Bank of St Louis https://fred.stlouisfed.org/; retrieved May 18, 2023
(2) Model based on University of Wisconsin Model May 2021 analysis.
(3) Model based on University of Wisconsin Model October 2021 analysis.
(4) Based on NMPF proposal number 19.
(5) Beverage demand is based on taking the pounds/person conventional & organic milk consumption from the Estimated Fluid Milk Sales (previous releases 2022-12 and 2000-12 https://mymarketnews.ams.usda.gov/viewReport/3358; retrieved May 18, 2023). Therefore, taking the pounds of milk per capita times the population to give the total milk beverage demand by state.

As has previously been discussed through expert testimony of others, USDA utilized the University of Wisconsin Model to develop the existing Class I location differentials during their Federal Order Reform process that was implemented on January 1, 2000. The greater Colorado region's pricing surface has not been changed since then. Also, from prior testimony, NMPF worked with the owners of the University of Wisconsin Model during 2022 to update data and rerun the University of Wisconsin Model to provide information to modernize the national pricing surface.

As described in prior NMPF testimony, the University of Wisconsin Model provides a base for review of a region's pricing surface. However, as described in prior NMPF testimony and as done by USDA under Federal Order reform, there are important factors that the University of Wisconsin Model is not able to take into consideration that, if left to the University of Wisconsin Model's results only, would result in disorderly marketing conditions. There are factors at play in the greater Colorado region, that the University of Wisconsin Model is not constructed to contemplate, that provide clear evidence that the University of Wisconsin Model's output has underpriced the pricing surface values for this region. Working with DFA and NMPF, we have proposed higher values than the University of Wisconsin Model's output for the greater Colorado region. You will hear additional testimony about this for the greater Colorado regions from Ed Gallagher, Dr. Stephen Koontz of Colorado State University and other NMPF witnesses for the broader western US.

The University of Wisconsin Model's results produced a recommended Class 1 differential of $2.50 per hundredweight for Denver which is a $0.05 per hundredweight reduction from the present Class 1 differential (as noted in Map 1 above). Within the other 3 cities listed in Table 1, the University of Wisconsin Model had an increase of $0.90 per hundredweight for Sioux Falls, $1.65 per hundredweight for Milwaukee, and $1.50 per hundredweight for Kansas City. DFA and NMPF, do not feel that the results of the University of Wisconsin Model for Denver of $2.50 per hundredweight represents an equitable change and therefore are proposing an increase to $3.30 per hundredweight.

**Colorado Milk Market**

Since before 2000, Denver has always had a Class 1 differential that was $0.55 per hundredweight higher than Kansas City within Federal Order 32 (Jackson County is the basing zone for FO32). Now, based on the same University of Wisconsin Model but with refreshed data, the University of Wisconsin Model is recommending the Class 1 differential for Denver to be $1.00 per hundredweight lower than Kansas City. This results in a net change from 2000 to 2022 for the University of Wisconsin Model of a decrease for Denver of $1.55 per hundredweight. This significant of a decline for Denver is not equitable for regional Class I competition and will lead to a significant decline in Federal order blend prices for the Colorado producers. Instead, and in line with the University of Wisconsin Model's results, we are proposing to lower the difference between Denver and Kansas City from the current difference of a positive $0.55 per hundredweight over the Kansas City zone to a negative $0.05 per hundredweight for a total of $0.60 per hundredweight reduction between the two markets.

As noted in Table 1, DFA's supply needs to meet the increased growth of manufacturing milk in Colorado is substantially contained in the Greeley and Ft. Morgan areas of Northern Colorado. Table 1 shows that for these two cities the current differentials are $0.10 per hundredweight less than Denver for Greeley and $0.20 per hundredweight less than Denver for Ft. Morgan. Based on the NMPF proposal, this same relationship for these milk sheds would continue with the same relationship that exists currently. The University of Wisconsin Model has both Greeley and Ft. Morgan at $0.10 per hundredweight less than Denver, but we feel that the NMPF proposal keeping the same relationships between these two cities of $0.10 per hundredweight less for Ft. Morgan than Greeley would be less disruptive to the marketplace.

It seems that the underlying basis of the University of Wisconsin Model as developed in 2000, and refreshed in 2021, is that if there is more than an adequate supply of local milk to meet the needs of the Class 1 market, then that transcribes that the location differential would not have pressure to be increased. The inputs into the current University of Wisconsin Model for the Colorado market understandable would say, that the Colorado market would reflect a little to even a reduced location differential with all the growth in milk production in Colorado over the last two decades. My testimony, along with others representing NMPF, will show that the University of Wisconsin Model doesn't necessarily cover all the parameters that affect a milk market. We cannot look at Class 1 in a vacuum without looking at the manufacturing side of a given milk market. This coupled with local producer costs to produce milk for that market, hauling costs to bring milk into the market, etc. all affect how a supply of milk can meet the needs of the market including the subset of the Class 1 plants.

