

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

DOCKET NO.: 23-J-0067; AMS-DA-23-0031

Before the Honorable Jill Clifton, Judge

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Zionsville, Indiana

December 8, 2023

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Reported by:

MYRA A. PISH, RPR, C.S.R. Certificate No. 11613

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_4	Steve Rosenbaum
_3	FOR INTERNATIONAL DAIRY FOODS ASSOCIATION:
.2	Ryan Miltner
.1	FOR SELECT MILK PRODUCERS, INC.:
0	Brad Prowant
9	Nicole Hancock
8	FOR THE NATIONAL MILK PRODUCERS FEDERATION:
7	Charles "Chip" English Ashley Vulin
6	FOR THE MILK INNOVATION GROUP:
5	Michelle McMurtray
4	Todd Wilson Brian Hill
3	Erin Taylor
2	FOR THE USDA ORDER FORMULATION AND ENFORCEMENT DIVISION, USDA-AMS DAIRY PROGRAM:
1	APPEARANCES:

	NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING	
1	MASTER INDEX	
2	SESSIONS	
3	FRIDAY, DECEMBER 8, 2023 PAGE	
4	MORNING SESSION10,262AFTERNOON SESSION10,390	
5	AFTERNOON SESSION 10,390	
6	000	
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		



NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

1	MASTER INDEX		
2	WITNESSES IN CHRONOLOGICAL ORI	DER	
3	WITNESSES:	PAGE	
4	Tim Galloway:		
5	Direct Examination by Mr. Rosenbaum		
6	Cross-Examination by Ms. Taylor	10,269	
7	Mike Brown:	10.075	
8	Direct Examination by Mr. Rosenbaum Cross-Examination by Ms. Hancock	10,275 10,314	
9	Cross-Examination by Mr. English Redirect Examination by Mr. Rosenbaum	10,352 10,356	
10	Cross-Examination by Ms. Taylor Cross-Examination by Mr. Vandenheuvel		
11	Redirect Examination by Mr. Rosenbaum	10,396	
12	Sally Keefe:	10 400	
13	Direct Examination by Ms. Vulin	10,402	
14	000		
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
	TALTY COURT REPORTERS, INC taltys.com - 408.244.1900		102

	NATIONAL F	EDERAL MILK MARKETING OR	DER PRICING FORMULA	HEARING
1		MASTE	RINDEX	
2		INDEX O	F EXHIBITS	
3	IN CHRC	NOLOGICAL ORDER:		
4	NO.	DESCRIPTION	I.D.	EVD.
5	439	IDFA-63	10,262	10,273
б	433	IDFA-57	10,274	10,398
7	434	IDFA-58	10,274	10,399
8	423	IDFA-59		10,399
9	423A	IDFA-59A		10,399
10	440	MIG-64	10,400	
11	441	MIG-64A	10,400	
12	442	MIG-64B	10,400	
13	443	MIG-64C	10,401	
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TRANSCRIPT OF PROCEEDINGS December 08, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 FRIDAY, DECEMBER 8, 2023 -- MORNING SESSION 2 THE COURT: Let's go back on record. We're back on record. It's 2023, December 8. 3 Ιt 4 is Friday. It is Day 43 of this hearing. Are there any preliminary matters before we 5 continue with where we -- with what we described 6 7 yesterday? 8 There are none. 9 Mr. Rosenbaum. 10 MR. ROSENBAUM: Steve Rosenbaum for the International Dairy Foods Association. 11 12 We would call as our next witness, Mr. Tim 13 Galloway. 14 Your Honor, I have distributed copies of 15 Mr. Galloway's written testimony to the parties and the 16 government. Let me grab an extra copy for Your Honor. 17 THE COURT: Thank you so much. Is this going to 18 be Exhibit 439? I'm looking at Exhibit 439, also shown as TDFA Exhibit 63. 19 20 (Thereafter, Exhibit Number 439 was marked 21 for identification.) 22 THE COURT: I'd like the witness, please, to state 23 and spell your name. 24 THE WITNESS: Tim Galloway, G-A-L-L-O-W-A-Y. 25 THE COURT: Very good. You have a robust voice, 26 and so even though you are not close to the microphone, I 27 think we're good. 28 THE WITNESS: Okay.



1 THE COURT: We may need just a little more volume 2 or you could scoot a little closer, if you would like. 3 THE WITNESS: Okay. Sure. THE COURT: That's good. That will do. All 4 5 right. 6 Have you previously testified in this proceeding? 7 THE WITNESS: Not in this proceeding. THE COURT: I'd like to swear you in. 8 9 TIM GALLOWAY, 10 Being first duly sworn, was examined and testified as follows: 11 DIRECT EXAMINATION 12 13 BY MR. ROSENBAUM: 14 Good morning, Mr. Galloway. Ο. 15 Before you is Hearing Exhibit 439, which is also 16 TDFA Exhibit 63. 17 Is this a copy of your written testimony today? 18 It is, but I think I have a different copy in Α. 19 front of me than what you have. 20 THE COURT: And let's go off record for just a 21 moment. We're off record at 8:04. 2.2 (An off-the-record discussion took place.) 23 THE COURT: Let's go back on record. 24 We're back on record at 8:04. 25 MR. ROSENBAUM: This is Steve Rosenbaum for the 26 International Dairy Foods Association. 27 BY MR. ROSENBAUM: 28 Do you now have before you the document that has 0.

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING



been marked as IDFA Exhibit 63, which is also Hearing Exhibit 439?

- Yes, I have. 3 Α.
- And is that your written testimony today? 4 0.
 - It is. Α.

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0. Could you please read it into the record?

Α. Thank you.

This is my testimony in opposition to Proposal 21, increasing the Class II differential.

10 Good morning. My name is Tim Galloway. I'm CEO of Galloway Company, a four-generation processor of 11 12 concentrated dairy ingredients for further food and 13 beverage manufacturing. We are located in Neenah, 14 Wisconsin.

15 The milk in our products are regulated by Federal 16 Order 30. Galloway Company and our wholly-owned 17 subsidiary, Classic Mix Partners, only manufactures 18 industrial ingredients that are considered Class II items 19 by the Federal Milk Marketing Order. Specifically, we 20 make sweetened condensed milk, ice cream mixes, beverage 21 bases, and non-sweetened concentrated dairy products. We 22 primarily use local milk, but in some months we have to 23 use some additional cream for condensed skim milk. We 24 make no retail items, and our ingredients are sold 25 nationwide.

26 I have testified at every FMMO hearing since 1990. 27 At times, it seems like the hearings are similar to the 28 movie Groundhog Day, as the same supposed issues and



1 solutions come up each time. A good example is the Farm
2 Bureau Class II differential proposal. I'm not here to
3 debate their economic analysis, I'm here to explain why,
4 as a real-world processor of Class II items, their
5 proposal will not attract more milk to Class II uses,
6 increase the blend price, reduce depooling and negative
7 PPDs.

8 In fact, it has the likelihood of taking more Class II milk out of the pool, replaced by regulated 9 10 Class IV ingredients or milk ingredients from unregulated 11 In Federal Order 30, milk purchases have to be areas. 12 competitive to the dominant Class III market, and on the 13 sales side, we have to be competitive to competing 14 ingredients such as condensed skim milk, nonfat dry milk, 15 concentrated milk fat, and anhydrous milk fat.

16 There is no financial justification for the 17 rewetting of solids theory. Let me give you just two 18 examples from the real world of manufacturing food and 19 beverage products. The first is ice cream mix. Some 20 manufacturers, like our Classic Mix, think the flavor and 21 functionality of the ice cream is better if made with 22 liquid dairy components. But as was abundantly clear when 23 the Class II price was tied to the Class III cheese price 24 back in the 1990s, many retail and ice cream mix 25 manufacturers switched to dry dairy solids and anhydrous 26 milk fat due to the vast discrepancy in price between 27 Class III and Class II.

28

To make ice cream, you need to combine a number of



ingredients, both liquid and dry, hydrate to the proper total solids, and pasteurize. No rewetting needs to be done as the corn sweetener and the liquid sugar are at high enough temperature to fully hydrate the dry milk solids.

6 To make the point even finer, we do not, in the 7 industry, take nonfat dry milk and make tanks of condensed 8 skim milk out of it, we just put it in the vat and make 9 the product. Therefore, if the Class II ingredient 10 differential gets more expensive in the proponent's scheme 11 of more than doubling the differential than it gives an 12 incentive to use Class IV ingredients.

13 The customer makes the ultimate decision on cost. 14 The implication that there would be more Class II milk at 15 a higher differential is speculative and I think 16 counterproductive -- and may be counterproductive. The 17 FMMO would be creating ingredients manufactured --18 manufacturers, winners and losers, and promote disorderly 19 marketing.

The same can be said for sweetened condensed milk as an ingredient for further food manufacturing. This is an industrial product used in unregulated food products, unlike retail yogurt, cottage cheese, frozen ice cream, and other Class II retail products.

As I testified in the 2006 hearing, in 2005, the sweetened condensed milk industry for industrial use had lost over 65 million pounds of production over the prior ten years. At an average of 28% total milk solids, that



1 equates to 54 million pounds of milk not going into 2 Class II, but instead, going into Class IV. Our 3 competitors' sweetened uncondensed milk is butter powder, 4 it's not other manufacturers'.

5 We finally got this right at the 2006 hearing, 6 even if the differential jumped from \$0.30 to \$0.70 a 7 hundredweight. Our customers didn't like the increase, 8 but have stuck with us to date. I don't think they will 9 at \$1.56 on raw milk, particularly when that equates to 10 \$2.58 of finished sweetened condensed milk.

11 THE COURT: And that's \$1.56 per hundredweight, 12 and when you say it equates to \$2.58, that's also per 13 hundredweight?

14

THE WITNESS: That is correct, ma'am.

As testified at the last hearing, when a food manufacturer makes the decision to put processing equipment in place to blend and hydrate butter and powder, they don't switch back and forth with liquid ingredients. The capital investment has now some cost that needs to be amortized over time. Again, it is the FMMO that is causing the disorderly marketing.

22 Regulations of the FMMO should not result in 23 arbitrary or capricious results, but let me give you two 24 examples. One, the end user or retail manufacturer should 25 be able to select the best ingredients for their product. 26 The FMMO should not decide what that ingredient is based 27 on arbitrary pricing mechanism.

28

To the point of being capricious, I can state that



due to capacity restraints in the sweetened condensed milk
 industry, Galloway Company, two years ago, decided to
 build the first sweetened condensed milk evaporator since
 1998.

5 6

7

THE COURT: Say --

THE WITNESS: Or '88.

THE COURT: Read the year again.

8 THE WITNESS: 1988, which was also built by 9 Galloway Company. We did the design work, purchased the 10 equipment, purchased the concrete panels, and on 11 August 22nd of 2023, had the groundbreaking ceremony for 12 that \$65 million expansion. If the proponents' plan 13 prevails, all this effort and expense may be for naught.

What is the benefit to the producer and the pool? The proponents state it is the upcharge from \$0.70 a hundredweight to \$1.56 a hundredweight, for an increase of \$122 million to the pool. I contend it is just the opposite, where the current \$0.70 a hundredweight differential equating to \$99.4 million may be lost to Class IV sales. Be very careful what you wish for.

21 MR. ROSENBAUM: Your Honor, Mr. Galloway is
22 available for cross-examination.

23 THE COURT: Who first has cross-examination for 24 Mr. Galloway?

I see no one. I invite questions from theAgricultural Marketing Service.

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NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

2 BY MS. TAYLOR:

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CROSS-EXAMINATION

- BI MS. IAILOR:
- Q. Good morning.
 - A. Good morning.

Q. Thank you for being here today.

A. Thank you.

Q. I appreciate your testimony on Proposal 21. I
just want to make sure I kind of recapture the main
message you're telling us.

10 The first is, in your real-world examples, as I 11 read it, you don't need -- the rewetting theory, as you 12 called it in the Farm Bureau proposal, isn't reflective of 13 what happens today because you don't actually need to 14 rewet the solids as -- because the process of how you 15 manufacture your product, that's not a necessary step; is 16 that correct?

17 Α. I am a little uncertain as to what the term 18 "rewetting" means. We hydrate dried dairy ingredients all 19 the time, and dry stabilizers and emulsifiers and other 20 items that go into ice cream mix. If rewetting means 21 taking nonfat dry milk and making a tank of condensed skim 22 milk to be used in the process, that's not done. It would 23 be -- make no economic sense at all because you already 24 have the hot corn syrup or hot liquid sugar. You have to pasteurize the ice cream mix and the sweetened condensed 25 26 milk anyway, so you are getting it up to temperatures 27 where that, if you are using nonfat dry milk, we just put 28 it in the vat.



Q. On the top of page 3, that last full sentence, at
 the very top of the page you say, "The Federal Orders
 would create ingredient manufacturer winners and losers
 and promote disorderly marketing."

5 I wondered, can you just expand on why you think 6 this would promote disorderly marketing and how you would 7 define disorderly marketing?

8 Α. We have local milk available to us. It needs to 9 be used. And the farmers need the processors in their 10 area to be able to most efficiently market their milk. Τf you -- if your regulated pricing forces people to use 11 12 nonfat dry milk because of cost or anhydrous milk fat, 13 those aren't necessarily made in the area in which you are 14 located, so now you are bringing in product across the 15 country potentially.

There are many fewer manufacturers of nonfat dry milk at scale than there are ice cream mix manufacturers. So that, to me, is disorderly marketing, because you are moving dry ingredients or concentrated butterfat over tremendous distances when it can be used right from local milk in your own market.

Q. And for your company, how close is your milksupply to you?

A. The majority is within 100 miles. It's from theUpper Peninsula of Michigan down to Central Wisconsin.

Q. Okay. You talk in the beginning about -- and you just mentioned -- instead of using Class II milk, you -manufactures will switch to powder because it be cheaper.



NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

You also mentioned you might get milk ingredients
 from unregulated markets.

Can you just talk a little bit about that situation?

- A. Idaho.
- 5 6

3

4

Q. Idaho?

7 Α. They have an awful lot of milk out there. Tt's unregulated. We -- they have called on us numerous times 8 9 to use their solids. We prefer to get it from local 10 sources. But if -- if we get into a competitive situation 11 where our competitors, particularly in ice cream mix, are 12 using all dry ingredients, we may have to go there as 13 well, because the price differential is that great.

Q. Okay. And you talk about your main competitor forsweetened condensed milk, at least, is butter powder.

16 A. We have another manufacturer who is a competitor, 17 and a good competitor. But we have to be more concerned 18 about butter powder as being put right into the caramel, 19 right into the syrup, whatever the sweetened and 20 condensed -- the pie.

And as I stated that once the manufacturer makes the investment to use dry ingredients, they are not going to switch back to sweetened condensed milk, they are not going to have two separate processes.

The largest -- I would state that the largest user of sweetened condensed milk up through the mid-'90s did switch to butter powder, and they haven't bought -- they buy a little sweetened condensed milk at one factory, but



1	they have got ten of them.
2	Q. Okay.
3	THE COURT: They have got ten of what?
4	THE WITNESS: Factories making candy.
5	BY MS. TAYLOR:
6	Q. In your last paragraph of your statement you say,
7	"The current differential" if you increased the
8	differential as proposed in 21, it would equate to
9	99.4 million lost to Class IV sales.
10	Just, can you explain how you comprised that
11	number?
12	A. I took the \$0.70 hundredweight differential and
13	multiplied it by the pounds of Class II milk that was used
14	in the Federal Milk Marketing Orders. That isn't
15	necessarily all the milk, because obviously some might
16	have been depooled and not reported. So it was just
17	strictly a calculation of the Class II milk utilization
18	that is reported.
19	Q. Okay. All Class II milk?
20	A. Yes.
21	Q. For 2022?
22	A. I believe those are the numbers I was using, yes.
23	Q. Okay. That's it from AMS.
24	MS. TAYLOR: Again, thank you for coming and
25	giving us your statement.
26	THE WITNESS: Thank you.
27	THE COURT: Mr. Rosenbaum.
28	MR. ROSENBAUM: Your Honor, I don't have any



1 questions. I would simply move Hearing Exhibit 439 into 2 evidence. THE COURT: Is there any objection to the 3 admission into evidence of Exhibit 439? 4 There is none. Exhibit 439 is admitted into 5 evidence. 6 7 (Thereafter, Exhibit Number 439 was received 8 into evidence.) 9 THE COURT: Is there anything you would like to 10 add, Mr. Galloway, or emphasize? 11 THE WITNESS: You know, yesterday morning I went 12 out to the barn and petted my Class II cows, and they were 13 feeling kind of down in the dumps because they knew what 14 their butterfat or their skim solids price was for the 15 month, but they don't know what their fat is. And they're sitting next to their Class I sisters who know both their 16 17 fat and solids before the month starts. But I told them 18 that, you know what, it could be worse, you could be the 19 largest utilization in the entire dairy industry in 20 Class III and not know anything until the month is over. 21 And then the poor Class IV cows get \$0.70 a hundredweight 22 less. So I said, you know, you are not doing too bad. 23 I -- I make that parable up because that is the 24 state of our industry, and it is -- milk is milk is milk. 25 There's absolutely no difference between Class II milk, 26 Class I, Class III. It all goes into the same bulk tank. 27

So why do we have these fictions?

THE COURT: Thank you.



28

1 Mr. Rosenbaum. 2 MR. ROSENBAUM: Nothing further, Your Honor. THE COURT: Keep coming. 3 4 THE WITNESS: That's it. MR. ROSENBAUM: Your Honor, the IDFA calls as its 5 6 next witness, Mr. Mike Brown. 7 We do have a PowerPoint presentation. THE COURT: Let's go off record while our sound 8 9 technician works with the laptop that Mr. Brown has 10 brought to the witness stand. Everyone may take a five-minute stretch break. 11 12 Let's be back ready to go at 8:30. 13 (Whereupon, a break was taken.) 14 THE COURT: Let's go back on record. 15 We're back on record at 8:32. 16 I have before me two exhibits. T have 17 Exhibit 433, which is also IDFA Exhibit 57; and I have 18 Exhibit 434, also IDFA Exhibit 58. 19 (Thereafter, Exhibit Numbers 433 and 434 were 20 marked for identification.) 21 THE COURT: I'd like the witness please to state 22 and spell your name. 23 THE WITNESS: My name is Mike Brown, M-I-K-E, 24 B-R-O-W-N. 25 THE COURT: You remain sworn. 26 THE WITNESS: Thank you. 27 11 28 11



	NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING
1	MIKE BROWN,
2	Having been previously sworn, was examined
3	and testified as follows:
4	DIRECT EXAMINATION
5	BY MR. ROSENBAUM:
б	Q. Steve Rosenbaum for the International Dairy Foods
7	Association.
8	Good morning, Mr. Brown.
9	Is IDFA Exhibit 57, which has been marked as
10	Hearing Exhibit 433, your written testimony on
11	Proposal 19?
12	A. Yes, it is.
13	Q. And is Hearing Exhibit 434 the PowerPoint
14	presentation that you are about to present that summarizes
15	that written testimony?
16	A. Yes.
17	Q. Could you please take us through your PowerPoint.
18	A. Okay. Let's let's start and I guess I can't
19	really see it here, so I hopefully it's all there.
20	Cover page, of course, is our testimony in
21	opposition to Proposal 19.
22	THE COURT: And, yes, we see it on the screen.
23	THE WITNESS: Okay. Good.
24	Proposal 19 would significantly increase Class I
25	differentials nationwide. The facts do not support an
26	increase, and the methods by which the proponents have
27	established their specific increases are internally
28	inconsistent, lack factual support, and are often based on



considerations irrelevant to setting the Class I
 differentials.

THE COURT: Now, your volume is great. Your pacing could be just a bit slower. Slower, please.

5 THE WITNESS: Thank you. We'll fix that now. 6 The current supply of milk is more than adequate 7 to serve Class I needs. Temporal fluctuations in milk 8 production and incongruity between milk production and 9 fluid milk consumption require a sufficient reserve supply 10 of milk serving non-fluid milk needs in order to ensure an 11 adequate supply of milk to serve fluid needs.

USDA has said a reserve milk supply equal to 30 to 35% of the total milk in the market appears to be a reasonable reserve requirement. This is from Milk in the New England and Other Marketing Areas; Decision on Proposed Amendments to Tentative Marketing Agreements and Orders, March -- 58 FR 12634, 12646, March 5th, 1993.

18 THE COURT: Now, I'm going to have you do that 19 again slowly, beginning with F -- with the 20 identification --

21 THE WITNESS: The identification? Okay. The 22 identification for that decision is 58 FR 12634, 12646, 23 dated March 5th, 1993.

24

THE COURT: Thank you.

THE WITNESS: Same title. Class I utilization is only 27% of FMMO milk and 20% of total milk. The reserve supply is 73% of pooled milk and 80% of total milk. This amount is more than double the 30 to 35% supply reserve



that USDA deemed to constitute a reasonable reserve. 1 2 All but three of the 11 Federal Orders have reserve supplies in excess of 35%. The exceptions are the 3 4 three Southeastern orders. Special transportation and delivery credits recently adopted -- and I would say the 5 final rule has been submitted, the adoption has not, the 6 vote has not taken place yet -- for the specific purpose 7 of encouraging the supply of Class I milk to these three 8 9 orders eliminates any need to raise the Class I differentials there. 10

Again, same title: Current milk Supply is more than adequate to serve Class I needs. The consistent decline in shipping requirements confirms the adequacy of the Class I milk supply. Since 2010, not a single Federal Milk Order has increased the percentage of pooled milk that must be shipped to Class I plants.

The requisite Class I shipping percentage was lowered, not raised, in Orders 1, 33, 30, 124, and 131. This can only be attributed to the degree to which the milk supply is increasingly more than adequate to serve Class I needs. Relatedly, "no order received any call or had any issuance of milk to be shipped to Class I plants in their order."

Fluid milk sales have undergone severe declines.BY MR. ROSENBAUM:

Q. This is now a now topic?

27 A. Yes.

THE COURT: And just tell us the page number,



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TRANSCRIPT OF PROCEEDINGS NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 Mr. Rosenbaum. 2 MR. ROSENBAUM: This is page 6, Your Honor. 3 THE COURT: Thank you. National fluid milk sales have THE WITNESS: 4 fallen over 21% from their peak of 55,165,000,000 pounds 5 in 1991 --6 7 THE COURT: Now -- now --THE WITNESS: 55 -- I'll repeat that. 8 9 THE COURT: Yes. You are in numbers, so really 10 slowly on these numbers.

11

THE WITNESS: Yes, ma'am.

12 THE COURT: So let's start from the beginning of 13 that bullet.

14 THE WITNESS: Okay. National fluid milk sales 15 have fallen over 21% from their peak of 55,165,000,000 16 pounds in 1991 to only 43,448,000,000 pounds in 2022. On 17 a per capita basis, annual consumption fell from 247 18 pounds in 1975 to 130 pounds in 2022. No national 19 retailer would materially increase the price of a product 20 undergoing such a steady substantial decline in sales, nor 21 should the government do so by mandatory edict.

22 Next topic: The retail demand for fluid milk 23 products is elastic and the proposed Class I differential 24 increases will materially harm sales. Three 2023 studies 25 by leading agricultural economists demonstrate that the 26 retail own-price demand in milk is quite elastic. The 27 emergence and strengthening of plant-based beverages and 28 other substitutes is a recent phenomenon that many earlier



1 studies did not capture.

Same topic. Dr. Capps' predicted retail sales
declines from Proposal 19's \$1.49 per hundredweight
increase in the Class I differential are startling.

5 THE COURT: Now, so that we have \$1.49, just make 6 sure that the transcript captures what you are saying 7 there.

8 THE WITNESS: Okay. I'll repeat the sentence. 9 Dr. Capps' predicted retail sales declines from 10 Proposal 19's \$1.49 per hundredweight increase in the 11 Class I differential are startling.

And these numbers are from Dr. Capps' testimony, the different categories in the declining sales: Total milk decline, 5.98%; traditional white milk is 6.28%; organic milk is 4.11%; health-enhanced milk is 5.67%; lactose-free milk, 2.75%; and traditional flavored milk, 2.4%.

Again, the retail demand for fluid milk products is elastic. The proposed Class I differential increases will materially harm sales.

21 Next points. Demand would be further compromised 22 by NMPF Proposal 1. And Proposal 1, you may all recall, 23 was changing the skim solids formulas. That was a long 24 time ago. That was August. It was about 100 degrees 25 here.

26 Recent years show Proposal 1 would increase
27 Class I prices by an additional \$0.53 per hundredweight.
28 Using Dr. Kaiser's electricity of price transmission and



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NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

Dr. Capps' own-price elasticities, this would result in an 1 2 additional 2.08% decline in total retail milk sales. Proposal 19 would significantly increase USDA food 3 4 program costs. But we --5

THE COURT: Now we're on page 10.

THE WITNESS: Yes. Page 10.

7 And we have a table. I will read through the 8 table.

9 Estimated impacts of Proposal 19 differential 10 increase on the federal government direct purchase cost for beverage milk. What this chart looks at is what the 11 12 program costs have been based on volume of milk, and we --13 what we did was we took that volume of milk, just added 14 simply the change in cost of milk, and what that might do 15 to program costs.

16 Reading across. Total gallons of milk for school 17 breakfast and lunch is 403 million; daycare and preschool 18 is 24; food banks and USDA are 38; military is 23. The 19 totals are 488. And these are for 2022, these numbers. 20 BY MR. ROSENBAUM:

21 Mr. Brown, I think we probably can not have to Ο. 22 read all the numbers in specifically. Just tell us how 23 the chart -- finish telling us how the chart was put 24 together and give us what the total numbers are, if you will. 25

Α. Okay. I'm glad to hear that.

27 The chart was put together, there is a firm, you 28 have heard of them already, Prime Consulting did a report



26

on all channel tracking. It's some of the same
 information that Dr. Capps used for when you were looking
 at use of product in different categories. It was
 published in May of '23. It was put together for the
 dairy milk promotion groups.

