Select Milk Producers, Inc.

Testimony of Cheslie Stehouwer

In Support of Proposal 11

1. Introduction

My name is Cheslie Stehouwer. I am the Director of Sales and Marketing for Continental Dairy Facilities, LLC ("CDF") and Continental Dairy Facilities Southwest, LLC ("CDF Southwest"). CDF operates a butter-powder plant in Coopersville, Michigan. CDF Southwest operates a similarly constructed butter-powder plant in Littlefield, Texas. Both CDF and CDF Southwest are wholly owned subsidiaries of Select Milk Producers, Inc.

I was hired by CDF in 2011 as an administrative assistant. My duties then included working on projects related to the construction of the CDF plant, information technology, and company policies and procedures. As the plant was commissioned, my role expanded into monitoring and coordinating milk receiving, overseeing milk balancing, and product sales.

When the design and construction of CDF Southwest began in 2015, I was added to that team to plan for its commissioning and to manage product sales. In my current role with CDF and CDF Southwest, I am responsible for sales contracts of all bulk commodities, retail manufacturing agreements, and hedging. My oversight includes information technology and milk balancing. In addition, I work closely with our President and General Manager, Steve Cooper, on all aspects of product manufacturing. My job responsibilities also require me to work with our accounting, finance, and receiving teams to coordinate operations and analyze related performance and financial data.

In overseeing milk balancing, I receive daily reconciliation reports from my direct reports at CDF and CDF Southwest. Those reconciliation reports provide information on milk received from all suppliers, their weights and tests, and highlight any particular areas of attention. I then provide guidance and feedback to our receiving teams where appropriate to address problem areas.

2. Scope of Testimony

I was asked by Chris Allen, Select's Director of Industry Relations and Analytics, to analyze the farm weights and plant weights for milk received at our Michigan Plant (CDF) and our Texas plant (CDF Southwest) and assess the extent of farm-to-plant losses. I was asked to analyze this data to provide relevant information about the differences between farm weights and plant weights.

This data and analysis was performed by me, in conjunction with Chris Allen and additional CDF staff. These analyses were prepared for the purpose of supporting Select's proposal to change the yield factors used in the minimum price formulas. All the underlying data is regularly collected and maintained by CDF and CDF Southwest as part of our regular operations. I am aware of the purpose of Select's proposal and that if adopted, it will impact the minimum prices paid to our members. But I am not an expert on federal order language and price formulas. The scope of my testimony is limited to describing the data and analysis performed by me or under my supervision to support Proposal 11.

For my analysis, I generated reports from our existing systems that produced the following data: the originating supplier, the date and time of delivery, the hauler, the ticket number, the slip weight (or farm weight) and the scale weight (or plant weight). The reports were generated for both plants for the period of August 1, 2022 through July 31, 2023.

For the observed period, this encompassed deliveries from fifteen different suppliers. For the Michigan plant, there was a total of 16,396 distinct deliveries. Of this total, 8,907 (58.3%) were from Select. The remainder were from other cooperatives and plants. For each supplier, I then examined the differences between farm and plant weights. As would be expected, for any individual load, the farm weight might be higher or lower than the plant weight. But data on an individual basis is of little meaning when determining the overall loss of milk for the plant.

To determine the aggregate farm-plant-losses, I aggregated the total differences of each load for each supplier, arriving at a net difference between the farm and plant weights. Those results are reported in the table below. Negative net discrepancies reflect a lower plant weight than farm weight. Positive net discrepancies represent a higher plant weight than farm weight:

Account	**Percent of Deliveries**	**Net Discrepancy**
Select Milk Producers, Inc.	58.3%	-0.20%
Cooperative A	22.4%	-0.05%
Cooperative B	8.5%	-0.14%
Cooperative C	4.1%	-0.16%
Cooperative D	1.7%	-0.32%
Cooperative E	2.3%	-0.23%
Cooperative F	1.1%	-0.32%
Cooperative G	0.8%	-0.23%
Plant 1	0.2%	0.67%
Plant 2	0.2%	0.18%
Plant 3	0.1%	0.13%
Plant 4	0.1%	0.08%
Totals	**100%**	**-0.15%**

You will see that the overall net discrepancy was -0.15%. Looking at only the loads from Select Milk Producers, the net discrepancy was -0.20%, slightly greater than the overall discrepancy. All of the cooperatives listed, other than Select, include shipments of milk from multiple pickup routes.