Colorado milk production, and its usage, is mostly a market unto itself. Colorado milk production stays within the state for processing. Only on rare circumstances has Colorado milk moved to Utah but only to fill Utah's deficit market and at great transportation costs. Over the last 22-years relatively little raw milk has entered Colorado for processing and what has come into the state has been for serving the surplus needs for those states where the milk was sourced. DFA has had milk that is surplus in Idaho that has traveled to Colorado for processing and/or that surplus has stair-stepped down into the Utah market. Then, at times, Utah production has been shipped to Colorado. Also, surplus, or balancing needs of DFA Southwest Area has had Kansas milk shipped to Colorado based on their needs. To a much smaller degree, DFA Central Area has as well had surplus milk shipped to Colorado for processing again based on surplus needs of that region. The summation of the Utah/Idaho, DFA Southwest, and DFA Central inbound milk to Colorado equates to the "DFA Inbound Milk to CO" below in Graph 1 and shows that this volume of inbound milk over this 22-year period has been relatively small.

**Graph 1**

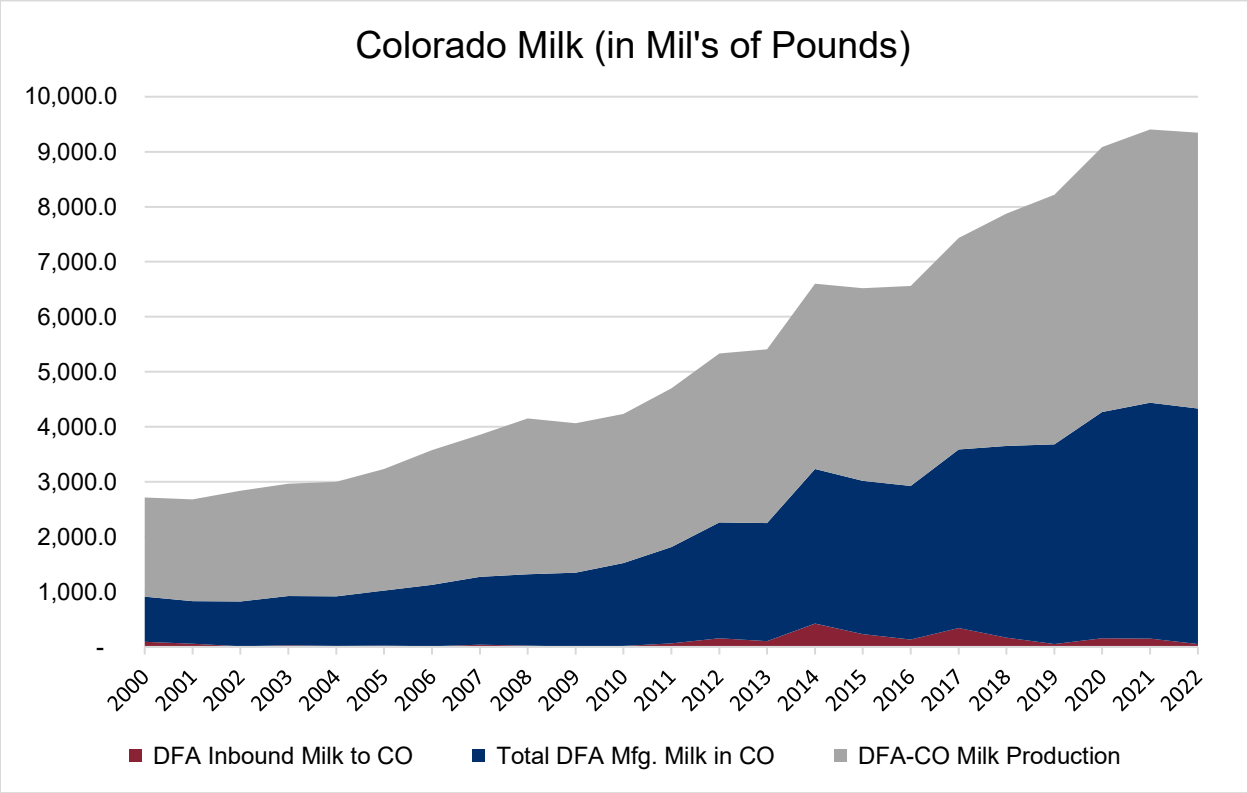



Table 2 was developed from DFA information and shows the growth in Colorado's milk production, and the volume of milk available to serve the Class I marketplace – after the value-added demands of the Colorado manufacturers were satisfied. From Table 2, you can see that over this 22-year period from 2000 to 2022, DFA's Colorado production has increased by 3.2 billion pounds/year for a 178 percent growth. Based on this factor alone, it seems that there is ample supply of milk available for the Class 1 market in Colorado and therefore the University of Wisconsin Model reflects that by lowering the Class 1 location differential for Denver by $0.05 per hundredweight. However, as can be seen in Table 2, all that production growth has been to satisfy the needs of the growth in Colorado's manufacturing milk demand – a demand that serves the entire U.S. marketplace and the global marketplace.

Our largest customer, Leprino Foods built a state-of-the-art manufacturing plant in 2011. DFA has contractual commitments to supply Leprino's milk needs in Colorado. The DFA and Leprino business relationship is a significant component of the Colorado milk market

and our business relationship and the milk marketing impacts of it are not an element that is incorporated in the University of Wisconsin Model. However, the presence of Leprino in the marketplace and of its business relationship with DFA are clear evidence of the need to adjust the University of Wisconsin Model's results to assure orderly marketing conditions in the greater Colorado marketplace.

As its raw milk supplier, DFA worked with Leprino to grow the Colorado milk market to meet its needs and worked with dairy farmers in Colorado and across the US to grow the area's milk production as Leprino's plant came on-line and then after as its manufacturing needs grew. For our Northern Colorado milkshed, DFA was intentionally attracting milk growth by either internal growth as well as attracting dairy farmers to re-locate from other states to Northern Colorado to satisfy these needs.