6 What we did is, we simply looked at the total 7 pounds of milk, and we had gallons -- of course, pounds 8 is -- 8.6 pounds per gallon -- to get a total milk used in 9 each of the different programs. We simply averaged the 10 cost of increase that Proposal 19 would incur, and that cost was \$1.49 based on National Milk's own estimates. 11 12 The total milk increase -- and this is, again, assuming 13 that you would have a transfer cost, it reflects that cost 14 change in milk -- would be 51.8 for school breakfast and 15 lunch; 3.1 --

16 THE COURT: Now -- now, these are the most 17 important numbers.

18 THE WITNESS: Yes. It's the last line on the 19 table.

THE COURT: Yes. And we want to make sure that the transcript, which won't have the table right in the transcript, computes.

23 So what you are telling us is in millions of 24 dollars, what?

25 THE WITNESS: I'm telling you how much the cost 26 for that milk would increase --

THE COURT: All right.

27

28

THE WITNESS: -- based on Proposal 19.

1	THE COURT: So when you tell me the numbers, for
2	every number you tell me, tell me in millions of dollars.
3	THE WITNESS: Yes, ma'am.
4	THE COURT: All right.
5	THE WITNESS: So total milk increased in millions
6	of dollars: For school breakfast and lunch program, it
7	would be 51.8 million; daycare and preschool, 3.1 million;
8	food banks and USDA, 4.9 million; military, 3.0 million;
9	for a total of increasing cost of purchasing beverage milk
10	of \$62.7 million per year.
11	BY MR. ROSENBAUM:
12	Q. And are these annual figures?
13	A. Yes, they are.
14	Q. And did you attach to your written testimony an
15	excerpt from the Prime Consulting report that provided the
16	channel distribution numbers upon which you relied?
17	A. Yes. The source data is in the attachment from
18	Prime Consulting.
19	Q. All right. Let's go on to the next topic, please.
20	A. Topic 4?
21	THE COURT: Now
22	THE WITNESS: Yes, ma'am.
23	THE COURT: Now, let me just make sure. So the
24	sentence below the chart reads what?
25	THE WITNESS: The sentence below the chart needs
26	corrected. The 149 increase in Class I differential
27	THE COURT: Now, again, "the 149," I want you to
28	read that
· · ·	



NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 THE WITNESS: Per hundredweight. 2 THE COURT: No, but it's \$1.49 --3 THE WITNESS: Okay. Yes. THE COURT: -- per hundredweight increase; is that 4 5 correct? 6 THE WITNESS: Yes. 7 THE COURT: So begin again. THE WITNESS: I will. 8 9 The \$1.49 per hundredweight increase in Class I 10 differentials would cost the government -- the slide says over 67 million, it should be 62.7 million. So that 67 11 12 is -- needs to be adjusted. 13 MR. ROSENBAUM: Your Honor, if we could have the 14 exhibit corrected so that that number reads 62.7 rather 15 than 67. That obviously was a typo that got left out. 16 THE COURT: All right. And do you want it to say 17 "over" or do you want it just to say "62.7 million"? 18 THE WITNESS: Just "62.7." 19 THE COURT: All right. So we'll make that 20 correction right now on the record copy of Exhibit 434, 21 also known as IDFA-58, page 10. We're striking the word 22 "over," and instead of "\$67" we will have "\$62.7" as is 23 shown in the table; is that correct? 24 THE WITNESS: Yes, it is. THE COURT: And it has been done. 25 26 THE WITNESS: Thank you. 27 BY MR. ROSENBAUM: 28 Q. Go on to the next slide, please, and I believe



1 | this is a new topic.

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A. This is a new topic.

Proposal 19 is based on unevenly applied criteria, many of which bear no relevance to Class I differentials. USDA, in order reform, set Class I differentials based on the combination of the base differential plus a location differential.

8 The base differential comprised of costs unique to 9 Class I: Cost of obtaining Grade A milk, recognition of 10 balancing costs, and portion of the competitive actual --11 excuse me -- portion of the actual competitive costs 12 incurred by fluid plants to simply compete with 13 manufacturing plants for a supply of milk.

14 The location differential reflects some of the 15 costs of moving milk from areas of production to Class I 16 processing facilities.

Again, same topic, Proposal 19 is based on unevenly applied criteria. The University of Wisconsin U.S. Dairy Sector Stimulator -- or the U.S. Simulator, excuse me, S-I-M-U-L-A-T-O-R -- USDSS study did not address the base differential, but rather it looked at location differentials by addressing, e.g., the costs of moving milk from supply areas to processing facilities.

24 Proposal 19 makes material revisions to the 25 Class I differentials calculated by the University of 26 Wisconsin model based on criteria, many of which bear no 27 relevance to Class I differentials.

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USDA used in setting Class I differentials, what



did they -- what did they do? USDA, long ago, determined 1 2 that it would set one manufacturing price per manufacturing class, which would apply uniformly across 3 the country. At the same time, the Class I differentials 4 that would be added to those manufacturing prices to set 5 the Class I price varied considerably based upon each 6 7 location's need to move milk from other areas. Blend 8 prices among orders necessarily did not align.

9 Same topic: NMPF criteria for setting 10 Proposal 19's Class I differentials. Multiple witnesses 11 have provided extensive information regarding the cost of producing milk in general. Their testimony did not relate 12 13 to any special cost of producing milk for Class I 14 purposes. These general costs have not been considered by 15 USDA in setting Class I differentials themselves, but are 16 captured through the Class III and IV price to which the Class I differential is added to set the Class I price. 17

18 A quote from USDA in 2008: "In the aggregate, the 19 costs of producing milk are reflected in the supply and 20 demand conditions for the dairy products. When the supply 21 of milk is insufficient to meet the demand for Class III and IV products" -- "the Class III and Class IV 22 23 products" -- correction -- "the prices for these products 24 increase as the regulated minimum milk price is paid to 25 dairy farmers because the milk is more valuable and its 26 greater milk value is captured in the pricing formulas." 27

Again, a quote from USDA, 2008.

THE COURT: All right. Now, you varied a tiny bit



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1 from what you have quoted here. 2 THE WITNESS: Okay. Thank you. THE COURT: So if the transcript is slightly 3 4 different in wording, it's your slide that we should rely 5 on. 6 THE WITNESS: Yes, ma'am. 7 THE COURT: It didn't change the meaning, just the words were --8 THE WITNESS: As I said them, I realized that. 9 Ι 10 apologize. 11 THE COURT: No worries. All right. And that was 12 on page 14. 13 THE WITNESS: Yes, ma'am. 14 THE COURT: All right. You may proceed. 15 THE WITNESS: Active proposal -- or comments on 16 unevenly applied criteria. 17 NMPF criteria for setting Class I Proposal 9's 18 [sic] differentials, regional competition in the sale of 19 manufactured products. Witnesses insisted that Class I 20 differentials reflect regional composition at the farm 21 level, so that California (with its low Class I 22 utilization) needed to have Class I differentials such 23 that the blend price in California was similar to the blend price in the Upper Midwest. 24 25 In other words, Class I differentials should be 26 set based upon the competitive relationship between 27 regions 1500 miles apart, with no respect to the sale of



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manufactured milk products -- oh, excuse me -- with

1 respect to the sale of manufactured milk products. 2 Would you care to have me re-read that? THE COURT: Yes, please. 3 4 THE WITNESS: Okay. THE COURT: And, again, what you are saying in 5 6 this slide on page 15 is what you believe that NMPF's 7 criteria are? THE WITNESS: That is correct. 8 9 THE COURT: And you --10 THE WITNESS: They are our views based on 11 testimony. 12 THE COURT: Yes. 13 That's correct. THE WITNESS: 14 THE COURT: And you may re-read that bullet. 15 In other words, Class I THE WITNESS: Okay. 16 differentials should be set based upon the competitive 17 relationship between regions 1500 miles apart -- again, 18 1,500 miles apart -- with respect to the sale of 19 manufactured milk products. No such concept had 20 previously -- has previously been adopted by USDA with the 21 respect to the setting of Class I differentials. 22 Next point. Again, I'm -- NMPF criteria for 23 setting Proposal 19's Class I differentials, basing the 24 Class I on -- basing Class I on the milk supply for 25 manufacturing plants. Other witnesses supported higher 26 Class I differentials in specific locations because their 27 cooperative had contractually committed to sell most of 28 its milk to a large Class III cheese plant, and a higher



differential was needed to attract additional milk to 1 2 serve Class I customers. We have not, nor historically has USDA, seen this 3 as a basis to increase, via federal legal mandate, the 4 amount Class I members in the order would have to pay for 5 6 their milk supply. 7 Give me just a minute. I need to wet my throat. THE COURT: Yes. And I would like us to take a 8 9 five-minute stretch break. We're about to begin page 17. 10 Just five minutes. We'll go back on record at 9 o'clock. 11 (Whereupon, a break was taken.) 12 THE COURT: Let's go back on record. 13 We're back on record at 9:00 a.m. 14 Mr. Rosenbaum. 15 BY MR. ROSENBAUM: 16 Mr. Brown, could you please continue? 0. 17 Α. I certainly can. We're on Slide 17, same -- same 18 Proposal 19 is based on unevenly applied criteria, topic: 19 many of which bear no relevance to Class I differentials. 20 Again, next topic: NMPF -- or next issue -- NMPF 21 criteria used in setting Proposal 19's Class I 22 differentials, increase blend prices in areas with limited 23 Class I needs. Witnesses discussed the need to discourage 24 milk from moving from Minnesota and Maine, respectively, 25 in order to maintain blend price equivalence in their 26 local markets, even though milk in both locations may well 27 be needed to the south of those locations. This position 28 contradicts the fundamental purpose of establishing



Class I differentials in order to encourage movement to
 where it is needed.

Next slide: NMPF criteria used in setting 3 4 Proposal 19's differentials, an undefined base 5 differential. As the lead "umbrella witness" providing overview, Dr. Vitaliano suggested that the base 6 7 differential should be raised from \$1.60 \$2.20 per 8 hundredweight. Other proponents did not include any change in the base differential for the Nashville, 9 10 Winchester, Virginia, and Charleston, West Virginia.

11 Proposal 19, again, on unevenly applied criteria, 12 inconsistent approaches to transportation cost data. 13 Dr. Vitaliano indicated that Proposal 19 differential 14 increases were conservative because the University of 15 Wisconsin study and Proposal 19 itself utilized 2021 16 transportation cost data, even though 2022 related 17 transportation cost data would supposedly show higher 18 transportation costs.

But many proponent witnesses relied upon 2022 and 20 2023 transportation cost data as justification for 21 Proposal 19, including in support of Class I differentials 22 in excess of those that the University of Wisconsin study 23 supported.

Proponents argued that the University of Wisconsin model does not account for traffic delays, but never provide a specific analysis of the dollar amount by which the study's transportation costs are allegedly understated for this reason.



Next issue under this topic: A refusal to allow the "fundamental determinants" of changes in milk supply locations and costs of transportation to actually play a role in setting Class I differentials. Dr. Nicholson testified that there have been considerable changes to where milk is produced and where population growth has taken place.

8 Yet many proponents abjured Class I differential 9 changes that would reflect these new realities in the 10 location and quantity of milk production, and the impacts 11 of higher transportation costs, demanding instead that the 12 new differentials preserve existing relationships, 13 although, this principle was not uniformly applied to all 14 areas, such as Western Pennsylvania.

15 Q. We're up to Slide 21. Are you now introducing a 16 new topic?

17 A. Yes, I am. And I'm giving my throat a chance to18 moisten up here.

USDA should not raise Class I differentials in a 19 20 doomed effort to reduce or eliminate depooling. Depooling 21 becomes a realistic option when the Class III or Class IV 22 price exceeds the blend price. In the largest FMMO, 23 Order 30, there were 34 months (out of 46), between January 2020 and October 2023, in which either the 24 25 Class III or Class IV price exceeded the blend price. Τf 26 Proposal 19's \$1.26 increase in the Class I price for 27 Order 30 had been in place, there would still have been 33 28 months in which either the Class III or Class IV exceeded



1 the blend price. 2 THE COURT: All right. I want you to read that That's important, and I want you to go slowly. 3 one again. 4 THE WITNESS: Yes, I will. Thank you. If Proposal 19's \$1.26 per hundredweight increase 5 in the Class I price in Order 30 had been in place, there 6 7 would still have been 33 months in which either the 8 Class III or Class IV price exceeded the blend price. The Class I differential would have to increase to 9 10 \$41.32 in order to decentivize [sic] pooling entirely in 11 Order 30 and to provide some clarification. That was a maximum month, would have been 41.32 to 12 13 completely eliminate depooling incentives during that 14 period of time. THE COURT: Do you remember the month? 15 16 THE WITNESS: July 2020. 17 THE COURT: July 2020. 18 MR. ROSENBAUM: And, Mr. Brown, does your written 19 testimony include as attachments, spreadsheets that show 20 all the calculations? 21 THE WITNESS: Yes. There's detail in the 22 attachment, that is correct. 23 THE COURT: All right. And -- and rather than "decentivize," your actual word there is "disincentivize"; 24 25 is that correct? 26 THE WITNESS: Yes, it is. Thank you. 27 THE COURT: They probably mean the same thing. 28 Okay.



1 THE WITNESS: One is probably better grammar, but 2 I'm not the one to ask. BY MR. ROSENBAUM: 3 Next slide, please. 4 0. All right. Thank you. 5 Α. My testimony thus far explains why Proposal 19 6 7 should be rejected in its entirety. Now I will -- I will 8 now address some specific shortcomings in that proposal 9 were USDA, nonetheless, to consider adopting any aspects 10 of it. 11 Ο. Now we're on a new topic. 12 Α. New topic: USDA should not raise Class I 13 differentials in the three Southeastern orders. This --14 this topic I'll walk through a couple of slides. And, 15 again, we did some analysis to our best estimates and what 16 the cost increases of that proposal would -- would provide 17 to -- or charge to our processors. 18 USDA recently published in a final decision to 19 adopt significantly increased current and new 20 transportation and delivery credits for those bringing 21 milk to fluid milk plants in the three Southeastern 22 orders, subject to, of course, to producer referendum 23 approval. 24 We'll walk through a chart which is at the bottom 25 of Slide 23. And this is -- chart is titled "Current 26 Credits versus Combined New Transportation and Plant 27 Delivery Credits." Again, these --28 THE COURT: So, and what kind of plants?



THE WITNESS: Distributing plant, fluid milk
 plant.

And these are in dollars per hundredweight, and we have three different Federal Orders. We show the current delivery credit, the new one, and what the change would be.

So, for example, in Order 5, which is the
Appalachian order, the current delivery credit is \$0.07,
the new would be \$0.90, and the increase is \$0.83 per
hundredweight.

In Order 6, which is the Florida Federal Order, there is no current transportation in-plant delivery credit. The new would be \$0.85, with an increase of \$0.85.

In Order 7, the Southeast Federal Order, the current combined credit is \$0.30, or -- \$0.30, which is -just one. The new would be \$1.10, with an increase of \$0.80 per hundredweight.

Same topic. These credits will be paid on top of Class I prices, including Class I differentials. They are not netted against Class I differentials. These credits were not taken into account when the University of Wisconsin created this model or when the proponents developed 19.

And that's an important point. This information was not available then, but it certainly can impact changes that may or may not be made.

28 BY MR. ROSENBAUM:



Next slide, still same topic. 1 Q. 2 Α. These credits are equal to more than 40% of the Proposal 19's proposed Class I differential increases. 3 I think you just -- I don't think there's a need 4 Ο. to do the precise numbers, just tell us what the 5 percentage is that the new credits represent or new credit 6 7 increases represent of the proposed --8 Α. Of the current Class I differential. Okay. 9 So the numbers I'll be giving you is a percent increase from these credits to the current Class I 10 differential in these different markets. 11 In Order 5, Appalachian --12 13 Actually, I think that's slightly -- I think this 0. 14 is a percentage that the new credits represent of the 15 proposed increase for Class I. 16 Α. Yes. Thank you for that clarification. 17 So these indicate the percentage from this 18 transportation change in the order that is in the final 19 decision relative to the request for increase in 20 differential. Thank you for that. 21 Order 5, Appalachian, is 43%; Order 6, Florida, is 22 46% of the proposed new differentials; Order 7, the 23 Southeast, is equals to 42% of the proposed change in 24 differentials. 25 0. All right. Let's go on now to a new topic, the 26 next page, 26. 27 Α. New topic: The \$0.40 Grade A adjustments --28 adjustment is archaic and no longer relevant and should be 1 eliminated.

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In earlier times, only a fraction of milk produced in the United States was Grade A and eligible for fluid 4 Only 60% in 1960 was Grade A; only 84% in 1980. use.

Today, by contrast, over 99% of all milk produced 5 is Grade A milk, and in the vast majority of states, there 6 7 is no Grade B milk whatsoever. With 99% of all United 8 States-produced milk already being Grade A, there is no 9 longer any need to incentivize farmers to become Grade A.

10 Next page, same topic. And there's a chart on 11 this page which compares the Class I utilization with a 12 Grade A share of total milk sales.

13 And to give you a point of reference, in 1976, we 14 were roughly 80% Grade A, and for the last 11 years we 15 have been 99% Grade A. Class I utilization of Federal 16 Order milk has gone from around 55% in 1976, to last year 17 it was 27%. So becoming a Grade A farm no longer has any 18 real relationship between serving the fluid market. Ιt serves all markets. 19

20 The percentage of milk that is Grade A has 21 steadily risen, even as the percentage of FMMO milk that 22 is Class I has steadily fallen.

23

Next slide, same topic. 0.

24 Same topic. Many uses of milk other than Class I Α. products require Grade A milk. The PMO itself defines 25 26 Grade A milk products to include cottage cheese and whey 27 and whey products, as well as all milk products with the 28 standard of identity provided in 21 Code of Federal



Regulations Part 131 (excluding sweetened condensed milk), including yogurt, sour cream, eggnog, and other products.

Continuing on this topic. Many plants producing manufactured products have extra butterfat in the form of cream. If they themselves use that cream to make packaged cream products or sell the cream to customers that do so, then the plant milk needs to have been Grade A milk.

8 Similarly, if the plant makes whey products that 9 then go into a product that must be Grade A, such as 10 yogurt, the whey must be made from Grade A milk.

Furthermore, many manufacturers of Grade AA butter require that their supply be Grade A whether the milk comes directly from farmers or their cooperatives or from a manufacturing plant that has extra cream to sell.

Q. So next slide I think you are going to put some
facts behind these, some numbers behind these statements.
Can you please explain that.

18 A. Yes, I can. And for your reference, the plant
19 list we refer here is an attachment. It's actually a
20 digital Excel spreadsheet attachment to the testimony.

Q. This list you reference is an attachment to yourwritten testimony?

A. Yes. The October IMS plant list, based on our
analysis --

25 THE COURT: So that we're sure that's correct in 26 the transcript, what are you saying after the word 27 October?

THE WITNESS: IMS, Interstate Milk Shippers.



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1 THE COURT: Ah, that's what IMS is. 2 THE WITNESS: Yeah, sorry. There's too many acronyms in our industry, and we all think everybody knows 3 4 what they are. And of course sometimes we forget what 5 they are. 6 THE COURT: I think everyone in this room knew 7 that but me. But you may start again with that bullet 8 point. 9 THE WITNESS: I will. And everybody has to --10 everybody has to be able to read the record, whether they 11 are in this room or not. 12 The October IMS, Interstate Milk Shippers, plant 13 list includes around 131 plants that primarily manufacture 14 Class III and IV products. IMS rules require that these 15 plants use only Grade A milk, even though they are not 16 fluid milk plants. 17 BY MR. ROSENBAUM: 18 And, Mr. Brown, did you personally review that 0. list and make those determinations? 19 20 Yes. It was quite a chore. Α. Yes. 21 Q. Okay. 22 Α. I think we -- it was kind of like Santa Claus, we 23 made a list and checked it probably three or four times. 24 This includes all of the large mozzarella plants, 25 the large Hilmar and Glanbia cheddar cheese plant, and to 26 the best of my belief, all of the large mozzarella cheese 27 and butter powder plants. 28 1,748 bulk tank unit, or BTU, facilities also



appear on the IMS list. Not surprising is 99% plus of all
 milk is Grade A.

For point of reference, bulk tank units are the inspection units that are used to determine that farms are meeting Grade A qualifications. So any farm that ships Grade A milk is part of a bulk tank unit.

Q. So just to be clear here, to be on the IMS list, the Interstate Milk Shippers list, you have to be Grade A, correct?

10 A. Absolutely. Both your milk supply and your plant11 has to pass inspection.

12 Q. So for Hilmar and Glanbia's cheddar cheese plants 13 to be on that list, which they are, they have to be 14 receiving nothing but Grade A milk; is that right?

A. That is correct. And it's for different reasons. Some -- some cheese customers want Grade A milk, but in a lot of cases it's the sale of cream that requires the plant be IMS certified and the milk be Grade A.

19 Q. That is to say that what you referred to on the 20 previous slide, that cheddar cheese companies like Hilmar 21 and Glanbia end up with something they want to sell to 22 somebody else?

A. And the price -- the price is significantly higher
if it's Grade A cream versus Grade B cream.

On to Slide 31. Again, commenting on the Grade A adjustments. 99% of milk already being Grade A, the only real cost is maintaining Grade A status. And we looked at the USDA requirements for plants for grading, and compared



1 that to the IMS list to come up with a -- what we thought 2 were differences that could significantly -- not even 3 significantly, but it would be recognizable costs. And we 4 really came up with two.

5 One, with Grade A you have to be inspected twice a 6 year, biannual, rather than annual farm inspections, which 7 are required for Grade B.

8 Another one, which I have personal experience with 9 as a kid, is that barn walls with permeable surfaces need 10 to be painted once a year. So that was always fun getting 11 ready for the whitewashing the barn as I was a kid.

Q. Just to be clear about this, you -- in making this list, you were comparing the USDA guidelines for, what do you call it, manufacture? Strike that, let me start that again.

16You were comparing the USDA guidelines for -- that17applied to a farm, even if it's not Grade A, correct?

A. That is correct.

19 Q. And you were comparing that to the PMO 20 requirements applicable to plants that are Grade A, 21 correct?

A. Yes. And when you look at maintenance, these arethe two costs that you could identify.

Q. Okay. So that what you are focusing here on, given that 99% of milk is already Grade A, you are asking the question, what do these farms need to do to maintain Grade A status as opposed to what they would have to be doing if they weren't Grade A, correct?



18

1A.Yes. And just a little color on this -- on this2slide.

Farms don't go back from Grade A to Grade B unless 3 4 they fail their inspection and they become Grade B. Ι mean, they simply don't make that decision, except in 5 cases where pricing regulations, specifically in 6 7 California, more in the past, if they wanted not to 8 participate in the pool, they would become Grade B so they 9 didn't have to participate. So it was -- it was an 10 economic decision unrelated to milk quality, it was all about price regulation. 11

12 Q. And did they actually even change their farms in
13 order --

A. No, they didn't do anything, other than they only
had one inspection a year instead of two. That was it.
Because the plant requirements for milk remain strong.

And Hilmar is the best example in California, they actually no longer allow that because of Grade A needs for -- particularly marketing cream and some of their whey products.

Q. Let's go on to the next slide, and slightly different topic, although it still relates to the question of what requirements are imposed on milk. So please talk to us about that.

A. Okay. Back to Grade A, but this is more
specifically talking also about the -- the requirements
for milk quality and what reality is as an industry. And
so let's walk through these points.



The privately-negotiated agreements to supply Class I processors milk with somatic cell counts lower than the 750,000 cell limit imposed by the PMO are not a relevant consideration.

Q. And let me just interrupt you. The reason you are covering this topic is because some of the proponents of Proposal 19 have pointed to the fact that some of their Class I customers have imposed requirements regarding somatic cell count that are more stringent than the 750,000 limit that the PMO itself imposes in order to qualify for Grade A, correct?

12 A. I would observe all of their Class III and13 Class IV customers are doing the same thing, yes.

- 14 Q. That's --
- 15 A. Yes.

16 Q. But that's --

17 A. We'll talk about that.

Q. But that's why you are raising this topic.

A. That's right. Because it's -- and this really -again, this 750,000 cell limit is a federal limit, but in reality, it's not really a limit anymore, and there's a couple reasons.

First of all, cooperatives or other companies exporting manufacturing -- manufactured dairy products to any of the 27 European countries of the EU must already meet the European standard of no more than 400,000 somatic cell count.

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And a really important point: Lower somatic cell



1 counts directly benefit farmers themselves. Reducing 2 somatic cell counts, for example, from 400,000 to 200,000 3 increases milk production by 312 pounds per cow. And 4 there's a reference to that, where that article came from, 5 it's from Ohio State, in the written testimony.

Q. So just to orient ourselves. To the extent that there are Class I handlers who have imposed a private obligation on their suppliers to meet a somatic cell count limit lower than 750,000, you have made two points here.

10 One is, they already have to meet lower limits if 11 they are going to be trying to export anything to Europe 12 because Europe has a lower limit, right?

A. Correct.

13

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- Q. Of 400,000, correct?
- A. Yes.

Q. And then second, there -- there are all kinds of incentives why farmers would want to have lower somatic cell counts completely apart from whether that obligation is being imposed by Class I handlers; is that what you are saying?

A. That is correct. And a lot of the reason for that is cream, again. Because products with cream in them are sent to Europe. So any plant, as we talked earlier, a lot of plants sell cream, any of those plants would need to meet that EU requirement. So it's not just Class I, it's all plants.

Q. So the last point you have said, even going belowthe 700,000 limit that Europe imposes, that actually is



1 something a farmer would want to do for his own purposes?
2 A. Yes. I referenced the most recent study I could
3 find, which is 2017, so it's pretty recent. But they have
4 been doing studies on somatic cell counts for decades,
5 showing that it affects the productivity. Lower the
6 count, the healthier the cow, the more milk you get.