I performed the same analysis for the Texas plant over the same period. There was a total of 27,792 deliveries. The deliveries to this account come from a much smaller set of suppliers.

Accordingly, I am not reporting the data by supplier. In total, the aggregate net discrepancy across all deliveries was -0.10%.

The discrepancies of -0.15% for Michigan and -0.10% for Texas are weight discrepancies only. Neither CDF nor CDF Southwest regularly analyzes farm-to-plant losses on a solids basis. We do, however, measure the components of our silos and compare them with the aggregate component levels of our farm tests. Those two measurements are consistently in line with one another. Accordingly, it appears from our internal data that losses of milk solids occur across all components equally. We do not realize losses of butterfat at a rate greater than the overall loss of milk solids.

3. Reasons For Plant Discrepancies

In addition to reviewing our actual plant data for the volume of milk lost in farm-to-plant transit, I was asked to offer my opinions as to why discrepancies between farm weights and plant weights occur, other than the actual loss of milk. All plant weights are scaled weights. Assuming that the farm weight is also a scaled weight, there are four principal reasons why the weights would be different.

a. Scale Calibration:

The scales at CDF and CDF Southwest are regularly calibrated and certified. The same is true for most milk manufacturing plants. While most farm scales are also properly calibrated, some are not. Even with those that are well-calibrated, problems will occur. Where there is a substantial discrepancy, there is a strong likelihood that an investigation will uncover a scale calibration issue.

b. Hauler Errors:

Much of the logistics process, including weighing and testing, is being digitized. Within Select, new software has resulted in most farm shipments being manifested electronically, with data shared in real-time among farms, cooperatives, haulers, and plants. Other cooperatives and plants use similar software and hardware systems to some extent. This movement to electronic records and data has improved timeliness and accuracy. However, the adoption of this technology is still ongoing. A significant portion of the milk received at CDF and CDFSW remains tracked on paper logs or manually entered by haulers. Investigations into weight discrepancies often find that numbers have been transposed, entries were simply mistyped, or weights are off by an even thousand (or ten thousand) pounds due to manual entry errors. Hauler errors of this type are the second most common issue.

c. Drop Yards and Equipment Changes:

CDF Southwest utilizes a drop yard and yard dogs to help optimize milk deliveries and minimize demurrage costs. When we noticed an unusually high number of loads with high weight variances, an investigation revealed that some tankers were scaling in using a semi-tractor and scaling out using either a different semi-tractor or a yard dog. In addition, where a drop yard is used, different drivers in the equipment at scale in and scale out will also affect weights. Even in the same equipment, it is not difficult to imagine two different drivers having a weight difference of 100 pounds or more. Importantly, we have taken corrective action to minimize these occurrences.

d. Snow:

While the drop yard discrepancies were isolated to CDF Southwest, the CDF plant in Michigan has its own unique discrepancy trigger—snow and ice. In cold months, tankers, trucks,

and scales covered in snow and ice can add hundreds of pounds to a scale weight. A cubic foot of snow weighs up to 20 pounds, and a standard milk tanker has a footprint of over 300 square feet. So, a single inch of snow on a tanker could weigh as much as 500 pounds. When you consider that many of the deliveries in Michigan are made with 100,000 pound supertankers, the potential for snow and ice weight increases as well. We have observed higher than usual negative weight discrepancies during the winter months, which we have determined are attributable to frozen precipitation.

4. Conclusions To Be Drawn

a. As actually measured and observed by CDF and CDFSW, the difference between farm weights and plant weights is less than 0.2% of total solids.

b. Despite their different geographies, CDF and CDF Southwest show similar farm-to-plant shrink numbers.

c. Within the universe of deliveries to CDF, the net discrepancy for single farm shipments of Select farms of -0.20% is very close to, and slightly higher than, the plant average of -0.15%. Given that many of the non-Select shipments received by CDF come from multiple farm loads, the necessary conclusion is that management for farm-to-plant shrink is not unique to Select specifically or larger farms generally.

d. CDF and CDF Southwest have identified areas that are likely to contribute to farm and plant weight variances. Those variances are neither inherent nor unaddressable. Instead, significant farm-to-plant “losses” are often the result of practices and circumstances that can be addressed and do not represent actual milk losses at all.

Thank you for the opportunity to testify today.