From Table 2, line 5 shown as "DFA-CO Production Available for Class 1" takes the Colorado milk production and subtracts all manufacturing sales. These sales include manufacturing businesses other than Leprino and includes a DFA-owned powder plant in Ft. Morgan, CO. These manufacturing businesses are also supplied raw milk for value-added demand driven sales under contractual arrangements.

The statistic shows the milk available to Class 1 plants has declined by 27 percent over that 22-year period. With the decline in the beverage demand across Colorado, as has occurred across the United States, the needs of the Class 1 market have been met by Colorado production. The growth of the milk supply in Colorado has not changed due to the change in needs of the beverage demand, but due to the change in demands of milk needs for manufacturing.

This truly represents the supply/demand needs of a market where that demand increase is coming exclusively from the manufacturing milk needs and not from changes in the beverage demand side. The University of Wisconsin Model is assuming that since there is an ample supply of local milk for the Denver Class 1 market with this significant growth in supply, that there is a need to even lower the Class 1 location differential when the

opposite is true. All the growth in the supply of milk in Northern CO is to satisfy the needs of the increased manufacturing milk demands.

DFA will continue to meet the needs of the Class 1 market and with adequate supply of milk within Colorado, DFA can continue to meet the needs of the manufacturing milk. However, if the University of Wisconsin Model results hold and there is a decrease in milk prices for both the Class 1 location differential, coupled with the decrease in milk prices from an increase in the make allowance, Colorado milk prices would go down by more than $1.00 per hundredweight. This would result in a reduction in the Colorado milk supply that would create inabilities for DFA to adequately supply Colorado Class 1 markets and the value-added demand driven manufacturing marketplace. Edward Gallagher will provide additional testimony on this aspect.

**Table 2**

| | | Billions of Pounds | | | |
|---|---|---|---|---|---|
| Line # | Description | 2000 | 2022 | Increase/ (Decrease) | % Change |
| 1 | DFA-CO Production | 1.81 | 5.02 | 3.21 | 178% |
| 2 | CO Manufacturing Plant Deliveries by DFA | 0.82 | 4.28 | 3.46 | 422% |
| 3 | Out of State Purchased Milk into CO | 0.09 | 0.05 | (0.04) | -44% |
| 4=(2-3) | Net DFA-CO Milk to Manufacturing | 0.73 | 4.23 | 3.50 | 481% |
| 5=(1-4) | DFA-CO Production Available for Class 1 | 1.08 | 0.79 | (0.29) | -27% |

**Increased Hauling Costs**

Another cost factor that has discouraged the movement of milk to/from the state of Colorado has been the high costs in recent years of hauling. To help quantify this stark increase in costs, Table 3 displays data from a recent American Transportation Research

Institute (ATRI) study (Exhibit NMPF – 53A)[2]. The results display national averages of hauling costs for motor carrier operations breaking those costs down by cost drivers for the years from 2013 to 2022.