Q. And lower somatic cell counts reflect health8 considerations for the cow?

9 A. They do. And as our next slide would show,
10 farmers have been very successful managing somatic cell
11 counts.

As we mentioned, lower cell counts mean healthier, more productive cows. Data from Federal Orders with the somatic cell count, or SCC, programs show dairy farmers are achieving very low cell counts in all parts of the country serving all different types of milk processors.

And, again, the chart shows averages for Federal
Orders with somatic cell count programs in 2018 to 2022.
Six Federal Orders currently have a somatic cell count
adjustment on price, again, rewarding lower counts.

21 So as a result, they have got very complete data 22 of somatic cell for all six orders, because it's tested 23 along with their butterfat and their protein.

And what you find is that all of them are below 25 250,000 based on the last five years, and they continue to 26 get lower. Three are under 200,000, three of the orders. 27 But the Southeast, which are heavy -- heavy Class I use. 28 The other three orders are very heavy cheese use,



particularly Upper Midwest. So we have all different
 kinds of farms and all different kinds of locations
 shipping to all different kinds of plants, and they have
 all achieved very good somatic cell counts.

So when you look at, for example, Class I 5 utilization based on order pools, they range from 9.6% in 6 7 the Upper Midwest in Class I to as high as just under 8 83% in Florida. So, again, these are -- these are dairies, different locations, different markets, all have 9 10 achieved very low somatic cell count. So it isn't just one farm that's doing this in the market, it's the entire 11 12 market has done a very good job getting their counts down.

And they have dropped over the years. Again, there's milk production incentives to do it, and your cows are healthier.

Q. So bottom line, even in orders that have very low Class I utilization, the Upper Midwest being the prime example, with only 9.6% Class I utilization, there the average somatic cell count is under -- well under 200,000, in fact, it's 173,000; is that correct?

A. That is correct.

Q. Okay. And so what conclusion do you draw as to whether it's reasonable for proponents of Proposal 19 to say, well, Class I processors are imposing somatic cell count limits under the -- more stringent than the 750,000 in the PMO and so they should have to pay for that?

A. I think all plants require quality milk, and it is
very evident, all producers, with few exceptions, are



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making very high quality milk. It's in everyone's
 benefit, including the producer.

I think the other -- the other thing I would -- I would observe on other qualifications as well, it's all about making milk that lasts in the store. Gives you better cheese yield because your protein quality is better if your cell counts are low. There's all kinds of reasons to do this, and it's good for the industry.

There's been a lot of frustration, including with 9 10 National Milk, on -- on the FDA not being willing to lower 11 somatic cell count from 750,000. I think we all realize 12 it's become very, very irrelevant. It may be legal milk, 13 but nobody wants it. So basically it's become standard 14 practice across the entire industry to have high quality 15 milk, and our dairymen in this country have done a 16 remarkable job providing it.

17 Q. And they get more milk out of their cows as a18 result?

19 A. Yeah. And the cows are happier, too. That's20 right.

21 MR. ROSENBAUM: Your Honor, that completes 22 Mr. Brown's PowerPoint presentation. You may recall that 23 there was one exhibit I used when Dr. Scott Brown --

24THE WITNESS: Yes, Scott Brown. No relation.25He's got a lot more degrees than I do.

26 MR. ROSENBAUM: -- testified that I explained that 27 Mr. Brown, Mr. Mike Brown, had put together, and he would 28 testify about. It's been a couple of days. You may have



1 forgotten. 2 But in any event, I can do that right now or we could have that separate after we finish the cross on 3 4 these topics. I will leave it to Your Honor how you want to --5 6 THE COURT: I think it would be good if we revisit 7 that now. MR. ROSENBAUM: Okay. Your Honor, that was -- the 8 document that I referenced was Hearing Exhibit 423, which 9 10 was marked as IDFA Exhibit 59, when -- in Mr. Brown 11 getting ready to testify today about this, he noted that 12 the list of data sources had been inadvertently cut short. 13 There was one additional data source. The numbers 14 themselves are absolutely unchanged, but I do have a 15 corrected version of the Hearing Exhibit, which I would 16 like to distribute, and which I would like to end up being 17 the official version. 18 As I say, the numbers are completely unchanged, 19 it's just adding a third reference source, data source. 20 So I will distribute that now. 21 THE COURT: All right. And we'll take a 22 five-minute stretch break while that happens. 23 Please move around and come back by 9:35. 24 (Whereupon, a break was taken.) 25 THE COURT: Let's go back on record. 26 We're back on record at 9:35. 27 Mr. Rosenbaum. 28 111



TRANSCRIPT OF PROCEEDINGS

	NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING
1	BY MR. ROSENBAUM:
2	Q. Mr. Brown, before I turn to corrected Hearing
3	Exhibit 423, I do want to clarify one thing so that IDFA's
4	position is clear.
5	You are here today testifying in opposition to
6	Proposal 19, which would increase Class I differentials;
7	is that correct?
8	A. That is correct.
9	Q. IDFA is not at these hearings advocating a
10	decrease in the current Class I differentials; is that
11	correct?
12	A. We are not.
13	Q. When you talk about how you believe the \$0.40
14	component of the base differential is archaic and should
15	be eliminated, the concept here is that if USDA is
16	otherwise inclined to increase the Class I differentials,
17	under that circumstance, it should deduct \$0.40 from what
18	otherwise the increase would be; is that right?
19	A. That is correct. And let me clarify that for a
20	second.
21	If we're going to use real market conditions, we
22	have to recognize, we can discuss that differentials need
23	to change. We have had a lot of evidence. We'll hear
24	more. But at the same time, I think it's important that
25	we recognize that when we're looking at what the base
26	would be, whatever that is, there certainly isn't room to
27	raise Grade A. And I think you could argue there's no
28	reason for it, just because all milk's Grade A.



Q. I'm sorry, there's a reason to eliminate Grade A;
 is that what you said?

There is a reason to eliminate it. If we're 3 Yes. Α. 4 going to recognize real cost, it's not a real cost anymore. So as you are evaluating all the options at 5 USDA, and I don't want to -- I don't want to put a lot of 6 7 weight on anybody's shoulder, but differentials is going 8 to be a difficult topic. It was difficult for all of us, 9 and it's going to be difficult for -- it's just a lot of 10 work there, a lot to go through, and I think you got to 11 look at everything. If you are going to change it, you 12 got to look at everything.

Q. Including, for example, the elasticity resultsthat you provided from Dr. Capps, correct?

A. Yes. And in my experience -- and, again, you can talk about time periods. As working for a retailer, milk's elastic. And I think the big thing is substitutions, is that cross-elasticity with other products, it's real, and it does -- it does affect -- it does affect sales.

Q. And when you say as "a retailer," you are
referring to your --

A. My previous employment at Kroger, we talked about
that all the time, because my dairy team -- and don't
anybody get offended -- we also bought the plant
beverages, I won't call it milk, but we bought the plant
beverages as well within our team. And so we're very
aware of retail strategy on those products as well. And



Kroger does a lot of internal elasticity work as well. I
 can't share numbers, but I can assure you I wasn't
 surprised at what Dr. Capps' numbers shows.

THE COURT: And, again, just listening to both of you, it's very hard to distinguish between a person saying "elastic" and a person saying "inelastic." So when you do talk about that, please emphasize whether it's inelastic you are talking about, or elastic.

9 MR. ROSENBAUM: I believe both of us were using 10 the word "elastic" in our colloquy.

11 THE WITNESS: Yeah, we were using the general 12 term, which is elastic, which can include the whole range 13 of elasticities. But I will be very sure if I use the 14 word inelastic, I will make it clear so we -- I don't 15 want -- I don't want to cause any more trouble than it is. 16 And we all have to review this record, and so we need to 17 make sure we get it right the first time.

THE COURT: Amen. Thank you.

19 BY MR. ROSENBAUM:

18

Q. So now, Mr. Brown, retur- -- turning to corrected Hearing Exhibit 423, which is also IDFA Exhibit 59, just if you'd turn to the last page which shows the data sources.

Is it the third data source that you have added to the original Hearing Exhibit 423?

A. Yes. Yes, it is the third one. You could actually calculate -- in some of the older months, looking at block and barrel, we had to do that. You can calculate



1 the weighted average from the data in the other two 2 reports, but it's much simpler just to pull the numbers 3 from USDA. And so they are pulled out of that Table 5, 4 Exhibit 16. That's where the weighted average cheddar 5 price comes from.

Q. All right. Let's then turn back to page 1 -THE COURT: Now, I just have to ask. I'm just
looking at the old one and the new one. So in the old
one, your next to the last page ended with Row 314, and
then on the final page you started over with -- with
different numbers for your rows.

Does that make any -- does that -- is that going to foul us up? If we don't keep the old one, is it going to foul us up when we look at the testimony of a witness who was looking at the old one?

MR. ROSENBAUM: Your Honor, I -- I -- I think the answer is I don't believe so, because they are all -- the numbers in the tables are still the same. I see the Roman -- I don't have the old version in front of me, but I -- I will take your word for the renumbering, which was not intentional.

22

THE WITNESS: It's --

23 THE COURT: No, no. Do you understand? Let's say 24 a witness was telling me about page 9.

25

MR. ROSENBAUM: Yes.

THE COURT: And the witness referred to Row 19, which is on the old version on page 9. But now the row numbers are a continuum between page 8 and 9, and so they



have different number for the row. The contents of the 1 2 row may be identical, but I -- if I have testimony in the record, I maybe need this not to replace the old one. 3 In 4 other words, I may need to hang on to the old one in order to understand the testimony. 5 MR. ROSENBAUM: Your Honor, I think I understand 6 7 your point. Why don't we -- I would suggest that we 8 call -- change the name of this to corrected Hearing Exhibit 423A. 9 10 THE COURT: Perfect. 11 MR. ROSENBAUM: That's the document that we just 12 distributed, and let's go ahead and call it also 13 IDFA Exhibit 59A. 14 THE COURT: Excellent. 15 MR. ROSENBAUM: And they will both be there. 16 THE COURT: Thank you. That solves my problem. 17 Now, and you may continue, if you have any other 18 questions for this witness on this document. 19 MR. ROSENBAUM: Yes, I do. 20 BY MR. ROSENBAUM: 21 I simply want to go through the columns one by one 0. 22 and just ask you what source each column came from if 23 someone wants to duplicate your effort. 24 So once again, the document as a whole is called 25 "Comparison of Monthly NDPSR Block Cheddar Price with the 26 Barrel Cheddar and Weighted Average NDPSR Cheddar Prices." 27 So Column A is obviously just a list of months. 28 Where does the information from Column B come



1 | from?

2

3

4

5

A. Column B comes from USDA Exhibit 16, which is Table 5, which is the Announcement of Monthly Class and Component Prices. The numbers were cut and pasted from that spreadsheet into this one.

Q. Then Column C, which is the block prices, wheredid that come from?

A. Two different places, because it was reported originally by NASS, and then in 2000 -- I think it was March of 2012, NDPSR picked up the reporting of those prices. The reason for that was to provide audits, make sure they were accurate, and it was a good change.

13 But the two pieces of information we were never 14 put together. So, for example, you could go to Datamark 15 where you can get infor- -- some of this, particularly 16 pricing information. It's a nice database. It only goes 17 back to 2012. And the reason for that is because before 18 that, that data was NASS, it wasn't NDPSR. Same use --19 used for the same purpose, but it was a different agency 20 reporting it, and the two were never put together, which 21 is why you have the two sources. If you look at page 3 --22 I mean, page 9, the very end, you have National Dairy 23 Product Sales Report, which is the current NDPSR, and you 24 have the dairy products prices report, which previous to 25 the change was used to determine these prices. So we used 26 both. It's a lot more work with the old dairy product 27 pricing report.

Now, I have been collecting those for a long time,



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1	TALTY COURT REPORTERS INC 1031
28	calculated?
27	Q. And block versus barrel plus \$0.03, how was that
26	block price. So Column D is subtracted from Column C.
25	A. That is the barrel price is subtracted from the
24	How was that calculated?
23	Column G specifically is block versus barrel.
22	the subheading "NDPSR Cheese Price Comparisons," and
21	Q. All right. What about Column G, which is under
20	\$0.03.
19	price. So it's simply that barrel price reported plus
18	formula for Class III protein adds \$0.03 to the barrel
17	A. Yeah. Again, using Column D as the base and the
16	Q. And then E, which is barrel plus \$0.03?
15	A. And they both come from the same report.
14	Q. All right.
13	A. Yeah.
12	Q. D is the same?
11	A. And D is the same.
10	Column C, which is the block price?
9	Q. Now, you've been describing what you used for
8	I did random spot checks.
7	and I made sure that the data was correct at its source.
6	So we did it we did it we took what I had
5	digital sources previous to 2012.
4	sure they were correct, because there wasn't available
3	calculate it, and figure out what the price was to make
2	some randoms to be sure. We just pull up months, and
1	so I had the data. But if you need to check it we did



1 Α. The barrel plus \$0.03 price is subtracted from the 2 block price. Just tell us what columns you are dealing with. 3 Ο. Yeah. So Column E is subtracted from Column C. 4 Α. And then Column I, how is that calculated? 5 Ο. That is calculated by subtracting the weighted 6 Α. 7 average price, Column B, from Column C, which is the block 8 price. 9 MR. ROSENBAUM: Your Honor, that completes my 10 examination, and the witness is available for 11 cross-examination. 12 THE COURT: Thank you. And when we talk about 13 what exhibits we're going to consider, I'll wait until 14 after cross-exam, but it will include not only today's 15 exhibits, but also the previous version of Exhibit 423. 16 Who would like to go first with cross-examination? 17 CROSS-EXAMINATION 18 BY MS. HANCOCK: 19 Good morning, Mr. Brown. 0. 20 Nicole Hancock with National Milk. 21 Good morning. Α. 22 Ο. Just want to -- I want to maybe bounce around a 23 little bit. 24 You had, at the very tail end of your testimony, 25 clarified that your -- IDFA is not advocating for a 26 reduction in Class I differentials; is that right? 27 Α. We are not advocating for -- we're advocating for, 28 if they are going to be evaluated, then other parts than

1 just the mileage change, differential change, needs to be 2 looked at. That's what we're saying. So we're not saying they need to go away. We're 3 4 just saying if you are going to do an evaluation, you look at everything. 5 6 Ο. So will you be coming back to testify in 7 opposition to Proposal 20? 8 We are neutral on Proposal 20. We have members on Α. 9 both sides, so we are taking no position. 10 Okay. But other than taking into account the Ο. 11 transportation credits that are the subject of being voted 12 on, you are not proposing a decrease in the Class I 13 differentials; is that correct? 14 We are not. Let's put it this way: If you look Α. 15 at the current differential map, we are not proposing any 16 decreases from the way it's currently done. 17 0. Okay. Does that mean that you believe that those 18 differentials, other than taking into account those 19 changes in the transportation credits, are properly set 20 where they are right now? 21 I think what I would say is that when you start to Α. 22 look at changing them, you need to look at things, for 23 example, is Grade A relevant anymore? I think not. Do 24 you need to change it? IDFA's view is, within the current 25 differentials, we wouldn't change it. If you are going to 26 look at putting other changes in, it should be part of 27 that decision. 28 As you know, we had no proposal on differential



1 map, so -- so we don't have a proposal to remove Grade A. 2 We just ask that it be considered as part of the broader picture of the differential map if there's going to be 3 4 changes need. I'm just going to walk through maybe -- I'm 5 0. Okav. 6 going to walk through Exhibit 434, which is your 7 PowerPoint presentation. I want to start with page 3. And this is in both 8 9 your testimony and in your PowerPoint presentation, but 10 you quote from the 19- -- that March 5th of 1993, the 11 USDA -- talking about a reserve supply of milk. 12 Do you see where I'm at? 13 Yes, ma'am. Α. 14 Okay. And at the time that this quote was 0. 15 published, USDA was using a 70% Class I utilization as a 16 threshold; is that right? 17 Α. I honestly -- I don't recall that specific. I'd 18 take your word for it. 19 Do you think that this criteria that you have Ο. 20 quoted from 1993 is still relevant today? 21 Α. I do. 22 Ο. And why is that? 23 Because if you look at -- first of all, Α. 24 seasonality of milk isn't as bad as it was at that point 25 in time, so that reserve supply doesn't vary as much month 26 to month as it used to. I think that's -- I think that's 27 part of it. 28 And I think the other part, in erring on the side



1	of plenty, we are nowhere close to that as far as
2	non-Class I use and in any market but III. And so I
3	believe there's plenty of milk. And going back to the
4	final decision that was just released on transportation
5	credits for the Southeast, that's working to identify
6	where there's reserve milk is needed, to get help to get
7	that milk to the market.
8	Q. In 1993, was there a government dairy supply price
9	support program that was
10	A. There was.
11	THE COURT: Whoa, whoa.
12	THE WITNESS: I'm sorry. Go ahead.
13	BY MS. HANCOCK:
14	Q. That's okay. You probably know where I'm going,
15	but it will be better if the sentence is complete.
16	A. That's right.
17	Q. In 1993, was there a government Dairy Price
18	Support Program that was the market-clearing outlet for
19	any surplus milk converted into cheese, milk powder, and
20	butter?
21	A. There was. Was it effective, I think is the
22	question. Did it really function at that point with the
23	level at a level that really created a lot of use of
24	that market? And it was waning by that time. So it it
25	did exist. Its function wasn't near as it wasn't used
26	near as heavily example as it was used in the early '80s.
27	Q. And then that was repealed by the 2002 Farm Bill?
28	A. Yes.



TRANSCRIPT OF PROCEEDINGS NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING And the domestic commercial market and world 1 0. 2 markets today are the market-clearing locations; is that 3 right? 4 Α. That would be correct from my -- from my point of view. 5 So there is a competitive market difference than 6 Ο. 7 what it was back in 1993; is that fair? We've certainly grown our participation in the 8 Α. world market. That would be true. 9 10 And then we have also had other market changing 0. factors, such as construction of new manufacturing plants 11 12 adjacent to where the milk supply is the greatest? 13 Generally, you are not going to build a plant Α. 14 without knowing you are going to have a milk supply. And 15 generally there's agreements on supply that are made 16 either with individual producers or cooperatives before 17 the first -- first piece of stainless is put in the 18 building. I mean, that is true. 19 But as you can imagine, the risk of supply that 20 they -- try to working -- work really hard to make sure 21 you have a supply before you start to build anything.

22 Ο. And there's good examples that have already been 23 put into the record such as Greenville Venture Partners in 24 Greenville.

25 Is that an example of where there's a new plant 26 that was built near the milk supply?

Α. Yes.

27

28

And Glanbia at St. Johns? Ο.



1 Α. Yes. 2 Ο. And Daisy at Wooster, Ohio? I'm not familiar with that one. I mean, I know 3 Α. 4 what the plants there, but I don't know the story behind it. 5 And when dairy farmers are selling their 6 Ο. Okav. 7 milk, who is usually the one that is paying those delivery 8 costs? 9 It's directly paid by the co-op or the farmer. Α. 10 But generally, the service charge that you pay to purchase milk, it may not be a direct, but it's in there. But you 11 12 do find more and more transportation, particularly in 13 energy costs, fuel costs, you will see adjustments in that 14 premium that's calculated on a per hundredweight or per 15 truck basis. 16 So as far as directly paying it, it's farmers or 17 their co-ops. How they divide that money up is -- really varies from my experience. Sometimes plants do pay that 18 19 cost, but generally, it's not direct, it's just -- it's 20 considered as part of the premium. If there's an 21 additional cost to move milk, they'll try to negotiate 22 that in premium. 23 And the ability to negotiate that in a premium, 0. 24 that has a big contributing factor in determining where

25 the best place is to deliver that milk; is that fair?
26 A. I think it is. But we can talk more about
27 negotiating premiums. But certainly -- certainly I'm sure

28 different customers are different to work with. I would



expect nothing but that. So I would say, yes, that's
 true.

Q. And those are, again, additional differences as compared to the market circumstances back in -- or the market factors back in 1993?

A. Well, there's two things that have happened since then. The -- your buyers are bigger companies, but so are your cooperatives. You have a lot less of them. There's been a lot of very successful mergers, which does help.

10 And the other thing, I'm going to insert my own 11 personal experience, is how effective the marketing 12 agencies in common are in different markets. They were 13 all fighting back around 2015, we saw premiums drop. They 14 have coordinated and done an effective job working 15 together. They are starting to rise again.

And so a lot of that, again, we're talking a minimum price here, that -- that ability to negotiate price, which Federal Orders do give marketing agencies in common, which is a great asset I think to the cooperative industry. It plays a big role in how effective that happens. If those agencies work, then premiums generally are easier to get.

Q. And even with what you described as an increase in the size of the buyers, and an increase in the size of cooperatives, even with that market dynamics, cooperatives, even though they have grown, are still cooperatives, and the dairy farmers are still the ones who are primarily responsible for those hauling costs; is that



1 | right?

A. They are. But those costs are often included in,
again, the negotiation premiums, but they are not direct.
It's not necessarily X cents to get the truck from A to B.
It's part of that overall negotiation.

Q. So if they have sufficient bargaining power and can negotiate that into over-order premium, they might be able to get their ultimate buyer to cover some of those costs; is that what you are saying?

A. I say yes. And it's going to depend on market.
It depends on the market power of the cooperatives. If
they are all working together, it's a lot easier to do
than if they are not. I know they have, for certain.

Q. Okay. Let's turn to -- let's move to page 5 of
your PowerPoint presentation in Exhibit 434.

A. Okay.

Q. On this slide you are talking about how the current supply of milk is more than adequate to serve the Class I needs, and you describe what you believe proves that that current supply is justification for not needing to increase differentials.

22

16

Is that a fair characterization?

A. The characterization is when you -- when you change shipping percentages, when you lower them, that means in order to make sure milk can access the pool, you have to be more generous in diversions, what can be allowed, not to be -- the shipping requirement has to be weaker.



1 So I would say yes. Again, market to market is 2 different, but overall, yes, we do believe that. Is that the only reason? No. It's an example, I 3 4 think, of one that's evident because we have evidentiary record of the request and the granting of the changes. 5 You describe in the third bullet point that the 6 Ο. 7 shipping percentages in the orders that you cite here was 8 lowered, not raised. And in the next bullet point you 9 say, "This can only be attributed to the degree to which 10 the milk supply is increasingly more than adequate to serve the Class I needs." 11 12 Do you see that? 13 Α. Yes. 14 It can also be because the demand for Class I 0. 15 conventional fluid milk has just decreased at the retail 16 level; is that fair? 17 Α. It is. But when it's decreased, that means that 18 you have more supply, unless the supply also responds. 19 I thought one of the most interesting things that 20 Dr. Brown talked about was the inelasticity of supply. 21 There's no question as farms have gotten bigger and very 22 modern and the way they produce, you don't have the 23 elasticity, you don't have the supply response, you don't 24 have the 50-cow dairy farms around anymore. They just 25 say, I'm done. I'm going to quit. I'm going to retire. 26 So there is -- that supply tends to be a little 27 more consistent, you know. Weather and price, obviously, 28 plays a big role in that.



So from my perspective, the -- the -- when the Class I percentages are lower, it's because Class I sales are lower, which is unfortunate. I think we all would love to see that change. But it also means the milk supply is remaining the same or it's increased.

Q. And you have worn a lot of hats in the dairy
industry, so it's fair to say that when we see that
consolidation in those smaller dairy farmers that are -are not as prevalent as they used to be, that's due, in
part, because they have gone out of business because they
haven't been able to financially survive in the current
economic conditions.

13 Yeah. They -- their cost structure, Α. 14 unfortunately, doesn't always -- isn't always competitive 15 today, which is unfortunate, but it's the case. 16 Particularly when you reach retirement, you have an asset 17 that its best value isn't a 50-cow dairy. The land to 18 grow corn for the 1,000-cow dairy next door may be a 19 better use. So they are making good economic decisions, 20 but those dairies aren't being passed on to generations 21 like the larger ones generally are.

Q. And the financial pressures that the dairy farmers face are just increasingly more difficult to absorb when you have a smaller farm as opposed to a larger farm, that can -- that can absorb some of those additional increases?

A. You know, I was raised on one of those smaller farms, so, yes, you are -- you are correct. But that's -that's not -- that's an issue of an overall supply/demand.



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We can't forget that butter, powder, whey, and cheese determine our milk price, and those markets are ultimately going to determine what the value of the products are, which will determine, depending how you disseminate it, what the value of the milk is.

Q. And the only -- the only control factor for a dairy farmer is at the price for which it sells its milk; is that right?

Α.

9

. I didn't catch the price.

Q. Yeah. The only way that the dairy farmer can
capture the increase in its costs to service the market,
is through the price through which it sells its product?

A. They either have to find ways to make milk a
little more efficiently, which we all know is very
difficult, or they have to -- they have to, you know,
hopefully find a better market.

17 I spent a lot of time in my life working on 18 specialty cheese plants, both from the standpoint of small 19 processors as well as farming groups, and it sounds great 20 until you realize the dent that makes in total milk demand Those little -- you are not going to build an 21 is tiny. 22 8-million-pound-a-day specialty cheese plant. And so 23 unfortunately, the overall impact on the industry isn't as 24 great, plus they tend to cost more to operate.

Q. And if we just walk through that supply chain and
we get to the fluid milk handlers, they have the ability
to affect their margins by controlling expenses, right?
A. As does the farm.



1 Q. Yes. 2 Α. To an extent -- and we all know there's limits to But, yes. 3 that. Yeah. 4 0. And they try their best to do that. 5 Α. And -- and then also, the fluid milk handler has 6 Ο. 7 the ability to control its prices and negotiate prices to 8 which its selling its product? 9 Let's just discuss that for a minute, Α. Yeah. 10 because those fluid suppliers are facing the same larger buyers as we talked about farms. In fact, I'd argue it's 11 12 worse. And so they have limited -- they have limited 13 ability to do that, and you would think they would. 14 And a good example, quite honestly, we had the 15 witness from United Dairy talking about that \$0.06 per 16 hundredweight. I have never bought packaged milk where a 17 difference between the number one and number two bid was 18 more than a cent and a half. Most of the times it's under 19 a penny. It's an extremely competitive business, just 20 like farming is. And so they struggle with this common 21 fear of the same margin issues. 22 And if you look at the shrinkage in the number of 23 Class I plants, and currently it's just like farms, if 24 they were really profitable, numbers wouldn't be dropping.

Q. And -- and certainly, when -- that -- I want to talk for a second about that very competitive environment that handlers have to operate within in order to sell



But they are.

25

their fluid milk products, because that's -- that's really where their biggest pinch is in order to continue to survive, is being able to sell at a price point that is commensurate with where their competitors are selling; is that fair?

A. It's very -- true across most industries, and milk
7 is no exception, for certain.

8 Q. And so by increasing price differentials across 9 the board as opposed to just trying to negotiate one-off 10 contracts, that is a levelling of the playing field 11 amongst those competitors; is that fair?

A. Depends how you do it. I would argue the proposals that have been made by National Milk, a lot of them maybe make good sense, they are not very consistent from market to market, and you are creating winners and losers. And there will be more testimony on that coming up, but that's one of the biggest concerns is changing the competitive surface.

Q. Okay. But assuming that we're in the same market and we're talking about the same differentials between two fluid milk handlers, having the differentials raised for both is -- means that when they both go to negotiate or provide bids to their retail outlets, they are on the same playing field; is that fair?

A. Couple things. First of all, if that was always
the case, they were always in the same differential zone,
but they are not. And that's -- and that's the -- that's
the struggle. It's a function -- just like with milk with



1 transportation.

2 But when you are setting a -- actual rather and a negotiated value, for example, serving a plant that's 3 4 maybe a little more difficult to -- when I worked for Kroger, we had a plant in Atlanta, and we always had 5 people wanting to sell that milk, but they often didn't 6 think about the traffic, and they were right, it's 7 8 horrible.

9 But the -- the -- I quess the point I would make 10 is that we can't -- we shouldn't, by regulation, change 11 that competitive -- and that's difficult, but we have to 12 be very careful we don't change that the competitive 13 difference.

14 And the other thing I would get into, again, 15 having -- is making sure milk, to the extent it can, 16 because we all know the majority of the milk price is 17 based on the commodity markets --

18

THE COURT: Based on commodity what?

19 THE WITNESS: Commodity markets for butter, 20 cheese, powder, and whey. And so you're always going to 21 have fluctuation. But I think there's a -- there's a -- I 22 think, a legitimate concern that we make sure we keep milk 23 products as competitive as we possibly can, with, 24 unfortunately, our competitors who would love to take our 25 markets away from us.

26 MS. HANCOCK: Okay. And then can we have 27 Exhibit 301?

THE COURT: Yes. I think this is -- remember



28

1 where you are. This is a perfect time for us to take our 2 15-minute break. So please be back and ready to go at 10:21. 3 (Whereupon, a break was taken.) 4 THE COURT: Let's go back on record. 5 We're back on record at 10:22. 6 7 Now, Ms. Hancock, you mentioned Exhibit 301. MS. HANCOCK: Made everybody run out of the room. 8 9 THE COURT: I have appreciated so much how whether you are the questioner or the witness, you really don't 10 11 have enough surface area for everything you need in front 12 of you. And you may proceed. 13 MS. HANCOCK: Thank you, Your Honor. 14 BY MS. HANCOCK: 15 0. Mr. Brown, I want to just look at a couple of 16 locations. 17 If we just turn to, under -- I'm going to use 18 Column A, and turn to 712, which is Marion County, 19 Indiana. 20 Α. Okay. 21 Kroger has a fluid milk plant in Marion County, 0. 22 Indiana; is that right? 23 I'm sorry? Α. 24 Kroger has a fluid milk plant in Indianapolis, Ο. 25 which is in Marion County? 26 Α. Yes, they do. 27 Ο. And that if we look at 712, under Column A, that 28 is current -- the model average for that one, that county,

TRANSCRIPT OF PROCEEDINGS NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 is \$3.75; is that right? 2 Α. Yes, Column L. And the proposal from National Milk is \$3.70; is 3 Ο. 4 that right? Α. Yes. 5 6 0. And so that's \$0.05 under what the model average 7 is; is that right? 8 Α. Uh-huh. Yes. 9 THE COURT: I'm getting your questions 10 beautifully. I'm not getting the responses. 11 THE WITNESS: Okay. Yes, it is. It's \$0.05 12 difference. 13 BY MS. HANCOCK: 14 And to the extent we're measuring if that's a good 0. 15 thing or a bad thing for Kroger, the winners or losers, 16 that's a 5% better price for Kroger than what the model 17 would suggest that National Milk is proposing; is that 18 right? 19 It's \$0.05 -- in this market, yes. Α. 20 Okay. And let's look at 752, which is Wayne Ο. 21 County, Indiana. 22 Prairie Farms has a fluid milk plant in Wayne 23 County, in Richmond; is that right? 24 I don't know. I have no reason not to believe Α. 25 you. 26 Okay. And the model average for Richmond, Q. 27 Indiana, or Wayne County, is \$3.60; is that right? 28 Α. Yes. TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

1 THE COURT: I got the question; I didn't hear the 2 answer. THE WITNESS: Yes. 3 BY MS. HANCOCK: 4 And the proposal from National Milk is \$3.70; is 5 0. that right? 6 7 Α. Yes. And so that's \$0.10 more than what the model 8 0. 9 average --10 In this specific example, yes, it's \$0.10 more. Α. 11 0. And those two locations are about 70 miles apart. 12 Does that sound right? 13 I honestly don't know where Wayne County is, so I Α. 14 can't speak to that. Is Fort Wayne where Wayne County is? 15 I mean, I just don't know. 16 Richmond, Indiana. Ο. 17 Α. Oh, Richmond. Okay. 18 Yeah, that sounds about right, distance-wise. 19 Let's go to Tennessee. We'll go to 2469. That's Ο. 20 on page 43 of Exhibit 301. 21 Α. Uh-huh. I'm about there. Robertson? No, 22 Rutherford County. Okay. 23 And Kroger has a plant in Rutherford County? 0. 24 Α. That's Murfreesboro, yes. 25 And in that scenario, the model average came out Ο. 26 with \$5.05 a hundredweight; is that right? 27 Α. Yes. 28 And the proposal by National Milk is \$4.85; is 0.

1 that right? 2 Α. Yes. And so that's a 20% improvement over what the 3 Ο. 4 model average is; is that right? \$0.20, yes. 5 Α. 6 0. Sorry. \$0.20 is what I meant to say. 7 Α. Yeah. Okay. Let's look at 2413 --8 Ο. 9 THE COURT: Wait, now, I'm not reading this right. 10 We're on Row 2470, correct? MS. HANCOCK: The far column on the left is 2470, 11 12 but Column A is what I have been using just because I can 13 say A, and that's 2469 for Rutherford, Tennessee. 14 THE WITNESS: Yes. That's the reference I was 15 using, yes. 16 THE COURT: And the model average is \$5.05? 17 MS. HANCOCK: I think that's what he agreed with 18 under Column L. 19 THE COURT: And the proposed is lower? 20 MS. HANCOCK: At \$4.85. 21 THE COURT: Yes. 22 BY MS. HANCOCK: 23 So National Milk's proposal for Rutherford, for 0. 24 Rutherford County, Tennessee, is \$0.20 less than the model 25 average; is that right? 26 Α. In this, again, we've got lots of lines here. In 27 this case, that is true. 28 Okay. And that is a location in which Kroger has Q.

TRANSCRIPT OF PROCEEDINGS

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 a fluid milk plant; is that right? 2 Α. Yes, they do. And about 34 miles away in Nashville, DFA has a 3 0. 4 competing fluid milk plant; is that right? Yes. 5 Α. 6 0. Okav. If you go to Column A, 2413 --7 Α. Davidson. -- in Davidson County, Tennessee, that's where 8 Ο. 9 Nashville is; is that right? 10 Α. Best of my recollection it is, yes. Yes. 11 0. And the model average is \$4.85; is that right? 12 Α. Yes. 13 And National Milk's recommendation is \$4.85; is 0. 14 that right? 15 That is correct. Α. 16 And so in that case where DFA has a plant, 0. 17 National Milk recommended what the model average is; is 18 that right? Α. 19 Yes. 20 Whereas, 34 miles away where Kroger's plant was 0. 21 located, National Milk recommended a price differential 22 that was \$0.20 less than the model average; is that right? 23 Yes. And I believe both markets, the proposal was Α. 24 \$4.85. It was the same. 25 And so that would mean that both Kroger and DFA 0. 26 would be on a level playing field in selling that milk? 27 Α. As far as minimum cost, yes. 28 Okay. And let's look at Ohio. I want to go to 0.

1 Column A, 2054. 2 Α. I feel like I'm doing Bible drills here. Find the 3 page and the chapter. 4 THE COURT: How are you doing? THE WITNESS: Well, my eyes are saying, I hope we 5 6 don't do too many of these, but I'm doing fine so far. 7 I'm -- excuse me, Nicole, could you give me the line number again? 8 9 MS. HANCOCK: Sure. 2054. It's on page 36. 10 THE WITNESS: Thank you. It's Licking County. 11 THE COURT: Would you spell that, please, 12 Mr. Witness? 13 THE WITNESS: Just like you think, L-I-C-K-I-N-G. Got some very creative county names, particularly in the 14 15 East. 16 BY MS. HANCOCK: 17 0. And in Newark, Ohio, which is Licking County --18 Α. Yes. 19 -- Kroger has a fluid milk plant; is that right? 0. 20 Yes, they do. Α. 21 And in Licking County, Ohio, the model average is Ο. 22 \$4 a hundredweight; is that right? 23 Α. Yes. And the proposal from National Milk is \$4 a 24 0. 25 hundredweight; is that right? 26 Α. Yes. 27 Ο. And if we look at Springfield, Ohio, which is in 28 Clark County, and that is under Column A, 2021, so the

TRANSCRIPT OF PROCEEDINGS

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 prior page, on page 35, DFA has a fluid milk plant in 2 Springfield, Ohio, Clark County; is that right? 3 Yes, they do. Α. And that's about 86 miles from Kroger's plant in 4 0. Newark, Ohio? 5 6 Α. How many miles? 7 Ο. 86. 8 I would -- it could be right. I thought it would Α. 9 be a little farther than that, but it might be correct. Ι 10 won't argue with that. 11 Under 100 miles, how about if we say that? 0. 12 Α. Yep. 13 Okay. So within a competitive range; is that 0. 14 fair? 15 Α. I think so. They are both going to serve some of 16 the same metropolitan markets. 17 0. And in Springfield, Ohio, the model average was 18 \$3.80? 19 Α. Yes. And the recommendation by National Milk was to 20 0. 21 increase that to \$4 a hundredweight; is that right? 22 Α. Yes. 23 And so the delta difference between those two 0. competing plants is that the model predicted \$4, National 24 25 Milk recommended \$4 where Kroger's plant was located, but 26 National Milk actually recommended \$0.20 more a 27 hundredweight for the competing DFA plant location; is 28 that right?



TRANSCRIPT OF PROCEEDINGS

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NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

1	Α.	Yes.				
2	Q.	Okay. Let's look at I'm just going to look at				
3	one more example, in Texas.					
4	Α.	If I can get my vision back here in a minute?				
5	Q.	In a minute.				
6	Α.	What page is it on, Nicole?				
7	Q.	It's going to be 2704 for Fort Worth.				
8	Α.	All right.				
9	Q.	And that's on page 47.				
10	Α.	Almost there. Okay.				
11	Q.	I said 2704. I meant 2709, sorry.				
12	A.	Yeah. Tarrant County, yes.				
13	Q.	Yeah.				
14		THE COURT: 2709?				
15		MS. HANCOCK: 2709. Same page, 47, Tarrant,				
16	T-A-R-R-A-N-T, County, Texas.					
17	BY MS. HANCOCK:					
18	Q.	And Kroger has a plant located in Fort Worth,				
19	Texas, w	which is in Tarrant County; is that right?				
20	A.	That is true.				
21	Q.	And if we look at the model average for Tarrant				
22	County,	it was \$3.70?				
23	Α.	Yes.				
24	Q.	And the recommendation was \$4 a hundredweight by				
25	National	Milk; is that right?				
26	Α.	Yes.				
27	Q.	If we go to 2701, so just a few lines up, in Smith				
28	County,	Texas, that's Tyler, Texas; is that right?				
1.4						



1 Α. Yes. 2 Ο. And there is a fluid milk plant there, Hiland. Are you familiar with that? 3 Yes, I'm familiar with that. I'm familiar with 4 Α. Been there a couple of times visiting farmers. 5 Tyler. 6 Ο. And that's a joint venture between Prairie Farms 7 and DFA? 8 I would expect that's true. I don't know what Α. 9 those ownerships -- I know there's a lot of relationships. 10 I don't know what they all are, but I have no reason not 11 to believe you. 12 0. And the model in Tyler, Texas, averaged \$3.85; is 13 that right? 14 Α. Yes. 15 And National Milk's recommendation is \$4.35? Ο. 16 Α. Yes. 17 0. And that's an increase of \$0.50 over the model 18 recommendation? 19 It is. Α. 20 And whereas, if we contrast that with Tarrant 0. 21 County, that was only a \$0.30 increase over what the model 22 recommendation was? 23 Yes. Can you tell me how far Fort Worth is from Α. 24 Tyler? 25 By my calculations, it's 132 miles. Ο. 26 Α. Yeah. 27 Does that sound right? Ο. 28 It does sound about right. I have never driven Α.

1 it, but I know about where they are. Yes, that sounds 2 about right. I was just curious. 3 Within a competitive range for fluid milk plants; Ο. is that fair? 4 Some degree. Milk movement may be a little 5 Α. 6 different out in Tyler than it would be out of -- you are 7 going to have more south and east from Tyler than you're 8 going to from Fort Worth, but --9 And you would --Ο. 10 I do know all of these plants have some overlap, Α. 11 they do, if they are reasonably close to each other. 12 0. You would agree with me in the examples that we 13 have just covered for Kroger milk plants as compared to 14 DFA plants, or a DFA-Prairie Farms joint venture plant, 15 Kroger benefitted from National Milk's recommended 16 proposal as compared to the DFA plants; is that right? 17 Α. With the simple examples you gave, yes, but 18 there's exceptions. 19 Let me just say, I don't think there was a lot of 20 evil intent with the differential map. I just think it's 21 extremely difficult to do. 22 Ο. Yeah. And I appreciate that. And I think that 23 that's just kind of the point, right? 24 Α. Yes. 25 That there's a lot of ways to slice and dice this 0. 26 information and look at it through different lenses; is 27 that fair?

It is. And I would say, because I know a couple Α.



28

1 of your witnesses said, you know, we're all giving poor 2 D- -- I- -- USDA to help us solve this dilemma. So I would say the same thing, that it's extremely difficult to 3 4 do. And we looked at --5 Ο. It is. 6 Α. 7 0. Oh, I'm sorry. 8 No, no, that's fine. That's it. Α. 9 And we looked at some examples from other 0. 10 witnesses where there are some examples where you can see 11 that there might be a cooperative plant where the proposal 12 looks more beneficial than other plants in some 13 neighboring area; is that fair? 14 Yes. Α. 15 And so it really is just a lens that you look 0. 16 through trying to make the right adjustments for the 17 entire country; is that fair? 18 It is. But you can really kill or help a single Α. 19 plant, and that's why it's so important that this be --20 whatever changes, if changes are elected to be made by 21 USDA, that there's a lot of diligence that we don't -- we 22 don't disadvantage through -- you know, if you can't 23 compete because you are not good at what you do or your 24 shelf life is lousy is one thing. But if it's a regulated 25 price that's keeping you from being competitive or 26 changing that surface, you got to be really careful. And 27 that's, I think, one of our -- certainly our biggest 28 concern is there's so many changes. And the size of the



spreadsheet kind of defines how big the problem is, how
 big the -- how big the solve is.

Q. And in your experience as a buyer for Kroger, did Kroger require something in excess of Grade A quality standards?

A. Everybody requires something in excess of Grade Aquality standards. But, yes, they did.

Q. Okay. Do you -- do you have the ability to share
what those standards were that were in excess of Grade A?

10 A. I can't because I don't have them all memorized.
11 Certainly I think cell count is 250, and they are not real
12 rigorous in enforcing it, because when a load milk shows
13 up, you are not going to reject a load of milk under the
14 cell count.

15

Temperature is 41. Temperature is more rigorous.

And, again, it's the same with cheese, you justget better product quality and shelf life.

Beyond that, those are the two that we always talked about. I know there's others, obviously. But -but -- and some of the plants, depending what they make in Class II, may have slightly different requirements. But they are generally the same for everybody, for all the plants.

Q. And in your experience, did Kroger sell itsconventional milk product as a loss leader?

A. At times. It's -- you know, we had that discussion yesterday on -- it's all about to do with competition. If -- if Walmart and Target, Aldi, all



want -- want the business, Kroger is going to compete. And if you don't -- if you are the only store in town, it's kind of like if you are the only supplier in town for milk or for raw milk, you have a different leverage. And so it plays a role.

6 But, yes, they do. And I can tell you when they 7 do that, they sell -- if you look in aggregate, people buy 8 a lot of milk when it's -- when you are running a real 9 deep discount sale. And what's interesting with that is 10 that -- it's kind of like it's true with cheese, it's true 11 with butter. In aggregate, they buy more product. 12 Because once they buy that, they consume it. And then the 13 next week some are going to need milk again anyways.

14 So -- but, you know, it's an old joke, it's easy 15 to sell if you lose money, so you try not to do that more 16 than you have to. It is an incentive. For example, this 17 time of year, it's butter. Everybody loses money on 18 butter. But they are hoping when you come and buy your 19 butter, you are going to buy your ham, you're going to buy 20 your vegetables, you're going to buy everything else to go 21 with it.

I can speak from experience, butter and eggs and milk are probably the biggest tools for loss leaders in, I think, most grocery stores. They run big specials to get people in the door. And you have butter makers that are willing to cooperate with that as far as the national brands.

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Q. And in your experience, are the health-enhanced



TRANSCRIPT OF PROCEEDINGS

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

fluid milk ever used as a loss leader? 1 2 Α. No. In your experience, are the organic milks ever 3 Ο. 4 used as a loss leader? At times, yes. 5 Α. Not as frequent as the conventional milk? 6 0. 7 Α. No, but they are. In your experience, is the lactose-free used as a 8 Ο. loss leader? 9 10 Not really. But it -- again, it depends on the Α. 11 market. Kroger has some markets where they actually offer 12 HTST gallon of lactose-free milk, where we have large 13 amounts of populations that want -- who need lactose-free, 14 and they will run it with a promotion. 15 But in most markets, it's a -- it's in ESL half 16 gallons. And, no, they don't. I mean, they are 17 competitive, they are well below the cost generally of the 18 national brands, but they don't necessarily run a lot of 19 specials. But they do some. They do some. 20 A lot of that specials on those kinds specialty 21 milks, or high-protein, high-nutrition milks, is competing 22 with the national brand, try the Kroger brand. 23 Whereas, with regular milk, it's more like, milk 24 is milk. Our milk's good if you have good quality, and 25 come buy it from us, and, oh, by the way, please fill the 26 rest of your grocery basket while you are at it. 27 0. And is the -- is your understanding of the 28 requirement for something in excess of Grade A by Kroger,

is that so that that conventional milk has an extended 1 2 shelf life or can extend it out as much as possible? It's to keep the shelf life as consistent as 3 Α. 4 I would argue, pretty much everybody does that. possible. That's not unique to Kroger. 5 6 Ο. Yeah. 7 Α. It's not unique to non-co-ops because it just 8 makes good business sense. That's the market for fluid milk today? 9 Ο. 10 I would argue in a lot of places it's the Α. It is. market for cheese milk, too. They have -- they have 11 12 standards as well. 13 Same with -- even with powder, because of mold 14 spore formations, you may have some special requirements 15 on -- on even some powder milk in some markets. 16 Now, those plants tend to be run by co-ops, so 17 it's within the co-op. There will be -- there will be 18 incentives or disincentives if you can't keep your spore 19 counts at a point where they can export. 20 You performed some calculations and talked about Ο. 21 increasing the differentials will lower -- or increasing 22 the differentials will -- will raise those Class I prices, 23 and on page 10 --24 Of the testimony or the overhead? Α. 25 Page 10 of the PowerPoint presentation in 0. Exhibit 434. 26 27 Overheads, I'm aging myself here. Α. Yeah. 28 Overheads. 0.

TRANSCRIPT OF PROCEEDINGS December 08, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 Α. At least I didn't say acetates. 2 THE COURT: Can we put our Exhibit 301 away for 3 now? 4 MS. HANCOCK: You can. THE COURT: That would be good. 5 6 THE WITNESS: Thank you. 7 BY MS. HANCOCK: When you were performing your calculations on the 8 0. 9 prior page, on page 9 as well, did you take into account 10 that there's a potential for increased Make Allowance 11 costs? 12 Α. I did not. It was an absence -- it was looking at 13 the single proposal. 14 You would agree with me that if Make Allowances 0. 15 are increased, that that would have a corresponding effect 16 on --17 Α. It would -- it would change --18 THE COURT: Whoa. 19 THE WITNESS: Sorry. 20 BY MS. HANCOCK: 21 -- it would have a corresponding effect on the Ο. 22 Class I prices as well? 23 It would change what that chart looked like, yes. Α. 24 Okav. I want to turn to page 31 of your Ο. 25 PowerPoint presentation in Exhibit 434. 26 Α. Okay. I am there. 27 Ο. And you talk about the cost of maintaining the 28 Grade A status on this slide; is that fair?

2 Q. And you understand that that cost of maintaining 3 the Grade A status is one of the costs that is -- that was 4 used to set the current differentials?

A. Yes.

Yes.

Α.

1

5

6

Q. And that's why you are discussing it here?

7 Α. We just think in the broader context you need to look at it, because it's no longer -- it's no longer a 8 It's in addition, because there's no B milk to 9 cost. 10 speak of, just a few -- a few farms left. And because the -- both the economic incentive on milk price, just 11 12 regulated price -- because I can assure you Grade B milk 13 is not sold at the regular price. And the -- and just the 14 need -- incentive to keep a clean, well-running dairy, you 15 just -- you just don't see it.

And it's everybody. I mean, Glanbia went to Grade A in 2008. They had a few Grade B farms left, and they went to Grade A simply because they had cream to sell, its component tests went up, they had cream to sell, and they also had some whey customers that wanted Grade A. So they went to Grade A.

And for the most part it's interesting, because I talked to them, because there's really two things we saw when people converted: It was well location, or honest to God, a milk house sink to wash your hands, which is kind of amazing.

And so most of them just changed over. It was a minimum cost. But no one, once you are there, you don't



1 go back, because you run a better dairy. Your cows are 2 healthier if you eat Grade A. And it's just common husbandry. Actually, I would argue Grade A, you can be 3 4 pretty sloppy and still be Grade A standard. So I think it's become irrelevant. 5 But it is in context of the overall cost. We're 6 7 not saying just remove this no matter what happens. We're 8 saying, if you are looking at the overall differential 9 map, this needs to be considered as part of what that 10 level should be. 11 And --Ο. 12 Α. And it certainly doesn't need to be increased. 13 And you say that there's only these two items that 0. 14 are referenced on page 31 as the cost that would be 15 incurred by a dairy farm in maintaining Grade A? 16 Α. Yes, basically that's correct. There's a lot of 17 other costs to maintaining a good dairy. But they're 18 really -- we don't view them as being B versus A, again, and we compared -- we compared the export guide, and 19 20 basically that's the standard for grading guide for -- for 21 products. They have their own set of standards. Because 22 you can use Grade B milk and make graded -- a lot of 23 graded products, versus the NCIMS, the Interstate Milk Shippers rules. And we compared the two. And there's 24 25 a -- there's more -- there's some, of course, obviously if 26 you are going to convert --27 (Court Reporter clarification.) 28 THE WITNESS: So there's things if you are going

to convert, it's true, you need to change, but that's
 pretty much been done.

As far as normal maintenance, if you are in a 3 4 traditional barn, you got to keep the barn painted. Although from talking to friends of mine, they still milk 5 6 cows in stall barns in New York State. They say they 7 don't get too worried about it anymore. And then, of 8 course, you have two inspections a year. Although a lot 9 of them -- a lot of the people that still buy B milk do 10 two inspections a year just because of the standpoint of keeping those farms in conformance, they just feel --11

12

(Court Reporter clarification.)

13 THE WITNESS: There's a lot of B dairies that 14 their buyers still require twice-annual inspections. In 15 fact, most of the time, those inspections are paid for by 16 the farm -- I mean, by the plant, or they're paid for by 17 the state. Some states actually do it for free, or as 18 part of their licensing to get your -- get your milk 19 shipper license. So it isn't necessarily an additional 20 cost.

And then with the barns, everything else is smooth concrete. Other things that, for the most part, again, if you are already -- if you are already Grade A, you are already there.

25 So -- and if you look at the -- and I don't have 26 numbers on production per cow on Grade B, but if it's 70% 27 of what Grade A is, I'd be shocked. I mean, your modern 28 progressive -- well, 90% of the milk is following those



1 practices. 2 And they are fairly lenient. A lot of that is because NCIMS, the states fight, so they have trouble 3 4 making it stricter, even though even National Milk often advocated for stronger restrictions. 5 6 THE COURT: I hope she got that whole sentence. 7 THE WITNESS: Let me try again. THE COURT: You know, there's a chance that I 8 9 could appoint a bailiff and have the bailiff stand near 10 you. Would that help? 11 THE WITNESS: I can -- "I've got COVID. Can I go? 12 See ya." No. 13 THE COURT: Do that explanation again. 14 THE WITNESS: Of course I will. Yes. 15 A couple things. Again, at the risk of being too 16 repetitive. The Grade A standard, even a lot of the 17 buyers of Grade B milk enforce the Grade A standards, 18 which aren't that different, particularly the inspection 19 frequency, because they just think it's good business 20 practice to have two inspections a year, or more if they 21 are needed. 22 The -- as far as farms converting from B to A, 23 they have pretty much all done that. My experience with 24 that is limited really to two groups of people. One is 25 small farms going Grade A, often organic, and often, a lot 26 of times in the Midwest, and that's often putting in a 27 well. And with the difference in price of milk, it 28 doesn't take long to pay for that.