Quoting from their report on page 9, they state *"ATRI's comprehensive analysis encompasses all these cost centers as well as other essential motor carrier operation and financial data from 2022 – allowing for more detailed insights into relationships between costs, trends over time, and fleet size- and sector-specific factors. It found that expenses rose in almost every cost center during the last year, including double-digit increases in fuel, truck and trailer payments, repairs and maintenance, and driver wages. As a result, 2022 broke the 2021 record for the costliest year to operate in the trucking industry – whether calculated with or without fuel."*

**Table 3**

| | American Transportation Research Institute | | | | |
|---|---|---|---|---|---|
| | ATRI's Costs/Loaded Mile | | | | % Inc/ |
| Year | Driver | Other | Fuel | Total | (Dec) |
| 2013 | $0.5690 | $0.4620 | $0.6450 | $1.6760 | |
| 2014 | $0.5910 | $0.5290 | $0.5830 | $1.7030 | 1.61% |
| 2015 | $0.6300 | $0.5420 | $0.4030 | $1.5750 | -7.52% |
| 2016 | $0.6780 | $0.5780 | $0.3360 | $1.5920 | 1.08% |
| 2017 | $0.7290 | $0.5940 | $0.3680 | $1.6910 | 6.22% |
| 2018 | $0.7760 | $0.6120 | $0.4330 | $1.8210 | 7.69% |
| 2019 | $0.7440 | $0.5710 | $0.3840 | $1.6990 | -6.70% |
| 2020 | $0.7370 | $0.6010 | $0.3080 | $1.6460 | -3.12% |
| 2021 | $0.8090 | $0.6290 | $0.4170 | $1.8550 | 12.70% |
| 2022 | $0.9070 | $0.7030 | $0.6410 | $2.2510 | 21.35% |

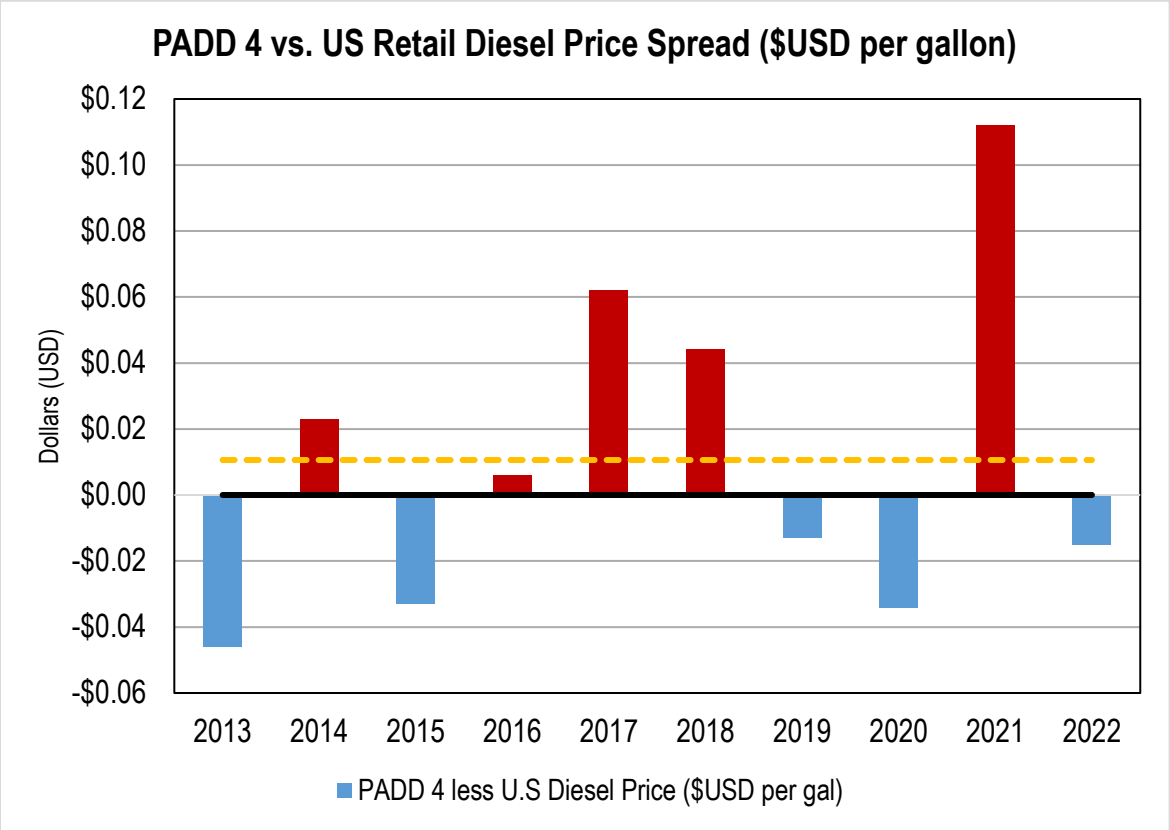
Source: ATRI's report "An Analysis of the Operational Costs of Trucking: 2023 Update" published in June 2023.