The other thing is, basically milk house setup has to change slightly. They may have to put in an extra sink, they may have to redo their walls, but they are fairly minor. But that's already been done, because almost all farms are already -- are already Grade A. BY MS. HANCOCK:

Q. And once -- once the cow is milked, there's additional costs that the dairy farm incurs in order to maintain that Grade A status, like maintaining the temperature.

Α. But, again, if you look at requirements for 11 Yes. 12 milk versus -- we talk a lot about super-high quality 13 I wouldn't call it super-high quality, but most milk. 14 plants enforce, for example, temperature requirements. 15 Again, if you look at the shipping export requirements, 16 some of that is in there, even though it's not technically 17 always in the Grade B.

18

Very few states have Grade B regs anymore.

19 Q. Yeah, I'm just talking about what actual costs are 20 incurred at the farm level. In addition to what you are 21 talking about here, there are additional costs, such as 22 the sanitation and the temperature control, in order to 23 maintain that Grade A status until the point of delivery?

A. I would argue, if you are running a good dairy,
there aren't, because you are going to do that regardless.
If you are currently B, you may have some savings. If you
are A and want to go to B, there's really no savings.
Q. Okay. So you are just saying it was already going



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10348

1 to be done anyway, so we don't have to talk about that in 2 differentials? I know it. I know it's already being done --3 Α. 4 0. Okay. -- because it's expected of them by their milk 5 Α. 6 buyers, whether they are a co-op or a private plant. 7 0. That's your point, though, is that because it's already being done, we don't have compensate for it? 8 9 Exactly. I think everybody is expecting Grade A. Α. 10 Back when you had people who were converting, you 11 go back to 1950, when 60% of the milk was B, it probably 12 was a real issue. Today, it's not. 13 And the reason it's not is because everybody who 14 is practicing good husbandry and good sanitation is there, 15 and because so many of the manufacturing plants require 16 Grade A now and are IMS certified, it's becoming 17 ubiquitous. To say it's an added cost anymore, I don't 18 think it really is. 19 Okay. If you turn to page 33 of Exhibit 434. Ο. 20 You're talking, on this slide you have a chart there that 21 says, "Averages for Federal Orders with Somatic Sell Count 22 Programs." 23 Do you see that? 24 Α. Yes. 25 And you have Appalachian, Florida, and Southeast 0. 26 as the first three there. 27 Are you saying that those three orders have a somatic cell count requirement? 28

1	A. They apparently do because they have reported				
2	data. I took the counties based on USDA's it was the				
3	sheet it was the I should have had the reference on				
4	here, it's in the document. It's the report of all the				
5	pounds of components that are produced by class, and the				
6	very last column is somatic cell count. That's the only				
7	one that it's on.				
8	Q. And you didn't include Southwest order.				
9	Why not?				
10	A. Because I missed it. If it should be there, I				
11	missed it. It's my mistake.				
12	Q. Okay. Do you believe that does does IDFA				
13	believe or support Class I prices being higher than				
14	manufacturing prices?				
15	A. We support the current differential program. So				
16	the answer would be yes.				
17	Q. And does IDFA support the continuation of having a				
18	Federal Order in general?				
19	A. Well, you will hear more testimony from more of				
20	our members, and members of MIG, and you will find that,				
21	again, some think they don't need it anymore. A lot of				
22	them like you heard, even though he has a lot of				
23	concerns, our witness from United Dairy they still see				
24	value. It's just to make sure that they're structured				
25	properly.				
26	Q. And that's the delicate line that you are walking				
27	the balance between; is that fair?				
28	A. It is. And it's it's very interesting,				



particularly in manufacturing. Because if you are not in a Federal Order, you often have a competitive advantage, particularly in the West where there isn't. I mean, Idaho is 3% Class I maybe. If you count organic, it may be 4.

5 So it's -- it's kind of relevant to the market. 6 You get further east, particularly, for example, the 7 Northeast, where being part of the pool is more important. 8 And, of course, they have regulations there to keep that 9 pool more disciplined on depooling. And then you'll find 10 that most of the cheese manufacturers there believe it is 11 still important. And so it really depends on the market.

12 Q. Do you know what percentage of your membership13 supports the continuation of the Federal Order system?

A. We don't. But we haven't had a vote to get rid of it, so that should tell you. If someone wanted to, they'd bring it up. And we haven't had -- we haven't had that discussion. The discussion's been about, how do we make it work better.

19 Q. You just know that you have a split in opinion in 20 your membership; is that fair?

A. Yes. And you do in yours, too, but you might notknow it.

Q. Okay.

MS. HANCOCK: Thank you for your time, Mr. Brown. THE WITNESS: Thank you very much.

26 MR. ENGLISH: Your Honor, my name is Chip English, 27 good morning. I represent the Milk Innovation Group. I 28 had not intended on getting up today.



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TRANSCRIPT OF PROCEEDINGS

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

1 And unfortunately, Mr. Brown, I'll keep it as 2 short as possible. But I need, Your Honor, to give him back 3 4 spreadsheet 301. I'm sorry. 5 THE COURT: You are setting a very good example 6 for the pace of speaking. Thank you. 7 MR. ENGLISH: I will try to hold up. 8 THE WITNESS: If he's going to make me look at 9 that again, he has to be nice. Here we go. 10 CROSS-EXAMINATION BY MR. ENGLISH: 11 12 Ο. I'm going to limit this to two states. 13 Α. Okay. Very good. 14 And partly because maybe I got confused, but now I 0. 15 think the record may be confused, I want to start with 16 Ohio. 17 So we use row --18 Α. Okay. 19 -- so let's use Row 2055, which is Licking, Ohio, Q. 20 where Kroger has an operation. 21 Α. Yes. 22 Ο. Correct? 23 Α. They do. 24 Okay. Row 2055. Ο. 25 Α. Just a second. 26 THE COURT: Do you know the page, Mr. English? 27 MR. ENGLISH: I'm using my computer, Your Honor. 28 THE WITNESS: I have got it right here. You are



TRANSCRIPT OF PROCEEDINGS December 08, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 qood. 2055. Okay. That is -- that's Licking -- again, that's Licking County, yes. 2 BY MR. ENGLISH: 3 And so I only want to look at Column L, which is 4 Ο. the University of Wisconsin three-year average, and 5 6 Column O. 7 And so for Licking, where Kroger has a plant, for the average, I see they are both at \$4, correct? 8 9 Α. Yes. 10 So National Milk proposed no change for the model 0. 11 for Kroger's operation in Licking, Ohio, correct? 12 Α. Yes. 13 So now please turn to Row 2086 --0. 14 Α. Okay. 15 -- Stark County, Ohio --0. 16 (Court Reporter clarification.) 17 MR. ENGLISH: Stark, S-T-A-R-K. 18 BY MR. ENGLISH: 19 And there is a cooperative-owned plant recently Ο. 20 purchased there, correct? 21 I believe -- I know where it is, so if it's Stark Α. 22 County, yes. That's Canton, I think. 23 Yes. That's Canton. 0. 24 Α. Yes. 25 City of Canton. All right. 0. 26 So let's go again and look at the University of 27 Wisconsin average under Column L, and then the National 28 Milk under O, and I believe you will find that the average



TRANSCRIPT OF PROCEEDINGS NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 was \$4, just like Kroger, but the proposal was \$3.70, 2 correct? That is correct. 3 Α. Which is \$0.30 down, correct? 4 0. That is correct. 5 Α. 6 0. While Kroger was held the same, correct? 7 Α. Yes. So, now, you and NMPF counsel discussed the DFA 8 0. 9 plant in Wayne County, Ohio, just east of here, and that 10 is Row 2095. 11 Do you see Row 2095? 12 Α. Yep, that's Wooster. 13 THE COURT: He's using the farthest left column. 14 THE WITNESS: Oh, I found it. 15 MR. ENGLISH: I'm using the row. 16 THE WITNESS: It's Wayne County. Wooster's a town 17 in Wayne County. 18 BY MR. ENGLISH: 19 And the plant there is known as Smith Foods. Ο. 20 But that's the one now owned by DFA, correct? 21 I believe so, yes. Α. 22 All right. So now let's look again at Column L 0. 23 for University of Wisconsin average, which was \$3.95, 24 correct? 25 Α. Yes. 26 And then let's look at Column O. Q. 27 And this is where I may have got confused, but I 28 see \$3.70, correct? TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

TRANSCRIPT OF PROCEEDINGS December 08, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 Α. I do, too -- 3.70. 2 Ο. Which is actually down \$0.25, correct? 3 Yes. Α. 4 And maybe we don't have to do this by row, but you Ο. have been here for most of the hearing, correct? 5 I'm a Hilton Diamond for the first time of my 6 Α. 7 life, yes. I'm not sure it was worth it. Kroger has a plant in Lynchburg, Virginia, 8 0. 9 correct? 10 They sure do. Α. 11 0. And you have heard the testimony that your Kroger 12 plant in Lynchburg and a cooperative-owned plant in 13 Newport News have been set by -- proposed by National Milk 14 to have the same value in terms of proposal, correct? 15 That is true. Α. 16 And that was a \$0.50 divergence from the model, Ο. 17 correct? 18 Α. Yes. 19 MR. ENGLISH: That's all I have. Thank you, Your 20 Honor. 21 Thank you for your time. 22 THE COURT: Thank you. 23 When we were on Wayne County, Ohio, you mentioned 24 Wooster. 25 THE WITNESS: Wooster is the county seat. It's 26 the city of any size in Wayne County, Ohio. I just gave 27 myself a point of reference. 28 THE COURT: Spell it.



TRANSCRIE	PT OF PI	ROCEED	INGS				December	08,
NATIONAL	FEDERA	L MILK	MARKETING	ORDER	PRICING	FORMULA	HEARING	

1	THE WITNESS: Wooster, just like "Rooster" with a					
2	"W." W-O-O-S-T-E-R. It isn't like the sauce from					
3	Britain. W-O-O-S-T-E-R.					
4	THE COURT: Excellent.					
5	Who next has questions? Is there anyone else who					
6	would like to ask questions before I call on the					
7	Agricultural Marketing Service?					
8	Mr. Rosenbaum.					
9	MR. ROSENBAUM: Steve Rosenbaum for the					
10	International Dairy Foods Association.					
11	I just want to ask a question to help make sure we					
12	have IDFA's position clear on various proposals.					
13	REDIRECT EXAMINATION					
14	BY MR. ROSENBAUM:					
15	Q. So in your testimony you point out the fact that					
16	there has been a recent decision by USDA to increase the					
17	transportation credits in the Southeast orders, as well as					
18	provide, for the first time, an additional set of credits					
19	in those orders, correct?					
20	A. Yes.					
21	Q. And you have calculated what the dollar amount of					
22	those are, correct?					
23	A. We best I could figure it out, yes, we have.					
24	Q. Okay. And you also provided an indication of what					
25	the percentage those numbers represent of Proposal 19					
26	increases, correct?					
27	A. That is correct.					
28	Q. So just but to get be clear about this, IDFA					
÷.,						

is not proposing that the current differentials be reduced 1 2 as a result of the adoption of these new credits; is that 3 correct?

4 Yeah. We -- we are supporting the current Α. differential map as it exists everywhere.

The point you are making with your testimony 6 0. 7 regarding the increased credits in Florida and the other 8 Southeast orders, is that if USDA were to consider 9 increasing the Class I differentials, as Proposal 19 would 10 do, USDA should take into account the fact that -- that all these additional credits are, upon referendum 11 12 approval, going to be provided for as a wholly separate 13 mechanism, correct?

14 Yes. And -- and just -- in -- it's all a matter Α. 15 of timing. When the proposals were made, there wasn't the 16 final decision. Now there is a final decision, so we 17 believe that that decision should be part of the 18 determination, because it is significantly raising costs for the Southeast three orders. 19

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MR. ROSENBAUM: Okay. That's all I have.

21 THE COURT: All right. I'm going to remove the 22 301. I'll give it back to him, but it just gives him more 23 space to look at his prepared testimony if I have it off 24 his witness stand. All right.

25 The Agricultural Marketing Service may ask 26 questions.

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CROSS-EXAMINATION

BY MS. TAYLOR:

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Q. Good morning.

A. Good morning.

Q. I want to go through your Exhibit 434, is your PowerPoint presentation. I'm going to stick to that, and I promise to not make you look at Exhibit 301, so --

8 A. That's great, because you are kind of blurry right9 now.

Q. All right. Let's see. I want to start on slide 4, and this is where you are talking about an adequate supply. And you have some numbers in there, both looking at reserve supply based on pooled milk and a reserve supply based on total milk.

15 A. That's based our estimates on current production,16 current order participation, yes.

Q. So when you -- when IDFA thinks about a reserve supply, which one of those do you think should be looked at to determine an adequate reserve supply?

A. Since all milk is Grade A, and all milk is NBTU, it's all eligible to supply the market, we know with depooling those numbers move up and down depending what class has got an advantage. We'd all love it if that didn't happen, but it does. So we believe it's -- it's actually closer to 80, but we still think 73% is ample.

Q. And can you speak about how pricing versus pooling provisions in Federal Orders affect what that reserve supply looks like, at least when you are looking at the



1 pooled milk number?

0.

A. Well, it really depends on the market. It depends on performance requirements as far as -- but -- and, again, I can't remember when we last had an order call. I don't know even if they even exist anymore.

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I don't believe they do.

A. Yeah. So which is kind of weird, because that's
one of the premises of having orders, to make sure there's
a supply. But thankfully we haven't needed it. We have
had a supply of milk, and it's worked.

11 So in -- in our minds, or at least in my personal 12 mind, and, again, my experience in manufacturing markets 13 is mostly cheese, my experience in fluid milk markets is 14 more the South because that's where Kroger's plants are.

15 But in general, we believe that that milk is 16 available, because it's a function, particularly if you 17 have fairly liberal repooling requirements, they can pull 18 that milk back on, if they need to, fairly quickly. And, again, when you have the ample supplies, and in 19 20 particularly the Northern markets where you are mostly 21 25% or less Class I -- I'm sorry, thank you, thank you, 22 Erin -- 25% or less Class I, there's more than enough 23 milk, because the milk, it is there.

I -- we just -- my personal experience, I have had not had trouble getting milk. Couple snowstorms once in a while, but I'll tell you -- and that's -- that's challenging for everyone. And that's one of the things with the universal receiving credits, which are so common,



1 if it causes delays and you need more milk to get to your 2 stores in a hurry, you pay for that. And you should, 3 because it's causing some disruption to your supplier. So 4 in my mind, is there really isn't -- really isn't a 5 concern.

6 The Southeast is different. I guess, from my 7 opinion, that's one of the reasons we now have our new 8 final rule for the Southeast, is to help move that milk 9 because those markets don't have adequate reserve supply, 10 especially some times a year.

11 So I don't know if I answered your question, but I 12 generally find that that milk, it needs to be found, it 13 will be found. And they will -- and they will move into 14 the market. We have so much extra in a lot of the 15 markets. Depending what class is pooled, we still seem to 16 have adequate supply if there is depooling.

Q. So another way, in your opinion, neither of thosereally affect what you consider to be a reserve supply?

19 A. No, I don't. I think empirically I haven't. You 20 know, I have certainly seen ups and downs, particularly 21 with the opening of the big new cheese plant in Michigan, 22 which really tightened up supply. We still had no trouble 23 getting milk.

And we had, to their credit, excellent suppliers.25 Very good suppliers.

Q. Okay. On the next page, page 5, talking again, on the same topic of adequate supply for Class I needs. There's been discussion in this hearing about there is a



1 lot of milk, but now maybe it's not where it needs to be, 2 and maybe the suppliers who have been supplying the milk 3 might not be willing to supply it in the future because of 4 the cost they incur to get it to those plants.

Can you -- can you talk about how that should be, or not be, a consideration?

A. When you start looking at individual markets with differential maps, you get yourself in trouble. I mean, that's some of the things that we're seeing. Again, we -we think National Milk's proposal was made with great intentions, there's a lot of good work there, but you can create winners and losers. That's where market premiums play a role.

14If you're difficult to serve, if you are in a15city, if your receipts, from my experience --

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(Court Reporter clarification.)

17 THE WITNESS: If you're in a city where it's 18 difficult to get to, or if your receipts, your daily milk 19 intake isn't consistent, you pay for that, and you should 20 because you're incurring costs.

I think the same thing is true when you move milk from distances. Before the final decision we now have, which we fully expect will be implemented, we had seen significant increases in transportation charges, and they were fair, I mean, because their costs had gone up.

26 So to me, that's a role -- we can't encase every 27 dollar into the regulated price. This is a minimum price 28 system. It's to help promote orderly flow of milk. And



as part of that, I think, again, you got to look at what
 those -- a couple things.

Are we putting the dollars in differentials where the milk really needs to be or are we putting the dollars in the differentials where the differentials are low so it helps raise that price, even if utilization is very, very low?

8 The second thing: So, is that slope right? Are 9 we getting that slope right? And that's a huge challenge. 10 I don't -- I don't envy anybody that job.

I think the other part of that, though, is expectations that we shouldn't have the Federal Order system build in the premium programs. They should be separate. There should be minimum pricing. I don't care if it's butter, powder, cheese, yogurt, or milk. So let's leave room for that market to make those movements where milk needs to go.

And then one final comment is that when you have marketing agencies in common, which are very effective in negotiating, and they are legal. And they do help farmers, there's no doubt about that. But they also tend to make it more difficult to customize needs for certain plants, because a lot of times you even ask for that, they don't want to do it. You know, this is the rules.

And -- and I think, for example, in the case of Kroger, there's places having adjustments would help Kroger, there's places it would probably hurt Kroger, but it makes it kind of inflexible. And that's not a Federal



Order issue, that's a marketing issue. And, again, that's between our milk suppliers and us. We are 100% co-op. We -- I'm no longer at Kroger. Kroger is 100% co-op supply, so they -- they understand that value of the market, the service that it brings.

Q. So if I take what you just said, and I want to go
one step further, right? What I'm hearing, I think, from
you is, I think maybe everyone in the room, we might
agree, Federal Orders are kind of a foundation for the
industry to operate under.

But what I'm hearing is, the differentials should never be updated to reflect current market realities, that it should always be left up to the market to operate on top of that, and so we would never recalibrate these things to reflect structural changes in the industry?

16 A. I expect we'll see recalibration. I think, from 17 our position, it's got to be right, and if you can't get 18 it right, you do more damage by overvaluing milk and 19 making plants uncompetitive than you do by undervaluing 20 it, because markets can make up that difference.

21 So it would be dishonest to say we don't think 22 there's times we need adjustments, just like we need 23 adjustments in Make Allowances.

But it's just -- it's a -- it's a job I don't envy anyone having, but I think it's very, very important that -- that there's a lot of investment, a lot of infrastructure that's been built around the current differential map. So when we make adjustments to that



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1 map, we need to be careful that we're not creating winners 2 and losers. And I don't think that's wicked or intentional, 3 4 but you still need to be careful because it can happen. That's my view. 5 6 Ο. So how would you suggest getting it right? Т 7 mean, it's been 25 years. My suggestion would have been if we had a broader 8 Α. 9 conversation, maybe it would have helped. 10 I think you have got lots of -- you know, we're 11 pretty fond of Mark Stephenson and Chuck Nicholson's work. 12 You can argue over the \$1.60. But as far as the way the 13 map works, we're fond of it. And I understand there needs 14 to be tinkering to that to make things work, we just need 15 to be careful that we don't create winners and losers. 16 I don't know what that answer is. I think we have 17 got a good record that will hopefully help USDA figure out 18 what that needs to be. I don't envy you and your team 19 that job, Erin, but --20 0. I don't envy us, either. 21 Α. Okay. So --22 Ο. So --23 I don't want to pawn it off on you, but in the Α. 24 end, you are the folks who are going to help us figure 25 this out. 26 Ο. Okay. So it's important to get it right. And 27 what I heard from that is, there might be tinkering that 28 needs to be done, but you are not quite sure what that is?



1 Α. Personally, I'm not. I think you are going to 2 have testimony from people that are affected. I mean, we just had some discussion on different markets and how they 3 4 relate, and how those changes -- changes occur. I do have a lot of faith in the Wisconsin model, 5 6 just because it's become more sophisticated. I thought 7 Mark's presentation yesterday really helped me better 8 understand how that model worked. And so there's a lot of 9 good information there. 10 I also think that it's -- it's hard to do 11 something that complicated without a broader conversation 12 reflecting all sides of the industry. We really didn't 13 have that, unfortunately. 14 Well, luckily this hearing provides that as part Ο. 15 of that broader --16 Α. Oh, you are getting it now. That's why we are --17 that's why I'm Hilton Diamond, you are getting lots of 18 good information, so --19 All right. Ο. 20 Α. Yeah. 21 If I can turn to page 7. Let me turn to page 6 Ο. 22 first. 23 And here you are talking about the decline in milk 24 sales, which I think everyone acknowledges those facts. 25 And there's been discussion at the hearing about, what 26 does that mean for the Federal Order program? 27 And so what I read from your slide is, we shouldn't make changes to the differentials because fluid 28



1 milk sales have declined.

2 So my question is: Where in the Act does it say 3 that an objective of Federal Orders is to increase, or in 4 some ways, not -- at least not impact fluid milk 5 consumption?

A. I don't think it is there. But through -- it
7 is -- it is -- it is a reality. And Class I is the only
8 milk class that isn't really based on ingredient costs as
9 far as relative to other products.

I mean, Class III and IV are based basically on, this is the commodity value for those products. What you want to do in your plant to add value is up to you, but we kind of set that base.

14 Class I is set on the premise -- again, correct me 15 if I'm wrong -- my understanding has been one of the 16 reasons we have differentials and we have a differential 17 map is to make sure the Class I market is fully, fully 18 served. And I think that's a -- that's important. It's 19 absolutely important.

I think the argument over what that level is, is what we're having this discussion about. And I also think that unconsumption, we need -- we've always kind of viewed Class I as being this higher value-added product. I can assure you in the grocery business, it's the lowest margin section of the dairy case by far. So it is not -- it's a declining market.

27When I was at Darigold years ago -- as we all28know, I've worked everywhere -- when I was at Darigold



years ago, we -- we kind of joked that, because Darigold's a very good, nonfat dry milk manufacturer as well, that fluid milk was really no different than powder. It's a commodity. And it is a very, very competitive market, and it's tough to make it work.

And so I do -- I -- again, we are not opposing Federal Orders, we're not opposing eliminating differentials at IDFA, but any changes need to be proposed for -- frankly, with extreme cautions.

And kind of the physician's oath, first do no harm. Let's not make -- as best we can help it -- not make winners and losers. Because investments have been made based on the current map, so how you change that could -- could really change that, what that could look like.

Q. You mentioned, in your experience in the Class I sales with Kroger at least, Class I isn't the highest value product because it has the thinnest margins, I think you just said.

And so are you equating value with margin? A. I'm equating -- I am equating -- equating -- there isn't -- we don't have a market value for fluid milk, we derive one --

24

Q. Uh-huh.

A. -- based on the other markets. And what that added value of fluid is, if you look at how -- I mean, people are eating more dairy, but they are eating it, not drinking it. So what -- what is the added value to that



1 milk? I think it is a fair question to ask: If we 2 lowered the price, how much would it -- we think it does 3 have an effect.

I do know from the standpoint of promotions, it's a lot easier to do obviously when prices are lower. But I also think that you need to be cognizant.

7 And I think the thing we haven't talked about as much at this hearing, as I thought, is the competitors to 8 9 milk, because they are real. I mean, I was in Meijer the 10 other day, and they're running a sale on almond milk. 11 It's cheaper than two quarts of milk. And that gets scary 12 for me. And -- and I think that's one of the things we have to be cognizant of, make sure we keep milk 13 14 competitive because it competes with products that aren't 15 dairy.

Again, you can't build a formula around that,Erin, but it's something to keep in the back of your mind.

Q. That is a great thought, leads me to my next setof questions on page 7.

A. Okay.

21 Where you are talking about own-price demand, and 0. 22 there's been a lot of discussion about elasticities at 23 this hearing. And I -- you know, the model that we 24 used -- well, the USDSS model, back in reform, didn't 25 contain any type of elasticities. We didn't necessarily, 26 to my knowledge, consider own-price elasticities or 27 cross-price elasticities when setting differentials. 28 But is it your opinion that those should be



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2 Α. Again, not an easy task, but, yes, I would say that they do. Again, we're looking at adjustments to 3 4 differentials, we're not looking at removing them. There are some things there that we can see that may help guide 5 us to what the best decision is, and I don't have the 6 7 answer from that. If I did, I would have been happy to 8 present it. I won't pretend I know.

9 Q. On the next slide 8, you list the elasticities 10 that came from Dr. Capps' presentation. And if I remember 11 correctly, they were for about 75% of what he considered 12 total fluid milk sales. It didn't contain schools, 13 foodservice, prisons, et cetera.

14

A. That is correct.

Q. And so how do you think we should consider that, the kind of -- like, that missing piece that's not in these numbers?

A. Well, I think -- might be one that other 25% is
declining, but I don't think it's necessarily elastic.
And neither does Dr. Capps, and he said that in his paper.

21 So you have to kind of look at the other 22 three-quarters, I guess, in a great way. And so if you 23 are saying, how much milk is in package? Say we had, you 24 know, 40 billion pounds of Class I sales, realistically, 25 the top 70 covers 3 billion of it -- 30 billion of it. 26 And that's how we viewed it as we did analysis, internally 27 figuring out what we thought it could do.