[2] American Transportation Research Institute conducted a study published in June 2023 concerning operating costs of trucking across the US which can be found at truckingresearch.org/atri-research/operational-costs-of-trucking/.

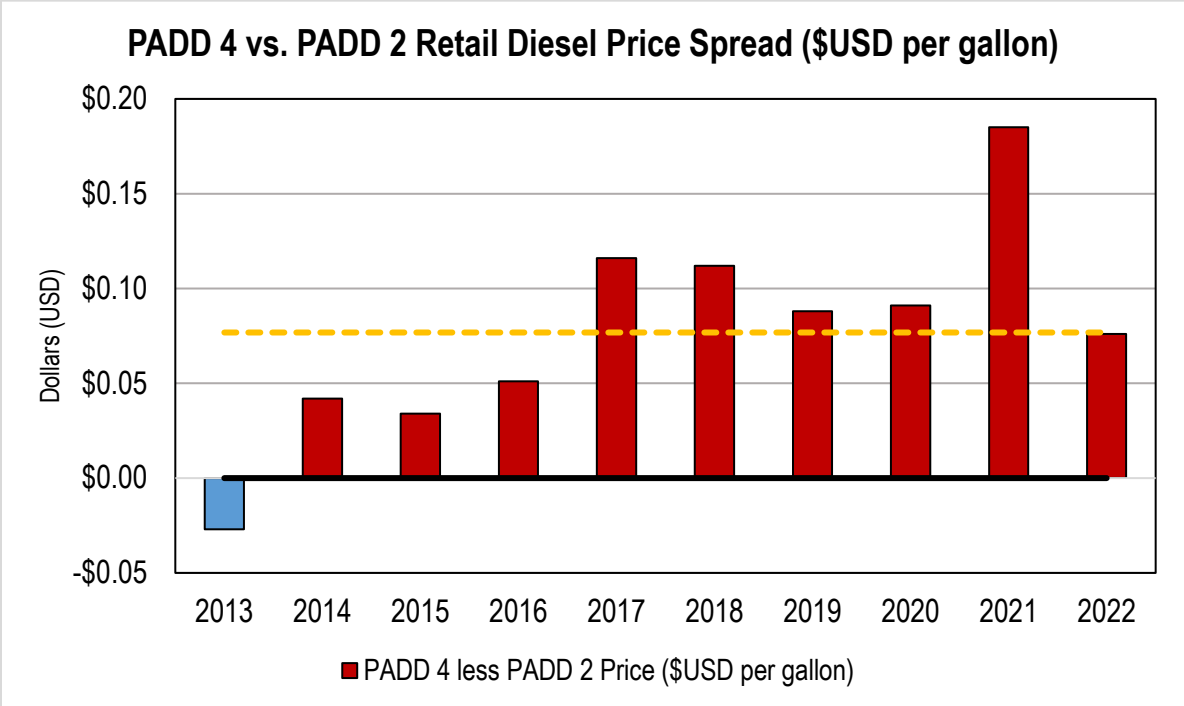
DFA Mountain Area hauls approximately 70 percent of all DFA Mountain members milk and our fleet consists of 185 tractors and 327 trailers with over 230 drivers to haul milk for our region. DFA Mountain Area's internal hauling costs has shown similar percentage increases as the ATRI's data, though DFA has experienced higher costs than these national averages for the following reasons:

1. Trailer costs are significantly higher for movement of raw milk with stainless steel food grade vessels compared against ATRI's average fleet including nearly 50 percent of trailers being 28–53-foot dry van trailers, 5 percent being refrigerated trailers, 6 percent being flatbed trailers and 16 percent being tank trailers.
2. Trailer load-bearing size has increased with capacities to haul up to 90,000 pounds of milk with quad-axle trailers.
3. Tractor costs are higher than ATRI's average tractor cost as DFA is hauling load sizes from 50,000 pounds to over 90,000 pounds of milk which requires increased horsepower, transmissions, and tri-axle power trains.
4. Driver shortages for the region has driven the driver labor costs higher over the last couple of years.
5. Per ATRI's study, fuel costs for the western portion of the United States for 2022 averaged from $0.064 to $0.105 per mile higher than the other 4 regions of the country.
6. Graph 2 below shows the US Energy Information Administration (EIA) data (eia.gov/dnav/pet/pet_pri_gnd_dcus_r40_a.htm) that breaks down average fuel costs between our region (PADD 4) and the US average. The EIA breaks down the country for the 5 regions as PADD 1 being the East Coast, PADD 2 Midwest, PADD 3 Gulf Coast, PADD 4 Rocky Mountain, and PADD 5 West Coast. From Graph 2, for the period from 2013 to 2022 you can see an average increase of over $0.01 per gallon for the PADD 4 Rocky Mountain region than the US average and an $0.11 increase for the PADD 4 during 2021 alone.
7. Graph 3 below shows the EIA data comparing the PADD 4 Rocky Mountain vs. the PADD 2 Midwest and there have been significant increases over this same period with an average of over $0.075 per gallon with a $0.19 per gallon increase just for 2021.

**Graph 2**




**Graph 3**



**Unregulated Western US Areas Location Differentials**

As shown below in Table 4, NMPF is proposing a flat $2.55 per hundredweight location differential from western South and North Dakota, throughout Montana and Wyoming, and most of Idaho and Utah. Other testimonies will offer insights as to why we feel this $2.55 per hundredweight is reasonable for this geography.

**Table 4**

| | Class 1 Location Differentials | | | | |
|---|---|---|---|---|---|
| | Current | UoW Model Version | | NMPF | NMPF |
| Region | USDA | May-21 | Oct-21 | Proposal | Vs. Current |
| Denver, CO | $2.55 | $2.50 | $2.50 | $3.30 | $0.75 |
| Cheyenne, WY | $2.45 | $2.30 | $2.40 | $3.20 | $0.75 |
| Billings, MT | $1.60 | $2.50 | $2.60 | $2.55 | $0.95 |
| Twin Falls, ID | $1.60 | $1.80 | $1.90 | $2.55 | $0.95 |
| Salt Lake City, UT | $1.90 | $2.10 | $2.20 | $2.55 | $0.65 |
| Beaver, UT | $1.60 | $2.40 | $2.60 | $2.55 | $0.95 |
| Cedar City, UT | $1.60 | $2.40 | $2.70 | $2.55 | $0.95 |
| Las Vegas, NV | $2.00 | $2.60 | $3.00 | $2.90 | $0.90 |

**Freight Cost Considerations for Class 1 Alignment Within Mountain Region**

Before analyzing the Class 1 alignment between various market areas, I wanted to provide an overview of freight cost information for packaged milk between the various market areas that will be discussed later. For this analysis, the information utilized was provided by DAT Solutions (DAT), a U.S.-based provider of transportation information and freight exchange services. Founded in 1987, and originally known as 'Dial-A-Truck', DAT began in a truck stop. There, displayed on a cork board, haulers would post their services, routes, and pricing. As the information exhibited on this physical board grew, interested transport companies and individuals began to call into the truck stop solely to ask what was posted on the board that day.

Today, DAT has around 120,000 carrier customers representing 2 million trucks, 10,000 broker customers and 13,000 shipping customers representing the largest truckload freight marketplace in North America. With more than 536 million loads and trucks posted annually, it is the trucking industry's largest on-demand network. DAT services are separated into two product segments—DAT One Freight and DAT IQ Analytics. DAT One Freight serves as a marketplace where haulers can quote loaded rates at which they are willing to provide services for specific routes and provides the ability to match buyers and sellers within the platform. DAT IQ Analytics compiles the data realized by the internal marketplace and other users, aggregates the information, and shares to subscribers seeking price realization and current trends. Currently, DFA Dairy Brands, a division within DFA consisting of regionally branded dairy products, including packaged milk, that coordinates transportation for around 68,000 trucks annually, is an active subscriber and frequently utilizes information provided by DAT.

Given DAT's wide-spread scope and well-known reputation within the hauling industry, their services provided a key input to the transportation costs within the analysis. For each of the point-to-point geographic locations discussed later, a transportation cost of a loaded truck and reefer, a heavily insulated refrigerated trailer, was calculated utilizing the average line haul rate, the base cost of reefer transportation provided by DAT. Through this, a loaded haul cost for that specific route was calculated. Applying the DAT-provided data within each specific route allowed the ability to factor in differing marketplace dynamics by location such as possibility for backhauls, regional differences in labor costs, and localized hauling competitiveness. Given the longer hauls of these scenarios, the DAT data provided a better account of the actual transportation costs than any internal information accessible given the transportation of packaged milk remains more local in nature.