28

We just assumed there was no elasticity in



1 foodservice and schools, which probably isn't true, but 2 it's probably close to true, so -- and that -- that lowers 3 the impact overall if you -- if you exclude a fourth of 4 the sales.

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Q. Okay. Can we turn to slide 11.

And here you have outlined kind of the three components of the base differential. There's been a lot of talk about Grade A costs. There's been some talk about balancing costs.

But I wanted to talk a bit about the competitive costs you list in that third bullet there and what you do believe makes up competitive costs incurred by fluid plants to get a supply and compete with manufacturing plants that also need a supply.

15 I think often the biggest difference, and the Α. 16 differential map talks about that, is acces to those 17 plants isn't always quite as easy. Those plants don't 18 necessarily take milk as even. So it takes a little more 19 money if you are going to serve that market. The 20 incentive to serve a market isn't quite as consistent as, 21 for example, some of your manufacturing markets are.

Fluid milk plants -- I mean, ice cream plants aren't demand plants. They are, but you make use -- you store stuff. When -- you make ice cream in December when you have product, in January in particular, to sell in June, because you can't possibly make enough in the summer.

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Just like you can't make enough butter in the



fourth quarter to meet consumer demand, so you make it all
 year-round to have it ready.

Of course, fluid is pretty much, depending on the product, it's somewhere between, you know, 20- and 120-day shelf life. Most of it's around 20-day, 25. And so that demand just fluctuates more.

And I -- in my view, that's part of that competitive thing, if you want someone to observe that market. Obviously, cream is a part of that. But it's a recognition, it isn't as consistent to the buyer generally, and plants is exception, than, for example, a cheese plant would likely be.

Q. So do you think the competitive environment is different now than it was 25 years ago, that would make the costs be more or less than the assumption in the base differential?

17 Α. I really don't think so. No, I didn't say I 18 didn't think transportation hasn't changed. But I think 19 that competitiveness really hasn't, and some of it is 20 self-imposed, quite honestly. If you make commitments to 21 large sales, to large manufacturing plants, and your milk 22 is tight, is that the Federal Order's fault if you are 23 still below utilization? I would say it's not. That's a 24 problem they have to negotiate and they need to work with. 25 That's not the Federal Order's job.

26 So, in my mind, that competitive -- a lot of that 27 competitiveness, again, is local. And, again, I can 28 assure you that is part -- a lot part of when you



negotiate additional charges for milk, no matter what 1 2 class it is. In my experience, every class but IV tends to have additional handling costs, which is fine. 3 That it can -- it can be -- a lot of that can be negotiated. 4 Having it be a portion of this, and what that is, as we 5 all know, exactly what makeup is, that differential, is 6 7 subject to opinion, quite honestly. And I'm among those, 8 that we all recognize there's a reason for it. Exactly 9 how many X cents is which and which, I think we can 10 discuss.

But -- so I think allowing for some of that is -is fair. It doesn't need to cover all of it. And I would say that the amount that is there now is fair.

To me, the biggest differential map -- the differentials, the biggest issue isn't the base. The biggest issue is, how do we keep that surface working from the standpoint of meeting producer needs.

Again, the Southeast decision, three orders on -on transportation. I can assure you no plant that buys milk necessarily likes that. But they didn't come and complain, so I guess they are -- they understand it's necessary.

23 So I -- so I kind of think of this is the same 24 way. We need to leave room for the market to work. I 25 mean --

(Court Reporter clarification.)

THE WITNESS: I'm sorry. We need to leave roomfor the market to work.



26

1 BY MS. TAYLOR: 2 Ο. So what I heard, I think, too, is you said that maybe competitive costs do vary locally, and in your 3 4 opinion that is handled locally through premiums, negotiations? 5 Α. 6 On all classes of milk that would be my 7 experience. 8 Okay. On slide 13, that last bullet, this is kind Ο. 9 of going back to what was -- what happened during reform, 10 but you said, at that time, I think, the last sentence 11 there, "blend prices among orders necessarily did not 12 aliqn." 13 And I was wondering if you could expand on that 14 statement. 15 Because utilizations, your map for -- your map for Α. 16 Class I value, competitive value among regions is 17 different, and the value of that pool is very different, 18 depending on utilizations. So a good example would be 19 Mideast milk that moves into the Southeast. You have a 20 significant transportation cost. They also get to pool 21 some reserve supply milk. 22 And so -- and we -- and it's become, as you know, 23 more extreme. You look at the utilizations in the three 24 Southeast orders, it's markedly different by multiples 25 from utilization just to the north. And so your blends 26 aren't going to be the same, even though your Class I 27 prices are going to have a continuous kind of flow to 28 them.



So that creates -- well, it does a couple things. 1 2 Actually creates incentive to move milk south when they need it, which is a good thing. 3 On the other hand, it means as far as a blend, a 4 regulated blend, there will be a difference. 5 Μv experience over time is, is that those blends blend out 6 7 because market conditions will make up for some of that 8 difference. They'll move milk south to get more of those 9 dollars or they will do other things. Which is, again, 10 just good business. 11 So this slide, as I see there, talks about USDA's 0. 12 criteria for setting Class I differentials. 13 And I draw from that blend price statement, it's 14 your opinion that blend price alignment was not a criteria 15 at the time of reform in setting Class I differentials? 16 Α. From my understanding, yes. 17 0. Okay. 18 Α. Sorry for the long answer when you needed a short 19 one. 20 Ο. No, that's okay. I enjoy all the information on 21 the record. 22 Α. Say that in February. 23 Or my entire next year. 0. 24 Well, you won't be alone, my friend. Α. Yeah. 25 So let's see. I'm on slide 14. You are talking Ο. 26 about some witness testimony we heard during the course of 27 this hearing. And this first sub bullet, the "testimony 28 did not relate to any special costs of producing milk."



And I -- I wanted to know what -- what do you mean by "special costs," or what would be an example of a special cost, that's something you would consider a special cost that wasn't considered?

A. I don't think there really are. There's balancing costs, yes. Otherwise, I don't think there really is. A lot of the costs, a lot of the talk on -- I think is trying to use the Class I market to solve regional cost problems. And this system is not designed to do that.

And you shouldn't -- for example, if you are -your costs have gone up because your milk supply has gone up significantly in your region, and you have kind of constrained supply of your inputs, is that something the Federal Order is supposed to fix? And is that fair just because the inputs went up in one state and not in another, that they get extra money?

17Again, the market will take care of that if milk18gets tight. So that's -- that's kind of my view.

They talk about their costs are higher. We have a lot of water issues in the West. I just don't think it's the Federal Order's job to solve that type of problem. Yours is to keep milk flowing where it needs to go, and there will be a minimum price that reflects the real value of the milk.

Q. Okay. And in that next bullet when you are talking about general costs have not been considered by USDA, are you talking there about maintaining -maintaining Grade A status costs, or are you talking about



1	feed costs there? I'm just want to kind of get
2	A. What we're talking about what from, again,
3	from our perspective, from my personal perspective, in
4	this there's been some I think we even have
5	THE COURT: Slow.
6	THE WITNESS: we may have an attachment that
7	reflects talks from Richard McKee, our good Oklahoma
8	Market Administrator from years ago. That the the
9	costs, reflecting costs supply and demand is done through
10	commodity markets, and Class I is to to express added
11	cost of serving that market is how we look at it.
12	BY MS. TAYLOR:
13	Q. Okay. I get what you are saying now.
14	A. Okay.
15	Q. Thank you.
16	We move to slide 16. And here you are talking
17	some testimony that was heard about maybe some contractual
18	commitments between parties and some acknowledgement of
19	that in the Federal Order that went into the thinking
20	behind whatever the proposed differentials were.
21	And so my question then is, is it IDFA's position
22	that federal regulation should not be written or amended
23	to accommodate any contractual arrangements between two
24	private parties?
25	A. Absolutely not. That's not your role. As long as
26	it's legal, if they're using risk management, it follows
27	your rules that are allowed for risk management, it is
28	not. That is that's the market's job. And if if a



supplier overcommits to a demand for class, for a
 manufacturing class, I don't view that as a market issue,
 that's their personal -- their personal management issue.

Particularly in a lot of cases where we've had suppliers who encourage vast growth in plant capacity, and now they are concerned -- now they are concerned about that. And I think we need to be cautious of making sure the orders don't get into the middle of what I would view as negotiation issues that have nothing to do with markets and price surfaces.

Q. Okay. On the next slide 17 you talked about the discussion we have heard about moving milk, trying to discourage the movement of milk from, say, far out places like Minnesota or Maine to the southern markets.

And as I remember that discussion, the reasoning behind discouraging that, because it would be -- those would be uneconomic shipments. And in the South, in particular, that has the transportation credit provisions that we have discussed here, that would be, perhaps, a reason why that milk would be encouraged to move down there, even though it wouldn't be an economic shipment.

22 So is that how you are looking at that bullet 23 here? I'm trying to just kind of get a little more 24 information on why that shouldn't be considered.

A. Well, again, it's -- one of the -- one of the -one of the challenges I had was understanding the logic of a lot of the regional discussion on the differential map because they use opposite reasons to come to the same



conclusion at times, and it was a bit confusing.

2 My view of the differential map, again, I think a great example is the new, you know, Federal Order 3 4 provisions proposed for the Southeast to help move milk, encourage milk to move. But if you want milk to move, you 5 don't flatten the differential map. You don't give more 6 7 money to Minnesotans because, gosh, they are nice people. 8 And they are wonderfully nice people, I used to live there, I love Minnesota. But is that the function of the 9 10 market? Particularly in the -- in a lot of those cases 11 fluid plants aren't necessarily very far from the -- any 12 farther from the fluid milk supply, quite honestly, than 13 the manufacturing plants are.

14

1

Q. Okay.

A. So keep that -- that -- that gradient to keep milk moving where it needs to move is what I view is the most important thing differentials can do. We need to make sure that that stays.

19 Q. As I'm going to slide 19, one of the points you 20 make here, criticisms of maybe what you saw as 21 inconsistent approaches to the transportation cost data or 22 information that was provided by us.

And so is that because the model looked at -- I forget what Dr. Stephenson said yesterday -- but there was some information that came in on 2022 costs. There might have been some information on 2023 costs.

And is your issue that that's not consistent?A. I think it's more for advice. Make sure you take



that into consideration as you compare numbers because they are from different periods. And as we all know, transportation, for the most part, thank goodness, is moderated a bit, fuel is down, labor is more available. So -- and that's always a challenge.

I know in the top past, Erin, when we have talked about energy costs of manufacturing, they balance, too. So you have to kind of take a -- try to take a little more of a trend approach.

And that would be our -- I guess, our observation here. Let's -- let's do what we can to make sure that we're -- when we look at regional differences, that we can compare apples to apples the best we can.

14

Q. Okay. Turning to slide 20.

15 And your last bullet talks about how -- and during 16 some of the conversations, that testimony we have heard, 17 it was highlighted that they tried to preserve existing 18 relationships between plants.

And so is this page to -- I guess my question is, are you saying that that shouldn't be considered? Handler equity between similarly-situated plants is not a consideration for making changes?

A. It is a consideration. You have to be careful you
don't make significant changes that will physically or -I mean, financially harm certain markets if you can't make
sure the justifications are there.

I think I mentioned it earlier. I bought a lot offluid milk. Kroger doesn't buy a lot of fluid milk, but



1 where they do, those bids are usually within a cent and a 2 half of each other, and the number one and number two are 3 usually under a penny on a gallon.

4 So you start raising a differential, for example, \$0.05 or \$0.06 -- \$0.05 or \$0.06 -- \$0.50, which would be 5 about \$0.045 per gallon, you make that plant uncompetitive 6 7 and that asset and those people. So I think, to me, 8 that's the most -- that's the biggest challenge is to make 9 sure that what changes are made, if you necessarily decide 10 they are necessary, how we keep them from being disruptive 11 to the market.

It's not totally unlike the Class II conversation you heard this morning, how do we make sure that we don't -- not intentionally -- favor or disfavor folks over others. And, again, it's hard. I get that. But just make sure that it's considered.

Q. And so the USDSS model doesn't look at that factor, that's simply transportation cost, as has been discussed?

A. Yes. And it's no -- no -- it's assuming that
we're starting over. There's just -- there's no
regulation, what would things look like, that's correct.
That's my understanding.

24

Q. As is mine.

25 So would the handler equity issue that we just 26 discussed, would that be an appropriate possible reason 27 for making some changes?

28

A. Yes, it would be.



TRANSCRIE	PT OF P	ROCEEDI	INGS				December	08,	2023
NATIONAL	FEDERA	L MILK	MARKETING	ORDER	PRICING	FORMULA	HEARING		

1 Q. Okay. 2 THE COURT: I'm sure everyone knows what you mean, but I want to make it clear. When you say a \$0.015 3 4 difference, what --THE WITNESS: It's a \$0.015 when you -- a lot of 5 companies, a lot of stores will bid for milk, what you are 6 7 going to charge me delivered into my store for a gallon of 8 milk. And it's a very competitive market. And so a lot 9 of times that difference in price can be rarely more than 10 a cent and a half, and a lot of times it's under a penny. 11 Which -- and if you look at a penny, a penny on a 12 gallon of milk is \$0.086 on a hundred pounds. So if you 13 make differential changes that are significant, you can 14 change plants' competitive position quickly, and so it 15 needs to be considered in a decision. 16 BY MS. TAYLOR: 17 Ο. I want to turn to slide 21, and here you are 18 talking about the depooling, and maybe we shouldn't 19 necessarily look at the Class I differentials as the end 20 all, be all, to end pooling? 21 Α. And that's -- that's the point. 22 Ο. Yeah. 23 Α. Yeah. 24 And I'm assuming these impacts are solely looking Ο. 25 at the differential changes, they are not looking at any 26 other proposal that's been heard? 27 Α. No. As you can imagine, building this was enough 28 work without adding 50 variables. We very simply looked



1 at -- and we didn't even -- we just took the utilization 2 by class and -- and a blend, and we used the base city, where -- for example, Chicago, where prices reported out 3 4 of are Boston, prices reported out of -- and we just ran the pool, came up with an average value. We didn't adjust 5 for any fees or anything else. We didn't adjust for 6 7 components even. It was just giving us a relative idea of 8 how much -- how difficult it would be, just through 9 differentials, to manage the depooling challenges we all 10 see.

And it's interesting when you look at the numbers, because you know in the Northeast, Northeast Order, because of the depooling rules, you don't have a lot of fluctuation of pooling amounts, it's pretty stable. Other orders, as you know, they can be very, very wide.

16 And so what we looked at, based on -- based on 17 that, how many months would -- if you based on -- just 18 again, we're using, for example, Chicago for the Upper 19 Midwest, which is probably -- that's not where the plants 20 are, the manufacturing plants, or even the fluid plants 21 anymore. When you look at that, what -- what price would 22 it take on Class I to not incentive any class to depool? 23 They say, I'm better off in the pool, we just use a 24 break-even number.

25 So you look at what the average weighted 26 differential would be, based on the utilization, whatever 27 it might be, and you look at what your blend is, and you 28 take the blend minus the highest class price, and multiply



	AATIONAL FEDERAL MILL MARKETING ORDER PRICING FORMULA HEARING				
1	it times utilization in Class I to come up with that				
2	Class I would have to look like to and the				
3	spreadsheet's in the record, the actual spreadsheet's in				
4	the record, so you can look at it, but				
5	Q. So				
6	A that's what we did. So it's just get an idea				
7	relative. And as you can imagine, much less in the				
8	Southeast, a lot more in the big manufacturing markets,				
9	there's more opportunities.				
10	Q. So I know you have highlighted the Upper Midwest				
11	here.				
12	But did you look at other orders, I mean				
13	A. We looked at them all.				
14	Q. Okay.				
15	A. We looked at them all.				
16	Q. And what about the time period? Because you've				
17	got this is primarily COVID times, which we can all, I				
18	think, agree that the markets did crazy things. And I				
19	don't the higher-of might have has been argued here				
20	in this record, had an impact on pooling decisions and				
21	blend prices, et cetera.				
22	So is that the right time period to look at,				
23	considering those factors?				
24	A. Well, we could look at it, I guess, how do you				
25	pick it? I could have went back to 2000 because				
26	thankfully for this all your wonderful exhibits, I have				
27	got data I never had back that far before. And, of				
28	course, can't do that now, unless I can come back in				



1	Tonuorus and museuido, genething
1	January and provide something.
2	But the we picked it just because there was
3	this is a very volatile time for Class III and IV
4	differences, and so we wanted to look at a volatile time.
5	Q. Okay. Turning to slide 23, this is where we're
6	talking about the transportation credits in the Southeast
7	orders.
8	You have \$0.07 listed for Appalachia for Federal
9	Order 5, but that's not the maximum allowable rate?
10	A. No, that is correct.
11	Q. Okay. And so it's just currently being charged at
12	\$0.07?
13	A. Yes, from my understanding.
14	Q. And it is your opinion, I think, as I read from
15	this, and maybe some discussions you had with your
16	counsel, that if the Department seeks to update
17	differentials, we need to kind of consider these increased
18	assessments that would be charged to Class I handlers if
19	this new decision in the Southeast is passed?
20	A. Yes. Because when the proposals were made, this
21	wasn't a final decision.
22	Q. Okay.
23	A. And so, yeah. Again, we're not arguing against
24	the final decision. We're just we believe it should be
25	part of the consideration for the Southeast.
26	Q. Okay. On slide 32 you were talking about somatic
27	cell count limits and the 400,000 limit that's applicable
28	for products going into the EU.
۰.,	



1 Do you know how much milk equivalent is exported 2 to the EU that that limit is actually subject to? What -- from my own experience selling lots of 3 Α. 4 cream out of lots of plants while at Kroger, it does, because whoever buys that cream wants to make sure that's 5 met in case it ends up somewhere in a plant where it's 6 7 going to be exported. That's -- you can -- you can talk 8 to Kroger, you can talk to Publix, you can talk to Borden, 9 they will all tell you that that has to be a 10 consideration. And so they do. They do tend to do that. Because in this world of ingredients, you heard a 11 12 little earlier, Tim Galloway talking about ingredients, he 13 sells them all over the place. And the EU works hard to 14 make sure we don't sell them anything that they -- that --15 they don't encourage sales from the U.S. into the EU, I 16 think is a nice way to say that, so people are pretty 17 cognizant of trying to meet that. 18 Because I was surprised, quite honestly, when I 19 came to Kroger, it was an issue in Class I, but it is. 20 You do cream contracts, they make sure that you are 21 meeting that requirement. 22 Ο. Okay. So 400,000, in your opinion, is the 23 effective limit? It is the effective limit as far as current rules, 24 Α.

25 yes.

26

Q. Okay. And then on --

A. You have customers that may have requirements oncream loads, what they have. But as far as regulatory



1 limit? Yeah, it's the one that we all -- you have to at 2 least be there. Yeah. And then the last slide, just a couple 3 0. 4 questions. You have this data and this chart here, and you 5 said it's from Federal Orders with SCC programs. 6 7 And I know that's somatic cell count, but what programs are you talking about? 8 9 I'm talking in -- when orders pay, do they have Α. that built -- I think it's that built-in incentive on 10 11 somatic cell. Well, all I did, I didn't go back and check 12 all the regulations, I checked where you record it, where 13 there's official USDA data. And apparently, I missed an 14 order, and I apologize for that. Because I was curious 15 how different it was in the Southeast, particularly, 16 versus the Upper Midwest. Because I know in the Upper 17 Midwest they've made remarkable improvements. But, quite 18 honestly, the biggest improvements in Florida since 2000, 19 I mean, it's amazing. So we can be very proud. We're 20 making very, very good milk. 21 But I thought it was important that we show that 22 it's not -- it's not as regional as some people might 23 think. It's everywhere we're making really good quality 24 milk. 25 Okay. And I just want to make sure the record is Ο. 26 clear. 27 In Appalachia, Florida, and the Southeast, I don't 28 believe they have programs, but they do report estimates?

1	A. Yes, that would be true.
2	Q. But there's no actual reflection of any somatic
3	cell count on a producer's paycheck?
4	A. Which means there's also no incentive,
5	regulatory-wise, to lower it, correct? Yeah.
6	Q. And then just, your total milk column, is that a
7	monthly average did you say? I just want to be clear
8	about that.
9	A. It is a monthly average for those five years, yes.
10	So it's 60 months.
11	Q. Okay. And with that, I think AMS has no more
12	questions.
13	MS. TAYLOR: Thank you for your time this morning.
14	THE WITNESS: Oh, my pleasure. Thank you. Good
15	questions.
16	THE COURT: Are there any other questions before I
17	call on Mr. Rosenbaum for redirect?
18	Yes, you may come forward.
19	CROSS-EXAMINATION
20	BY MR. VANDENHEUVEL:
21	Q. Rob Vandenheuvel for California Dairies, Inc.
22	I apologize, I didn't think I'd be coming up, so I
23	don't have these printed out, but I'm hoping we can rely
24	on some official copies, because I'll be referencing only
25	previously-entered exhibits.
26	So, Mr. Brown, i just had a couple of clarifying
27	questions, and I'm specifically referring to your written
28	testimony, 433. It was summarized in the PowerPoint, but



1 just to get the more detailed information on the record. 2 Page 16. This is a section where you are explaining regional competition in the sale of 3 4 manufactured products and referencing some prior testimony given by myself on this issue. 5 Α. 6 Yes. 7 Ο. In that section of testimony, in your written testimony, it says, "Witness Vandenheuvel insisted that 8 9 Class I differentials need to reflect regional competition 10 at the farm, and insisted that California needed to have Class I differentials such that the blend price in 11 12 California was similar to the blend price in the Upper 13 Midwest." 14 Do you see that? 15 Α. Yes. 16 THE COURT: Now, you didn't read every word, but 17 the gist is the same as what you have looked at, correct? 18 THE WITNESS: Yes. MR. VANDENHEUVEL: I left out items that were in 19 20 parentheses. 21 THE COURT: Okay. Thank you. 22 MR. VANDENHEUVEL: Would it be possible to get 23 Mr. Brown a copy of Exhibit 345 --24 THE COURT: Yes, it is. 25 MR. VANDENHEUVEL: -- which is National Milk-39? 26 THE COURT: Do you know now that there are other 27 exhibits you will want to use during your questions? MR. VANDENHEUVEL: And Exhibit 302. 28



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21	000
20	(Whereupon, a lunch break was taken.)
19	to go at, let's just say 1 o'clock. 1 o'clock.
18	THE COURT: All right. Please be back and ready
17	After lunch will be fine.
16	MR. VANDENHEUVEL: I wouldn't want to delay.
15	THE WITNESS: I need to use the restroom.
14	MR. VANDENHEUVEL: Yeah. Yeah.
13	lunch?
12	more in order to be able to ask these questions after
11	would break for lunch. You will be here another hour or
10	break. And what I propose, in ten minutes is when we
9	THE COURT: We need to take about a ten-minute
8	MR. VANDENHEUVEL: 345 is National Milk-39.
7	THE WITNESS: Will do.
6	back.
5	these record copies, we have to make sure we give them
4	THE COURT: Mr. Brown, if you and I are loaned
3	MR. VANDENHEUVEL: 302 is National Milk-36.
2	borrowed, and 302.
1	THE COURT: So 345, the record copy will be

TRANSCRIPT OF PROCEEDINGS

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 FRIDAY, DECEMBER 8, 2023 - - AFTERNOON SESSION 2 THE COURT: Let's go back on record. We're back on record at 1:01 p.m. 3 4 Mr. Vandenheuvel, we were about to begin with Exhibit 302, Exhibit 345, and the witness's current 5 testimony, Exhibit 433. And you may resume. 6 7 BY MR. VANDENHEUVEL: Thank you. All right. Just a couple of 8 Ο. 9 questions, Mr. Brown. 10 So I read before lunch the section of your 11 testimony, Exhibit 433, related to -- which referenced my 12 testimony earlier this hearing, but related to regional 13 competition and any engagement that has with Class I differential; is that correct? 14 15 Α. Yes. 16 Ο. All right. So what I'd like to ask you to draw 17 your attention to, is in Exhibit 345, which is National 18 Milk Producers Federation 39, page -- page 3, the very 19 top, there's a paragraph that starts with, "specific to 20 regional competitiveness." 21 Do you see that? 22 Α. Yes. 23 So I'm happy to read the entire paragraph into the 0. 24 record, but since it's already in the record, I don't want 25 to belabor the record. 26 Can you just tell me, browsing through, if you see 27 the word "blend price" anywhere in that paragraph? 28 Α. Not specifically, no.



Q. And, in fact, would it surprise you that the word
 "blend price" doesn't appear anywhere in this exhibit?
 A. Not necessarily. But I'm -- I believe that it
 doesn't. You wrote it.

Q. Well, the record will confirm that, that when I read this testimony into the record, the word "blend price" was never spoken because it's not written anywhere in here.

9 In fact, wouldn't it be accurate to say that it 10 would be unreasonable to expect the blend price in 11 California to mimic or even trend along the same line as 12 the blend price in the Upper Midwest, given differences in 13 utilization between those two regions?

14 A. Because of class utilization, the odds of that are15 fairly low.

16 Ο. So is it possible that perhaps your reference to 17 and your testimony stating that in my testimony I insisted 18 that California needed to have Class I differentials such 19 that the blend price in California was similar to the 20 blend price in the Upper Midwest, that that was perhaps 21 referencing other National Milk witnesses talking about 22 blend prices within regions and not specific to my 23 testimony in my regional competition?

A. Others talked about it, but in cross-ex- -- your cross-examination, which unfortunately isn't posted yet, my recollection -- and I was watching it on my tablet, so I can't say that -- I mean, I'm pretty confident that there was a -- that competitiveness difference, blend or



1 not, between regions was very evident in testimony. There 2 wasn't talk about class from my recollection, but that was my understanding, which is why I wrote this the way I 3 4 wrote it. But you don't -- you are not able to cite specific 5 0. comments made in the cross-examination --6 7 Α. I cannot. -- you only cited my exhibit here? 8 Ο. Yeah, because that's all I had written to look at. 9 Α. 10 All right. Well, I may come back to that in a Ο. 11 second, but let me draw your attention to Exhibit --12 THE COURT: Let me interrupt. 13 MR. VANDENHEUVEL: Yes. 14 THE COURT: You are doing a very good job letting 15 him finish his answer. He's starting his answer before 16 you've finished your question. 17 MR. VANDENHEUVEL: Can the record reflect the 18 dirty look by the Judge and a hand slap by Mike. 19 Bad Mike. Bad. 20 I will -- I will -- I will be more careful. 21 BY MR. VANDENHEUVEL: 22 Ο. All right. I'd like to draw your attention to 23 Exhibit 302, which is National Milk Exhibit 36. 24 You got it? 25 Α. Yes. 26 Okay. If you could scroll to page 13 --Q. 27 Α. Okay. 28 -- there is a graphic labeled Figure 5. Q.

1 Α. Yes. 2 Ο. Is this the first time you are seeing this 3 graphic? 4 Α. But this is probably going to be more time No. than I have spent on it so far, in my testimony. 5 So at the bottom of page 12 there's a paragraph 6 Ο. 7 that explains what the different lines mean on Figure 5. 8 And so in the middle of that bottom paragraph on page 12, it says, "Green lines represent milk assembly 9 10 flows from farms to plants, whereas orange lines represent the distribution of finished properties from plants to 11 12 demand locations." 13 Do you see that? 14 Α. Yes. 15 So if you scroll down to Figure 5, what this --Ο. 16 what this appears to try to demonstrate, in a simplistic 17 form, is a map with various assemblies -- various 18 bottling -- Class I bottling operations represented around 19 the country. The green lines would be where they're 20 getting their milk from, the farm to the plant, and the 21 yellow lines would be their outgoing distribution of 22 finished goods. 23 Would you agree with that assessment? 24 Α. Yes. 25 So when you look at the right side of that map, Ο. 26 there's a lot of green lines, largely all pointing down to 27 the Southeast United States. 28 Would you -- would you agree?

1 Α. For the most part, yes. 2 Ο. But as you get further away from the Southeast to the Northwest and to the West, you see a lot less green 3 4 lines, really until you get to California, where you got some -- some green lines, for instance? 5 6 Α. You have a lot of people, so you will have some 7 green lines, yes. A lot of people. 8 Ο. 9 I'd like to draw your attention to kind of the 10 middle of the country, South Dakota. South Dakota doesn't 11 have a lot of people, less than a million people, if -- if 12 my numbers are accurate on the latest census, but they do 13 have quite a few cows, a growing number of cows. You can 14 see there, that really -- the milk appears to be not 15 needed in South Dakota, though, to meet demands in various 16 urban areas, whether that be Chicago or cities into the 17 Southeast. 18 Would you agree with that depiction of the map? 19 For South Dakota, yes, I would agree. Α. 20 Ο. So I don't want you to have to strain your eyes 21 on -- on Exhibit 301, so I'm going to --22 Α. Thank you. 23 -- I'm going to ask that you trust what I'm going 0. 24 to tell you as fact and -- and understand it will -- it 25 will be reflected in the record. 26 Would it -- would it surprise you if you were told 27 that the model, the USDSS model, generated an average 28 between those two months, May and October, and their model



TRANSCRIPT OF PROCEEDINGS

December 08, 2023

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 runs, an average spatial value, or recommended Class I 2 differential, for Fresno County in California at \$1.90? I -- I believe that could be true, yes. 3 Α. And are you generally familiar with Fresno County? 4 0. A bit. 5 Α. 6 0. And that's in the Central Valley --7 Α. Yes. -- a lot of cows, maybe not as many people as the 8 Ο. more urban areas of California? 9 10 No, it's cow country through that part of the Α. 11 vallev. 12 0. Very rural? 13 Α. Yes. 14 And would it surprise you if the Tulare County, 0. 15 just below Fresno County, was \$2.10, that was the number 16 generated by the USDSS model? 17 Α. Okay. I believe that's the case if that's what 18 you tell me. 19 For South Dakota, the state we just looked at, a 0. 20 lot of cows, very rural, in some ways similar to the 21 Central Valley, but maybe even a few more people in the 22 Central Valley. 23 Would you be surprised to hear that the USDSS 24 differentials range from \$2.50 to \$2.70? 25 Α. If they do, that is remarkable. I would not 26 expect that. 27 Ο. Is there any economic justification that you can 28 think of as to why those two regions that have very

similar dynamics, lots of cows, and not very many people, would have a recommended regulated Class I price that is as low as 40, but as much as \$0.80 difference?

A. My observation would be, I am surprised. Which
one seems out of line may be up for discussion. But I am
surprised of that difference.

7 0. Is it possible that my testimony on Exhibit 345 was referencing that fact and why a bottler located in 8 either location, whether or not there are bottlers there, 9 10 but if a bottler sited in the state of South Dakota would 11 have a regulated price, as little as \$0.40, but as much as 12 \$0.80 higher than the Central Valley of California, that 13 that could have been what I was referencing? Is that 14 possible?

15 A

16

17

18

A. It's possible, yes.

Q. I think that's all I have.

MR. VANDENHEUVEL: Thank you so much.

THE WITNESS: Thank you.

19THE COURT: And the witness and the Judge will20return the record copies.

Who next has questions for Mr. Brown?
Mr. Rosenbaum, you may return for any redirect.
REDIRECT EXAMINATION

24 BY MR. ROSENBAUM:

Q. Mr. Brown, just to follow up. Steve Rosenbaum with the International Dairy Foods Association. Just to follow up very briefly to make sure there's no ambiguity in the record.



	THE PERCENT AND A PRACTICE ONDER FRICING FORMULA HEARING
1	Your testimony in Hearing Exhibit 433 regarding
2	the testimony as you understood it that had been given by
3	Mr. Vandenheuvel reflects the combination of what he had
4	said in his written testimony and what you understood him
5	to have said orally; is that right?
6	A. That is correct, yes.
7	Q. The transcript of which has not yet been posted?
8	A. That is also correct, I believe, unless it showed
9	up recently.
10	Q. And to the extent that well, did you let me
11	start that question again.
12	I mean, on page 2 of Mr. Vandenheuvel's testimony,
13	which is Hearing Exhibit 345, he expressed the view that
14	the U.S. Dairy Sector Simulator, which is also referred to
15	as the University of Wisconsin model, does not reflect
16	regional competitiveness at the farm level.
17	Do you see that?
18	A. Yes. I it was taken away, but I recollect it,
19	yes.
20	Q. And do you see that as an appropriate criteria for
21	setting Class I differentials?
22	A. Not really. I mean, it's the cost of moving milk
23	to market, is and you and you are you are in a
24	big Central Valley has a lot more milk than it has
25	market. And I think one thing that's important is that if
26	there's there's other opportunities to review the model
27	of Wisconsin. We talked about California, but there's
28	other examples as well that are a bit of a head scratcher,



1 hard for me to understand the logic, I guess, is what I 2 would say, and that would include South Dakota. And are you aware that the proposal from National 3 0. Milk raises the Class I differentials in California 4 materially higher than the University of Wisconsin model 5 indicated? 6 7 Α. From what I remember, yes. 8 Ο. Okay. 9 MR. ROSENBAUM: Your Honor, at this point I would 10 move into evidence Hearing Exhibit 433, which is 11 Mr. Brown's written testimony; Hearing Exhibit 434, which 12 is his PowerPoint presentation; and also both the original 13 version of Hearing Exhibit 423, which is the spreadsheet 14 for which we put in a corrected version; and I would also 15 move into evidence corrected Hearing Exhibit 423A, which 16 is the document we marked this morning. 17 THE COURT: Is there any objection to the 18 admission into evidence of Exhibit 433, also marked IDFA 19 Exhibit 57? 20 There is none. Exhibit 433 is admitted into 21 evidence. 22 (Thereafter, Exhibit Number 433 was received 23 into evidence.) 24 THE COURT: Is there any objection to the 25 admission into evidence of Exhibit 434, marked IDFA 26 Exhibit 58? 27 There is none. Exhibit 434 is admitted into 28 evidence.



TRANSCRIPT OF PROCEEDINGS

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING 1 (Thereafter, Exhibit Number 434 was received 2 into evidence.) THE COURT: Is there any objection to the 3 4 admission into evidence of Exhibit 423, also marked IDFA Exhibit 59? 5 There is none. Exhibit 423 is admitted into 6 7 evidence. (Thereafter, Exhibit Number 423 was received 8 9 into evidence.) 10 THE COURT: Is there any objection to the admission into evidence of Exhibit 423A, also marked IDFA 11 Exhibit 59A? 12 13 There is none. Exhibit 423A is admitted into 14 evidence. 15 (Thereafter, Exhibit Number 423A was received 16 into evidence.) 17 MR. ROSENBAUM: Thank you, Your Honor. 18 THE COURT: Thank you, sir. You did well. 19 THE WITNESS: Thank you. At least I still have my 20 voice. Some may not think that's good. 21 THE COURT: We thank you, and we appreciate your 22 wisdom, and we look forward to seeing you again. 23 THE WITNESS: You will. See you in January. 24 THE COURT: Ms. Vulin, what is next? 25 MS. VULIN: Ashley Vulin for the Milk Innovation 26 Group. 27 The Milk Innovation Group calls Sally Keefe to the 28 stand.



December 08, 2023

1 Your Honor, we have already distributed copies of 2 her exhibit. THE COURT: And have we given the next exhibit a 3 4 number? MS. VULIN: Not yet, Your Honor. 5 6 THE COURT: 440. 7 (Thereafter, Exhibit Number 440 was marked for identification.) 8 9 THE COURT: Let's go off record for just a minute to we make sure the laptop connection is as we want it. 10 11 We're off the record at 1:18 p.m. 12 (An off-the-record discussion took place.) 13 THE COURT: Let's go back on record. 14 We're back on record at 1:20. 15 I have four exhibits, and I'd like to identify 16 what I'm looking at. The first is labeled Exhibit 440, 17 also Exhibit MIG-64. That is the testimony of Sally 18 Keefe. 19 The next exhibit is labeled 441, also MIG-64A. 20 (Thereafter, Exhibit Number 441 was marked 21 for identification.) 22 THE COURT: The next exhibit is 442, also MIG-64B, 23 as in boy. 24 (Thereafter, Exhibit Number 442 was marked 25 for identification.) 26 THE COURT: And the fourth one is Exhibit 443, 27 also MIG-64C, like cat. 28 (Thereafter, Exhibit Number 443 was marked



1	for identification.)
2	THE COURT: And I'd like the witness to state and
3	spell your name, please.
4	THE WITNESS: My name is Sally Keefe, S-A-L-L-Y,
5	K-E-E-F-E.
б	THE COURT: All right. And one of the things we
7	need to do at the beginning is make sure that you like
8	where the microphone is relative to where your mouth is
9	going to be as you are looking at both your laptop and the
10	paper.
11	THE WITNESS: Apparently I'm the first left-handed
12	witness today.
13	THE COURT: And there are two ways that we can get
14	more volume. One is for us to just ask for more volume on
15	your mic, but sometimes then we get feedback. And the
16	other is for you just to move it.
17	THE WITNESS: I think we're okay.
18	THE COURT: Okay. That does sound good.
19	All right. You have previously testified in this
20	proceeding; is that correct?
21	THE WITNESS: Yes, ma'am.
22	THE COURT: You remain sworn.
23	THE WITNESS: Thank you.
24	SALLY KEEFE,
25	Having been previously sworn, was examined
26	and testified as follows:
27	THE COURT: Ms. Vulin again identify yourself, and
28	then you may proceed.



	1A	TALTY COURT REPORTERS, INC. 1040			
28	two spr	eadsheets that USDA posted for NMPF's proposals,			
27	A.	So my primary data source for my analysis were the			
26 27	_	analysis in Exhibits 440 and 441?			
25 26		So what's the source of the data that you utilized			
24 25	eva⊥uat	e this data.			
23	documents, just going through the process you used to				
22	Q.	So I would like to start, before we get into the			
21	A.	Yes, that's correct.			
20	correct				
19		parison of differentials that you created as well,			
18	Q.	And then Exhibit 443 is a fluid plant county list			
17		Yes, that's correct.			
16	_	sons that you created, correct?			
15	Q.				
14	Α.	Uh-huh. Yes. Correct.			
13	correct				
12	maps that you created in support of your testimony,				
11	Q.				
10	Α.	That's correct.			
9		of the hearing, correct?			
8	Q.				
7	Α.	Indeed.			
6		You have four documents in front of you.			
5	Q.	Good afternoon, Ms. Keefe.			
4	BY MS.	VULIN:			
3		DIRECT EXAMINATION			
2	Group.				
1		MS. VULIN: Ashley Vulin for the Milk Innovation			
	NATIONAL F	EDERAL MILK MARKETING ORDER PRICING FORMULA HEARING			

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and so one was posted in May, and then a follow-up after
 the information session later in the summer.

Q. And Exhibit 442 is the anchor cities.

I know the list of anchor cities came from the testimony at the hearing, but where did you get the data for the differentials in that table?

7

8

9

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6

A. Again, from Exhibits 300 and 301.

Q. And then finally, the fluid plant county comparison spreadsheet that you created in Exhibit 443, where did you get the data for that spreadsheet?

11 A. So the -- most of the data there, all of it except 12 for the list of plants, is from Exhibits 300 and 301, just 13 like all the other ones that we have been looking at.

14 The plant list is -- the vast majority of it is 15 from Exhibit 52, which was a USDA exhibit that -- of plants. I only included fluid plants on this list, and 16 17 so -- and I also relied on information from the Market 18 Administrator website. Each Market Administrator has a 19 website that has a plant and handler list, and there 20 were -- you know, things change, and so the most 21 up-to-date information is available from the Market 22 Administrators. So that was where I got it.

Q. And I note on page 8 of Exhibit 443, and also then also at the bottom of 442, you include your sources for your data?

Α.

Yes.

Q. So let's go back to the differential data, sincethat's what we're mostly focused on here.



26

When did you first download the differential data
 that you used in your analysis?

I downloaded that right at the end of May. 3 Α. It was 4 posted on either the 30th or the 31st, right before the request for additional proposals came out. And -- and I 5 don't know, I might have had the first download of the 6 7 file. I was -- I was very excited to finally have it, 8 because prior to that list being available, NMPF's 9 petition regarding Proposal 5 had summary information 10 available and summary maps, but it -- it -- you know, you couldn't see it at the county level. 11

12 Q. And then there was also a spreadsheet that you13 obtained that had the June proposal data, correct?

A. Uh-huh. Yes. And so I downloaded that one later
in the summer, late June, July, after the information
session.

And at the information session, I remember someone on the NMPF team advising that, like, they had -- you know, there were a few counties that were going to be changing and, you know, you know, keep your eyes open kind of thing.

Q. And how do you manage -- for those of us who aren't Excel wizards -- what's just a high-level summary of how you manage and process all of this data?

A. So it's just a big spreadsheet. Thanks to
printing out Exhibits 300 and 301, you guys have all had a
little view into spreadsheet world. And, you know,
mostly, you download it. These files, much like all the



1 files that we have been using in the hearing, are locked, 2 so you have to copy the data off. You can't, like, really 3 use it in its locked form.

And so then once you have the data, like, my personal process is, I tend to keep all the data on one tab of the workbook. And so I have -- in my workbook I have May on one tab, I have June on another tab, and then I have tabs with lots of analyses after that.

9 Q. And is this the type of analysis or approach that 10 you have done before?

11 A. Yes. I have -- I have not done this sort of 12 analysis of all of the Class I differentials before, but 13 as far as managing a great deal of data and going through 14 the sort of very detail-oriented, meticulous review, 15 that's -- that's fun. So --

16 Q. No one objected to that, but we'll take your 17 answer.

And how did you generate the maps?

19 A. So for the maps, I hired an analyst who helped me 20 with the mapping, because while Excel is very much in my 21 wheelhouse, ArcGIS is not. And so I provided the data 22 files to an analyst to make the maps, and then, you know, 23 worked to validate to make sure that it was the right data 24 and all of that kind of thing.

25

18

What does GIS stand for?

A. Geographic Information Systems. And I have
actually done projects in the past where working with
folks that have that kind of specialty, it's a different



Ο.

part of, like, data analytics and statistics and things
 like that, when you are really getting into the spatial
 type of modeling and software.

4 And so back when I testified in August, I talked about a project that I did a long time ago looking at the 5 interconnection of rural water systems. And that was, 6 7 again, one where it was very spatially-related, and I was 8 doing a lot of the data work alongside a GIS person, who 9 was helping with visualizing it and, like, making it 10 easier to understand than Exhibits 300 and 301, which are 11 humongous tables of data.

12 Q. And I know some others have asked if experts13 testifying are being paid.

Are you?

15 A. I am being paid. This is definitely not volunteer16 work.

Q. So let's get into the maps, because they are quite interesting. If you could pull up Map 1, please. And this is page 2 of Exhibit 441.

20 We can't see it yet, sorry, on the screen, so I'll 21 just give that a moment.

22

14

There we are.

A. Great. So Map 1 shows the current FMMO Class I
differentials. The buckets here are in \$0.25 increments.
The lowest bucket starts at \$1.60. It does go down to
\$1.50, because \$1.60 is the base differential today.

27 And then the buckets go up from a light creamy 28 yellow color, and increase through the country until you



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NATIONAL	FEDERA	L MILK	MARKETING	ORDER	PRICING	FORMULA	HEARING		

get to that nice purply color down in Florida. 1 2 0. And do you have any observations about kind of the spread of differentials across the country that you would 3 4 like to share? Α. You know, it's relatively gradual. There are 5 6 definitely, you know, large areas of the country that are 7 pretty similar to one another. Like, on the lower end of 8 the scale you have, it does increase as you move down into 9 the Southeast, which one would expect. And it does have 10 some ridges along boundaries between FMMOs. Like, you can 11 see one in the center of the map. 12 And when I use my mouse, can people see the mouse? 13 A little bit, yeah. Ο. 14 A little bit? Α. 15 THE COURT: It's a white color. 16 THE WITNESS: Yeah. It's -- yeah. 17 THE COURT: It's easier to see while it is moving. 18 When it stops, it's a little hard to find it again. 19 THE WITNESS: Yeah. Like, right here, this is the 20 northern edge of Order 7, and the southern edge of 21 Order 32 there. And, like, that's an area where you see, 22 like, it's kind of distinct there between those two 23 orders. 24 And then, obviously, like I just discussed, like, 25 the differentials, as we all are well aware are, the 26 highest in the Southeast, and they are also higher 27 generally throughout the Eastern seaboard. 28 BY MS. VULIN:



1 Ο. And if we could go to Map 2, please, which is 2 page 3. Those are the NMPF proposed differentials. So these are NMPF's Proposal 19 Class I 3 Α. 4 differentials. The color gradients are the same on the maps. And so the lowest color bucket is, again, the 5 creamy yellow, the \$1.60 to \$1.75, and then it increases 6 7 all the way up to the top end of the proposal, which gets 8 up to \$7.90 down in Southern Florida.

9 And, you know, the biggest thing that you notice 10 visually here is, frankly, that it's a lot higher than it 11 was, and some of the patterns that have -- like, that you 12 would see in the previous map are -- have increased over 13 time. Like, there's -- the Southeast, what I -- the 14 Southeast seems to be larger now than maybe what you would 15 see in existing differentials.

Q. And is it fair to say you see more ridges here?Can you tell us what you see there?

A. Yeah. There's also definitely more ridges and different ridges. And it's not to say that, like, we don't have ridges today, but there are some very distinct unusual patterns. I mean, this -- this ridge that runs across from Missouri, Kansas, and into Colorado, is very distinct and very different than the current situation.

The other thing that I noticed, which I thought was interesting, and -- and frankly, unsurprising, is that today, some of the areas that we think of as the low points are in Order 51, in California. And very much, the proposal, you know, acknowledges that where -- that some



of that distri- -- some of, like, what would drive the 1 2 base or the minimum areas has moved over time, and like, now you see that the minimum is up here in Idaho in the 3 proposal, as opposed to further west. 4 And I know in your testimony you have testified 5 Ο. that you don't believe there should be any increase in 6 7 Class I differentials. 8 Why not? So the -- I think there's a bunch of them. 9 Α. There 10 are many reasons why not. Today I'm focused on reasons 11 related to Proposal 19. 12 And I think the most important thing to bear in 13 mind is that there are -- there's ample supply of milk for 14 fluid use today. There is plenty of milk to meet our 15 consumer needs, and the -- and that is what we're trying 16 to do here, is to meet the public interest for fluid milk. 17 Ο. And if we could go to Map 9, please. Map 9 is the difference by dollar amount from NMPF 18 19 Proposal 19 versus the current differentials. And this is 20 on page 10 of Exhibit 441. 21 So I know the maps, in a nice way, kind of speak 22 for themself, right, with the colors. But anything you 23 want us to pay attention to in this map here? 24 I would say the main thing to pay attention to in Α. 25 this map is this is why this proposal is receiving a lot 26 of attention. I mean, it's a big change from where we are 27 today. And the changes are not necessarily the same 28 everywhere. And so it is -- for some regions of the



1 country, for some particular operators, it is very, very 2 meaningful and impactful to their business. And, you 3 know -- and these are substantial increases in the areas 4 that are showing, you know, as orange to maroon on the 5 map. We're talking about increases of over \$1 per 6 hundredweight.

And just bear in mind that \$1 per hundredweight is in the neighborhood of \$0.09 a gallon. And so when you are talking about stuff that gets, you know, up towards, you know, well over \$2, we're talking about changes that are more than \$0.20 a gallon. Like, this is -- this -that's meaningful amounts of money.

13

Q. And if we could go to Map 10, please.

14 Now, this is the difference or change by percent 15 from current to NMPF Proposal 19. And my question here 16 is, the degree of change doesn't necessarily overlap with 17 the dollar amount.

And so is there anything about areas that are experiencing more significant percent changes that you would like us to pay attention to?

A. Yes. So -- so change -- considering the absolute
change, like what we were looking at on Map 9, is
important. But also thinking about change in relative
terms is important, too.

And here it's very apparent that some of the changes relatively that are very large are happening where Order 33, Order 1, and Order 5 all meet, and in an area that also has non-regulated counties sprinkled in. So



1 it's just got so much FMMO geographic fun right there. 2 And the -- the thing to know is that a 120, -25% increase in the Class I differential is very, very large, 3 obviously. Like -- and when -- when I asked the analyst 4 to map this, my analyst actually thought that I had my 5 decimal places wrong when I sent the file and -- because 6 7 they didn't expect that I would be sending changes of this 8 magnitude. Like, typically people are talking about 9 smaller relative changes. And so it's -- I think that 10 it's a reminder of how much change. And then the other thing to bear in mind is that 11 12 it's also a reminder of there are other places where, on a 13 relative basis, the change is not as big, but it doesn't 14 mean that it's not necessarily unimportant. 15 And if we could go to Chart 1, please. 0. 16 Α. Uh-huh. 17 0. This is the current and the Proposal 19 Class I 18 differentials. And this, I have been told, is a 19 box-and-whisker plot. 20 And so my question here -- and it's on page 15 of 21 Exhibit 441. So my question is, why do a box-and-whisker 22 plot to evaluate this data? 23 So one of the things that's really hard about the Α. 24 Class I differentials and the price surface is that we 25 have a national price surface. And so we have Class I 26 differentials for all 3,108 counties in the U.S. 27 Actually, that's only the continental 48 states. 28 And the thing is, is that while the price surface



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1 is national, the FMMOs are not national. We don't have 2 one FMMO that covers the whole continental 48 states. We 3 actually have 11 of them. And they don't cover even all 4 of the 48 -- the states. Like, it's -- there are areas 5 that are not regulated.

And so it's important to understand both the forest and the trees. And in this case, if you only think about what's happening in total and you don't look at the different FMMOs, you -- you risk, frankly, not understanding what's happening in the trees, because all you are looking at is the forest.

And, ultimately, in this case, the individual orders are the trees, and they -- that's where this change is actually implemented. Like, that's where anything -if -- if a change is recommended and adopted, it's going to happen at the FMMO level. It's not going to happen on the "all" area.

Q. And just briefly give us a high-level overview of
what -- what are the lines, the boxes, the Xs and the
dots. Can you just tell us what those mean.

A. Sure thing. So, basically, a box-and-whisker plot is a way to look at the distribution of a dataset, and it tells you -- so the Xs show you the average, the bar shows you the median, and the dots are outliers. And the whiskers go off of -- between the core tiles.

And so if you -- the data is summarized in tabular form in Table 2. And so if you're curious about like, what is a particular X, or a particular outlier or



something like that, you can see that in Table 2.
Q. So just to summarize to make sure I have this
right, the lower bar is the bottom 25%, the box is the
middle 50%, so from 25% to 75%, and the top line is 75 to
100%?

A. That's correct. And the -- and the bar in the middle of the box is the middle of the dataset, it's the median.

9

Q. So let's start with the "all."

I see that there's both a shift up overall of the differentials there, but also a lot of elongation at the top end; is that right?

A. Yes, that's right. And, you know, a shift up is definitely what has been proposed. And then, also, the distribution getting wider, I think, is to be expected given the passage of time, frankly. So --

17

Q. And then if we look at -- let's look at Order 1.

So I see down there -- any observations about the fact that there's no overlap in the distance between those two plots?

21 So that's a good example of what I was Α. Yes. 22 talking about with, like, what's happening in the 23 distribution for all of -- for all 3,000 odd counties. You know, there you see that the plots, you know, have 24 25 overlapping area. But when you look at Order 1, you see 26 that the current, and then what's being proposed, like, 27 it's a -- it's a jump up. Like, those distributions don't 28 even overlap one another at all.