**Table 5**

**Breakdown of DAT Reefer Transportation Costs**

| Period | Origin City | State | Desti-nation City | State | Miles | DAT Average Contract Line Haul Rate ($/mile) | Reefer Haul Cost Per Load | Reefer Transport Milk Volume Weight (cwts) | Reefer Transport Cost ($/cwt) | Percent Increase 2022 Verses 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2020 | Salt Lake | UT | Denver | CO | 530 | $2.57 | $1,362.10 | 408.6 | $3.33 | |
| 2022 | Salt Lake | UT | Denver | CO | 530 | $3.22 | $1,706.60 | 408.6 | $4.18 | 25.3% |
| 2020 | Billings | MT | Denver | CO | 560 | $2.21 | $1,237.60 | 408.6 | $3.03 | |
| 2022 | Billings | MT | Denver | CO | 560 | $2.35 | $1,316.00 | 408.6 | $3.22 | 6.3% |
| 2020 | Twin Falls | ID | Denver | CO | 700 | $2.49 | $1,743.00 | 408.6 | $4.27 | |
| 2022 | Twin Falls | ID | Denver | CO | 700 | $3.26 | $2,282.00 | 408.6 | $5.58 | 30.9% |

In Table 5, “Breakdown of DAT Reefer Transportation Costs”, the city, state, origin city and destination city are listed. Following the locations, the approximate number of miles between the two are included. The DAT average contract rate is represented on a per mile basis for each specific route for the given yearly average (calendar year 2020 and calendar year 2022). The reefer haul cost per load was then applied to the typical weight of packaged milk that a standard reefer trailer would haul. Given the length of miles between our selected scenarios, it was assumed that the entire load would be gallons. Typically, a reefer trailer can fit around 216 gallons on 22 pallets equating to 40,860 pounds of packaged milk. Therefore, 408.6 hundredweights were divided by the aggregate reefer haul cost to calculate a quotient representing transportation costs on a per hundredweight basis for each scenario.

**Wyoming**

The $2.55 per hundredweight location differential throughout most of Wyoming are more of cosmetic than economic significance as there are no milk plants in the Wyoming counties proposed to be in the $2.55 per hundredweight area. Additionally, the milk plants in Idaho and Utah are not regulated under a Federal Order, DFA Mountain does invoice the Class 1 plants in the un-regulated areas using the same location differentials as administered by USDA. The two pockets of milk production in Wyoming are in the north-central part of the state and that milk feeds into the southern Montana Class 1 plants and the south-eastern part of the state that feeds into Ft. Morgan and Greeley manufacturing plants and for this reason the NMPF proposal follows where this milk is marketed.

**Utah/Nevada**

Las Vegas, NV in Clark County NV, is proposed to be $2.90 per hundredweight, up from its current level of $2.00 per hundredweight. The University of Wisconsin Model determined a value of $2.60 per hundredweight for the May analysis and $3.00 per hundredweight for the October analysis. We believe the $2.90 per hundredweight value is more in line with the costs of serving the Las Vegas market as its population has exploded from 484,000 in 2000 to almost 2.9 million people, today – a 600 percent increase. Milk production in Utah (1.7 billion pounds) and Nevada (0.5 billion pounds) was 2.2 billion pounds in 2000 has more modestly grown to 3.0 billion pounds by 2022 (Utah 2.2 billion pounds and Nevada 0.8 billion pounds).

The current differential in Cedar City, UT, where DFA operates a Class I plant, is $0.40 per hundredweight less than Las Vegas at $1.60 per hundredweight. The NMPF proposal of $2.55 per hundredweight for Iron County, the county of Cedar City, is in line with the current price difference between Cedar City and Las Vegas and is in line with the University of Wisconsin Model's results of $2.40 per hundredweight (May) and $2.70 per hundredweight (October). Similarly, Beaver County, UT, where DFA operates a cheese and condensed skim milk plant and the University of Wisconsin Model results for Beaver are $2.40 per hundredweight (May) and $2.60 per hundredweight (October) and fit in line with the $2.55 per hundredweight value and maintains the same price as Iron County, UT and a similar difference as exists relative to Clark County, NV. These

two Utah counties anchor the western edge of the NMPF $2.55 per hundredweight zone. Keeping similar relationship in zone differentials for this geography helps to not disrupt this region's market conditions.

The remaining counties of significance in Utah with milk processing activity are those counties in and around Salt Lake City. The University of Wisconsin Model's results for Salt Lake County ($2.10 per hundredweight in May and $2.20 per hundredweight in October), do not make sense to us as they are lower than the University of Wisconsin Model results for Iron and Beaver counties. Presently, the differential at Salt Lake is at $1.90 per hundredweight which is $0.30 per hundredweight higher than the southwestern UT counties. The population of the Salt Lake City metropolitan area grew from just under 1 million people in 2000 (968,858) to over 1.2 million today (1,203,000) – an increase of 24 percent. This represents about 36 percent of Utah's 3,380,803 population. Milk production in Utah north of Salt Lake continues to decline with urban encroachment and even south of Salt Lake continues to move further south into central and southern Utah. The more modest growth in Utah's population and our desire to have a flat pricing surface within the state of Utah, are reasons for our proposed $2.55 per hundredweight price differential for the greater Salt Lake region.

**Class I Alignment Between Salt Lake and Denver**

The price difference between Salt Lake City, UT and Denver, CO will widen with the NMPF proposal. NMPF is proposing Denver's differential to increase from $2.55 per hundredweight to $3.30 per hundredweight to keep its price in line with the differential in the Kansas City, MO area. This increases the differential difference from the two locations from $0.65 per hundredweight to $0.75 per hundredweight. The shortest distance drive from Salt Lake to Denver is about 520 miles but is through mountainous regions that are estimated to take 8 hours and 25 minutes. The shortest duration drive might shave about an hour off the trip but adds about 20 miles as the route loops around the mountains through Wyoming on Interstate 80 and takes 287 south from Laramie, WY to Ft Collins, CO and then taking Interstate 25 south into Denver. NMPF believes that the higher cost of moving packaged milk from Salt Lake City to the Denver market which has increased 25 percent in two years from 2020 to 2022 and at the cost

for 2022 of $4.18 per hundredweight (Table 5) makes the location differentials reasonable based on the proposed rates.

**Class I Alignment with Montana and Denver**

The price difference between Montana and Denver, CO will narrow with the NMPF proposal. NMPF is proposing Denver's differential to increase from $2.55 per hundredweight to $3.30 per hundredweight to keep its price in line with the differential in the Kansas City, MO area. This increases the differential from the two locations from $0.65 per hundredweight to $0.75 per hundredweight. The distance from the closest plant in Montana, in Billings, is about 550 miles to Denver. NMPF believes that the higher cost of moving packaged milk from Billings to the Denver market which has increased 6.3 percent in two years from 2020 to 2022 and at the cost for 2022 of $3.22 per hundredweight (Table 5) makes the location differentials reasonable based on the proposed rates.

**Class I Alignment with Southern ID and Denver**

The price difference between Twin Falls, ID and Denver, CO will narrow with the NMPF proposal. NMPF is proposing Denver's differential to increase from $2.55 per hundredweight to $3.30 per hundredweight to keep its price in line with the differential in the Kansas City, MO area. This decreases the differential from the two locations from $0.95 per hundredweight to $0.75 per hundredweight. The distance from the Twin Falls, ID area to Denver is about 650 miles. NMPF believes that the higher cost of moving packaged milk from Twin Falls to the Denver market which has increased 30.9 percent in two years from 2020 to 2022 and at the cost for 2022 of $5.58 per hundredweight (Table 5) makes the location differentials reasonable based on the proposed rates.

**Conclusion**

I would like to thank USDA for allowing me to provide my testimony concerning this important matter. I am here in support of Proposal 19, to re-align the Class 1 and producer location differentials across the United States. I have specifically focused my attention on the pricing surface in Colorado, Utah, Idaho, Southern Nevada, Montana, and Wyoming. I have focused my testimony on the importance and necessity of the

proposed pricing surface in Colorado and want to stress that the adherence to the University of Wisconsin Model would bring devasting effects to the Colorado producers who are experiencing higher input costs than their counterparts in adjoining states and that coupled with the University of Wisconsin Model's effect of over a $1.00 per hundredweight reduction in their milk check.

This could be the beginning of a decline in the producer base that can and would affect DFA's ability to fulfil the Class 1 demands within Colorado. We feel that the University of Wisconsin Model is not considering where this growth of milk in Colorado that has purposefully grown to fill the contractual needs of the manufacturing milk in Northern Colorado and the facts are that DFA presently has less milk available for Class 1 in 2022 then 2000 and the University of Wisconsin Model is not taking this into consideration. Working with DFA and NMPF, we have proposed higher values than the University of Wisconsin Model's output for the greater Colorado region as well as the broader western United States and would appreciate USDA's consideration to accept Proposal 19. Thank you for your time in this matter.