And if we could look at Order 30, please. 1 Ο. 2 Α. Yeah, Order 30 is unique. Order 30 today is a -it's a very flat box. It's a line practically. And --3 and then, again, like, it moves up dramatically, but it 4 also continues to show a very, very flat distribution. 5 Like, it is not -- there's a not a lot of range in 6 7 Order 30 compared to what you see in many other places. 8 And not a lot of range in the current Ο. differentials, but the new differentials build in more 9 10 range; is that right? The new differentials do build in more range 11 Α. Yes. 12 than what is currently in Order 30. And when I say "new 13 differentials," I should have stated Proposal 19. 14 As should I. So thanks for catching us. 0. 15 And then if you could look at Order 33. 16 Is there somewhat of a similar observation there? 17 Α. Absolutely. 33 is doing the same kind of thing, 18 where there's no overlap between the current and the 19 Proposal 19. Whereas Order 126 is very much, you know, 20 what you see going on in 126 is very similar to what's 21 happening with the distribution as a whole. 22 Ο. And we heard discussion during the Make Allowance 23 portion of the hearing about, if there are jarring 24 impacts, how phasing in changes could be important. 25 But we haven't heard any discussion of that in 26 terms of the Class I differentials, and I was just curious 27 if you had any thoughts there. 28 Α. When I look at the magnitude of the changes being



	NATIONAL FEDERAL MILK MARKETING ORDER FRICING FORMOLA HEARING				
1	proposed here with Proposal 19, I certainly think that				
2	something that that phases in change over time is a				
3	very reasonable discussion to have and consider, because				
4	we're it's been a very, very long time since the				
5	differentials have been updated in anywhere outside of the				
б	Southeast. And because of that, there are some places				
7	that are going to experience very large changes. So				
8	Q. Could experience.				
9	A. Could experience very large changes.				
10	Q. And so if we could then turn to Map 3.				
11	And and when we say "could experience large				
12	changes," that's if they are updated according to NMPF 19,				
13	correct?				
14	A. Yes, that's correct.				
15	Q. Certainly they could be updated in a way that				
16	there are not such significant changes to the				
17	differentials?				
18	A. There are other proposals that will I believe				
19	we'll be taking about in January, not today.				
20	Q. Okay. So Map 3, can you just tell us what you see				
21	here.				
22	A. Sure. So Map 3 is the model minimum, and so this				
23	is calculated it's the minimum between the spring and				
24	fall model estimates. And Ms. Hancock's favorite county,				
25	Ada, is front and center here with the minimum, so				
26	Q. And tell us why is Ada County unique in the				
27	minimum map.				
28	A. Ada County is unique in the minimum map because				

Ada County is the one county that has a fall minimum. There are a number of counties where fall and spring are equal. And then the -- in the other counties, in the rest of the country, then you have spring being lower than fall.

6

7

8

9

Q. And if we could go to Map 4, please.

A. So this is spring. As you might expect based on what I just said, spring and the minimum are very visually similar.

10

Q. And then if we could go to Map 6, please.

A. Sure. So Map 6 is going to be the fall. And so this is going to -- when you watch these move from one to the next, bear in mind that the color gradient is the same. And so darker purple going all the way to black are the highest numbers. And so --

Q. And I have done this a few times with the paper, kind of flipping them back and forth almost like an animation, to see where I'm seeing the changes between the spring and the fall.

20 So when you do that, where -- can you explain to 21 us where you're observing changes when you go from spring 22 to fall.

A. Sure. So when you go from spring to fall, what you really see is that the biggest impacts between spring and fall are happening in sort of a diagonal line, running from Texas up to Wisconsin, and then, you know, continuing that diagonal movement down across the country to Florida. So I'll just go back and forth a couple of times so people



1 can see. 2 And so you can see that in the fall, like, across a large portion of the Great Plains and Missouri, here in 3 Indiana, that the fall is higher than the spring, as well 4 as very much so in the Southeast. 5 6 0. And then if we could go to NMPF's proposal from 7 here, Map 2. Uh-huh. Α. 8 9 Now, as I do that same exercise between the two, I 0. 10 notice that we kind of get even more saturation or color 11 or darkness in the maps. 12 And so can you tell me any observations you have 13 between the fall, which is the high estimate of the model, 14 and NMPF's proposal. 15 So here's fall for the model, and then here Α. Yeah. 16 is NMPF's proposal. And so you can see that the NMPF's 17 Proposal 19 is higher than the fall, and you can also see that some of -- that the model is what I would describe as 18 19 a bit more vertical than the proposal. And then the 20 proposal is significantly more zoned than the model. Ι 21 mean, the model is a model, so --22 0. And so we talked a little bit earlier about some 23 of these ridges you observed in NMPF's Proposal 19. And I 24 just want to ask, let's talk about Colorado, because I 25 know it's near and dear to your heart. 26 What do you observe happening, especially the 27 difference between what the model's producing and what 28 NMPF Proposal 19 is doing with that region?



A. So what I see with NMPF's Proposal 19 with respect to Colorado is that they have -- the proposal deviates substantially from the model results. And it's very clear to the naked eye. It's one of the easiest things to see on the map.

Q. And you said earlier, we even see some ridges
today, but they certainly are much more pronounced in
NMPF's Proposal 19.

9 Can you tell us why that might be concerning? 10 Well, so there's other areas with ridges. Like, Α. 11 you can see a ridge here between Oklahoma and the Texas 12 panhandle. There is an odd ridge down here where we have 13 qot Alabama and Mississippi. There's just -- there's some 14 places where it, when you -- that it appears to be very --15 sort of like gerrymandered, or even you could say 16 "dairymandered." Like, it's -- you know, it's been --

Q. But there's going to be a stark contrast betweencounties that are even side by side.

A. There's a stark contrast between side-by-side
counties. And there's a difference here. There's a
difference between a computer and between people.

Proposal 2 [sic] is a lot of people. The model is an algorithm. The model is a model. Like, it's sort of pretty with this color gradient, you know, and this is pleasing to the eye, but it is definitely people when you look at it. You are like, you know, this isn't -- a computer's not going to come up with this one.

Q. And you said "Proposal 2." You mean Map 2, which



28

1 is Proposal 19?

2

A. Map 2 is Proposal 19, yes.

Q. So then if we could go to Map 5, this is the average from the model of the Class I differentials. And we have seen a lot of similarity, right? With the other maps we looked at with the fall and the spring.

But can you just tell us, why does -- why do you recommend that we not adopt the average as opposed to the minimum?

A. So I think it's important that -- I think it's important that the Class I price formula and the Class I differentials there within it are not price-enhancing, and using the minimum helps achieve that goal, whereas using the average is going to pull the numbers up in the areas where the difference between spring and fall is the widest.

17 And if you pull those numbers up in places, 18 especially going across the Great Plains, going into 19 Texas, Oklahoma, Kansas, Missouri, Iowa, Minnesota, 20 Wisconsin, so these sorts of places that you -- you risk, 21 with price enhancement, you risk incenting too much milk 22 production, that then can drive prices down on the other 23 side, on the commodity side of things, with -- on 24 Class III and IV.

25

Q. Can we go to Map 7, please.

26 A. Sure.

Q. So this map is the difference in dollars betweenNMPF's Proposal 19 and the model average.



So previously we were talking about a comparison between NMPF and the current differentials, right, and the impact that has. And now we're looking a bit more at how NMPF approached their differentials vis-à-vis the USDSS.

5 So let's start with at least the -- or at the 6 beginning, the legend at the bottom with the colors and 7 the ranges. Can you just walk us through really briefly 8 what those colors indicate.

A. Yeah. So the colors take us from -- all the way
from negative. The buckets are in \$0.25 increments.
They're minus \$1 to minus \$0.75, up to \$1.01 to \$1.25, and
they move up by \$0.25 at a time. And so like the first
bucket -- like, I kind of think of the buckets a little
bit by the number on the right. So like, negative 75,
negative 50, negative 25, on up like that.

Q. Slow it down.

(Court Reporter clarification.)

18 THE WITNESS: Negative 75, negative 50, negative19 25, zero, positive 25, and so on.

And so one of the things to point out, because Proposal 19 is people and the model is a computer, you know, there are places where the proposal is below the model, there are places where the proposal is above the model. And the thing that was most interesting to me here is just the number of places that are so very different than the model.

27 BY MS. VULIN:

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Q. So let's start with that. Let's start with the



1 white or light gray. 2 Because anything that is white or light gray 3 deviates negative from the model by at least a quarter or 4 more, correct? That's right. So where --5 Α. Yes. 6 Ο. Where do you see that? 7 Α. So you can see white and light gray here in 8 Michigan. You can see it here in North Carolina. You can 9 see some pockets up here in the Northeast. This area over here in Wisconsin and Illinois. And so those areas are 10 11 significantly below the model. They are more than \$0.25 12 below the model. 13 And then we get to -- let's go the flip side. 0. 14 \$0.25 or more above the model. 15 And those are going to be that darker orange all 16 the way to maroon, correct? 17 Α. Right. So --18 Where do we see that? 0. 19 Yeah. Orange to maroon, flowing through red. You Α. 20 see most of those places in the western half of the 21 country, like west of the Mississippi. But it's not to 22 say that they are not sprinkled throughout. Like, you 23 know, there will be onesie/twosies of significant changes where you can see a pop of color on a county that is east 24 25 of the Mississippi. And it's not necessarily universal in 26 the west, either. Like, you can see that there are places 27 in the west that are, you know, down or have a more modest 28 increase.



1Q. And then in the extreme Northeast, right? We see2some dark red there as well.

A. Uh-huh. Yeah. The state of Maine is also significantly increased relative to the model.

Q. And yesterday we heard some testimony from Dr. Stephenson that he might be able to understand differences of nickels or dimes, possibly quarters, but that he would want to talk about differences that were a quarter or larger.

10 And so did you -- I know it's not in your written 11 testimony, but after that, did you calculate the total 12 number of counties with a \$0.25 or greater difference from 13 the USDSS average results?

A. Yes, I did. So the Proposal 19 has 1,818 counties
that vary by more than plus or minus \$0.25. So that is
more than \$0.25 below the model or more than \$0.25 above.

Q. Would that include counties that have anexact \$0.25 difference?

A. Yes, it would.

Q. Okay. And do you know the percentage of total
counties that have an equal to or greater than \$0.25
difference from the USDSS average?

A. Pardon me? I just said that backwards.

Q. Oh, okay.

A. So the number of -- the number of counties that
vary by more than \$0.25 above and below the model is
1,290. That is 42% of the 3,108 counties.

Q. So I'll -- just to be clear, 42% have -- of the



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	TRANSCRIPT OF PROCEEDINGS December 08, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING
1	counties in NMPF's proposal
2	A. More than \$0.25, and it does not include \$0.25.
3	Q. Thank you. So then let's add in that quarter
4	right on the line.
5	How many counties have a \$0.25 or greater
6	variation from the USDSS in NMPF's Proposal 19?
7	A. So I'm not the there are 1,818 counties that
8	are within the band, so that they stay within plus or
9	minus \$0.25.
10	Q. Okay. Understood. Thank you.
11	And this calculation is fairly simple math based
12	on the model results in the proposal, correct?
13	A. It is. And maybe not the easiest math to do
14	sitting right here.
15	Q. That's fair.
16	But just so we're clear, so 42% of the counties
17	fall into some range that is either higher than \$0.25 or
18	lower than \$0.25 from the model results?
19	A. Yeah. So what I think might be helpful for folks
20	to understand is that the dark gray bucket, so minus \$1 to
21	minus \$0.75, that is three counties; then there are 95
22	counties in the light gray bucket; there are 325 counties
23	in the white bucket; there are 1,000 counties in the
24	yellow bucket; there are 734 in the orange; there are 509
25	in the dark orange, so 26 to \$0.50; 339 in the red, 51 to
26	\$0.75; 91 counties that are \$0.76 to \$1; and 12 counties
27	that are \$1.01 to \$1.25.
28	Q. And I might suggest during the break we could

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possibly put that in a written document for ease of the record and circulate that when we return, but I'll just make a note of that for that point in time.

So let's look at Map 8, if we could, please.

5 A. So Map 8 is the relative change. This is looking 6 at Proposal 19 compared to the model average on a 7 percentage basis.

8 And so, again, gray is going to be negative, and 9 the maroon is going to be positive on the other end of the 10 gradient.

11 And what you see here is that there are areas that 12 are -- have relatively -- it's the -- how closely the 13 proposal tracks to the model varies substantially across 14 the country. It's not the same everywhere. And you 15 wouldn't expect it to necessarily be exactly the same 16 everywhere, but I was candidly quite surprised to see how 17 distinct it was as far as the West versus the East, 18 particularly the Mideast and Order 5 relative to the rest 19 of the country there.

And this also provides an indication of areas where the proposal is very -- where it deviates from the theoretically, most efficient, you know, computer-driven algorithm solution, which, of course, is not the real world. I mean, if the computers could move the milk, none of us would be sitting here today. So that's not how -like, the model is obviously a model.

27 But it's -- it -- I'm concerned when I see changes 28 where the way in which the model isn't being followed



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1 seems to be very -- seems to be quite variable.

Q. And on that point, if we could go to Table 1,
3 please, which is page 12 of Exhibit 441.

A. Yeah. So Table 1 compares Proposal 19 to the
current differentials, as well as the model average by
FMMO.

7 And so here, you know, what we see is that, you 8 know, like those first few maps that we looked at, 9 Proposal 19, relative to the current differentials, is a 10 substantial increase. And these are all on the average, 11 so we're just talking about that center X on the 12 box-and-whisker plots.

13 The -- and so, you know, but some are higher, some 14 Like, in Florida, the increase relative to the are lower. 15 Proposal 19 relative to the current differentials is 35%, 16 whereas you're looking at, you know, just over 60% in the 17 Northeast, Appalachian, the non-regulated areas. And then 18 you have got the Mideast looking at an 86% change, and so 19 that's like a very large increase relative to the current. 20 And then it's a region where actually, when you look at a 21 relative to the model average, it's below.

And the main thing that I note here is that in the Mideast, in the Northeast, in the Appalachian, if you are just comparing the averages, so the average of Proposal 19 versus the average of the model, you are going to see, you know, not a lot of change relative to the model here in Orders -- in Orders 1, 5, 33, Florida, the Southeast, but then you see very large changes relative to the model in



California, the Pacific Northwest, the Southwest, Arizona. I will say that in my opinion, this is not the best way to consider the non-regulated areas. The non-regulated areas are geographically disparate, and lumping them all together is a -- like this, as one --as a 12th bucket, is perhaps not the most rigorous way to do it.

8 Q. And just so I'm clear on what data we're looking 9 at, under the column that says "Current," that's the 10 average of every differential within, for example, the 11 Northeast order?

A. Yep. And so that's looking at the average of all 13 171 counties in the Northeast. And then we look at the average of all of the counties in the Appalachian Order, Florida. And I have a new favorite FMMO, it is Arizona, because it only has 15 counties, so...

Q. And so this is kind of, as you described earlier with the box-and-whisker plots, there's going to be a lot of ways to kind of slice and dice and look at this data. Right?

And here the average is not going to show us the same thing as the box-and-whisker plots, because it's all bundled together.

24 But when we look at differences from the model, we 25 also here see different patterns from what we have seen 26 previously; is that fair?

A. Yeah. I mean, it's -- this is a different way to
look at the information. So we have looked -- you know,



1 looking at the information in a box-and-whisker plot,
2 looking at the information in a table like this, looking
3 at it on a map, you know, this is a lot of information and
4 a tremendously large dataset to get your brain around.
5 And so looking at it in a variety of different ways is
6 important in order to be able to develop sound
7 recommendations and thoughts for potential policy change.

8 Q. And in your testimony, which we're not going to 9 read into the record here just because there's a lot to 10 cover, I know you discuss the process by which NMPF comes 11 to their differentials.

But looking in these maps and tables and charts, we're really just grappling with the final number, correct?

A. Yes. These -- these -- all of these are about theproposal. They are about the process.

Q. And so when I am thinking about what we are gathering from all these different ways to approach it, including the 42% of the counties in Proposal 19 differ by more than \$0.25 from the USDSS, were you able to pull out any kind of overarching principles or coherent approach from Proposal 19?

A. My perspective on Proposal 19 is that it is very disjointed, that there -- that it's an amalgamation of a lot of different people's approaches, a lot of effort by different groups, and that it doesn't necessarily hang together very well in total. Like, it's -- it's got a lot of internal contradictions, by my assessment.



Q. So we have been talking about the geographic
 portion of the Class I differential that varies by county,
 but I'd like to talk briefly about the base Class I
 differential.

5 And so what is your understanding of what the 6 amount of the base Class I differential is today?

A. So today, the base Class I differential is \$1.60.
And, you know, we actually see it, you know, in like,
California, for example.

Q. And if we go to Map 2 with Proposal 19, what, if anything, about the base differential in Proposal 19 concerns you or do you want to discuss?

13 It's interesting, because Proposal 19's -- the Α. 14 lowest differential in Proposal 19 is \$2.20, you know, up 15 here in Idaho. But there are other places in the country 16 that are actually very, very close to the model. And in 17 the model, the base differential was run at \$1.60. And so 18 it's very hard to understand what is the base. Like, 19 what -- where is the starting point? Where are you 20 building up from?

Q. We have also heard testimony about over-orderpremiums.

Do you have any thoughts on why or why that doesn't support raising Class I differentials? Because we have heard testimony that maybe they're less than they historically were, or they are more difficult to obtain when they are obtained.

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And so why, in your opinion, does that not support



raising Class I minimum prices?

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A. I believe that when you don't see over-order premiums, that's actually a sign that the regulated minimum price really is hitting a floor, and a price floor is price-enhancing, and that's a problem for the market as a whole.

7 And so over-order premiums are an important part 8 of keeping market forces in our highly-regulated dairy 9 markets. Like, our prices are complex, formula-driven, 10 and highly-regulated, and the over-order premium is where 11 you see the impact of the market.

12 Q. What role do you think the market should play in13 USDA's consideration of FMMO price formulas?

A. I think that USDA should be mindful of the market and continue setting minimum prices. The -- that minimum price regulation is what is asked for. It's like -- it's what is asked for to promote an orderly market and to serve the public interest of meeting adequate supply of milk for consumers.

20 Q. And what are the harms that can result if we do 21 have regulated prices that are price-enhancing or that are 22 above what the market can sustain?

A. Well, the primary one is a situation where you have -- where the higher prices then incent more production, and more production then winds up in products that are lower priced than Class I. And you wind up with, you know, situations where you have surpluses of commodity products or surpluses of milk on the farm. And it -- it



is not orderly in any stretch of the imagination.
Q. What's the impact on Class I processors when
minimum prices or prices that are supposed to be minimum
are, in fact, above the minimum in price-enhancing?

So there we run into issues with -- for Class I, 5 Α. you know, we have heard a lot about how Class I sales have 6 7 been declining for quite some time. And, you know, 8 when -- when -- when a Class I fluid processor is squeezed 9 by raw material costs that are higher than the market 10 would bear, that directly impacts their profitability and 11 ability to invest and to grow and to thrive and to 12 continue buying milk over the long-term.

Q. And we have talked a lot about processors, about producers, but I know that consumers are a big part of this, especially for you.

So what role do you think consumers should play in USDA's consideration of FMMO price formulas?

18 I think that it is very important that we all Α. 19 remember that without consumers, we don't sell anything, 20 and that we need to make sure that we're providing 21 consumers with a product that they want, and that -- and 22 with -- at a price that the market can bear, and that 23 the -- and that, fundamentally, that we keep the interest 24 of the consumer central to what we're doing so that they 25 also have fair prices.

Q. And I have four minutes -- five minutes left, but that's it for now, other than perhaps providing those numbers in a more easily digestible form when you return.



1	But that's all I have.
2	Oh, was there anything else, Ms. Keefe, that you
3	would like to oh, thank you share?
4	A. Yes. I would like to, in my remaining four
5	minutes, authenticate a series of documents that have been
б	used.
7	Q. By counsel? Co-counsel just reminded me of that
8	as well.
9	A. So on pages 16 and 17 of Exhibit 440, you will
10	find a list of documents that have been introduced in this
11	proceeding over the last few weeks. And so I'm just going
12	to run through the list without speaking too fast.
13	So Exhibit 300 is MIG-28. That spreadsheet is
14	entitled NMPF_final_class_1_differentials.XLSX.
15	Exhibit 301 is
16	Q. And, Ms. Keefe, sorry, if you just say the MIG
17	exhibit number, that should give sufficient information to
18	the record without the name, because I know that's a
19	little laborious.
20	A. Thank you.
21	Q. You're welcome.
22	A. Okay. So Exhibit 301 is MIG-229; Exhibit 322 is
23	MIG-30; Exhibit 323 is MIG-31; Exhibit 344 is MIG-33;
24	Exhibit 350 is MIG-34; Exhibit 353 is MIG-31; Exhibit 354
25	is MIG-36; Exhibit 355 is MIG-35; Exhibit 358 is MIG-54;
26	Exhibit 369 is MIG-55; Exhibit 374 is MIG-57; Exhibit 402
27	is MIG-58; Exhibit 396 is MIG-61; Exhibit 405 is MIG-60;
28	Exhibit 417 is MIG-38; and Exhibit 419 is MIG-42. And I



1 am indeed the person that prepared all of those 2 spreadsheets. To the extent, Your Honor, any were MS. VULIN: 3 4 not introduced into the record at the time they were utilized -- and I apologize, I'm not sure which, if any, 5 have been held back -- but from that list we would ask 6 7 that they be considered introduced and admitted now. THE COURT: I think all of these -- I think all of 8 9 these happened on my watch, and I admitted all of them 10 because I found sufficient reliability subject to 11 verification. And obviously, we don't have any time today 12 for the cross-examination about that, those preparations, 13 but nevertheless, this does properly authenticate as 14 promised. 15 Thank you, Your Honor. MS. VULIN: 16 THE COURT: How many minutes does she have left? 17 THE WITNESS: I did better, I have got a minute 18 13. 19 MS. VULIN: Going down by the moment. 20 So Ms. Keefe is available for cross-examination 21 for the remaining 25 minutes that we have? 18 minutes. 22 THE COURT: Let me go off record for just a moment 23 while we discuss how to use our last moments here. 24 (An off-the-record discussion took place.) 25 THE COURT: Let's go back on record. 26 All right. It's now 2:25. I think while off 27 record we agreed that we won't begin cross-examination of 28 Ms. Keefe today. We will begin cross-examination of



1 Ms. Keefe when we return.

I think we also agreed that there will be an exhibit MIG-64D, like David, that will recap the evidence that was given about which things deviate -- which counties or areas deviate from the model by less than \$0.25, more than \$0.25, or perhaps equal to \$0.25, and the like. And we'll deal with that exhibit also when we get back. All right.

9

And did we agree to anything else? I think not.

All right. Then, Ms. Vulin, I thank you both for all of this work. It's obviously a lot of information to go through. I'm glad you gave it to everybody before the break. It's very useful.

So, Ms. Keefe, you may step down, and we'll deal
with moving these exhibits into evidence after cross.

MS. VULIN: I will make many notes of that. Thank you, Your Honor.

18

THE COURT: Thank you, Ms. Vulin.

MS. HANCOCK: Your Honor, just one proposal, and I 19 20 think everybody's motivated to use the time that we have 21 when we reconvene in January to be as efficient as 22 possible. It might be helpful just if people know kind of 23 a range of rebuttal witnesses that -- we know that the MIG 24 witnesses will be in support of Proposal 20, but if people 25 can give kind of a rough range of how many witnesses, just 26 for our planning purposes, to see if there's a chance we 27 can actually finish the hearing.

28

MR. ENGLISH: Well, I think we sent an e-mail back



on November 17th -- we sent an e-mail in mid-November 1 2 responding to an inquiry from USDA --THE COURT: You are --3 MR. ENGLISH: -- and that has not changed. 4 THE COURT: And you are -- I can't distinguish one 5 6 word from another. Just slow your --7 MR. ENGLISH: All right. We're all eager to get out of here. I'm sorry, Your Honor. 8 9 We sent an e-mail, I believe on November 17th, 10 that answered this question, but for the record we'll answer it again. 11 12 Obviously we have Ms. Keefe to be finished on her 13 testimony. 14 We pre-submitted testimony for 12 witnesses, 15 including two experts, Ms. Keefe and Dr. Stephenson, for 16 MIG 20, which included ten industry representatives, the 17 members of MIG. Each of those persons will then combine 18 testimony, give their opposition to 19 and their 19 affirmative testimony for 20. So that means we will have 20 12 witnesses for MIG. 21 THE COURT: 12. 22 MR. ENGLISH: 12 total for MIG. 23 I have heard people have been following the 24 internet. Now that people have seen Proposal 19, there 25 are people who are not members of MIG, maybe even not 26 members of IDFA, who have said, I may have an interest. 27 But none of them so far have said so other than MIG. They 28 have --



1	THE COURT: "None of them"
2	MR. ENGLISH: None of them have said that they are
3	actually going to appear. So I can't predict on that.
4	I'm not going to go out and encourage people, but I can't
5	prevent people if they wish to come.
6	MR. ROSENBAUM: Steve Rosenbaum for the
7	International Dairy Foods Association.
8	We will have, I would expect, three to five
9	witnesses in opposition to Proposal 21.
10	MS. HANCOCK: And thank you, appreciate that.
11	National Milk will likely have between two to five
12	witnesses in opposition to 20 and 21.
13	MR. MILTNER: Ryan Miltner for Select Milk
14	Producers. Select has not yet determined, but we may have
15	one or two, which is addressing all proposals other than
16	those offered by Select.
17	THE COURT: Thank you Mr. Miltner.
18	MR. SMITH: Dan Smith on behalf Maine Dairy
19	Industry Association. Keith Miller will be testifying on
20	behalf of MDIA during that time period. As far as I know
21	that's the only witness.
22	THE COURT: On what proposal?
23	MR. SMITH: He'll be speaking in general about the
24	package of proposals. He's a dairy farmer.
25	THE COURT: All right. Now, let me ask for
26	Agricultural Marketing Service to talk to us about what
27	happens after we recess today.
28	MS. COALE: Thank you, Your Honor.



1 For rescheduling purposes, to reconvene, we will 2 begin at 8:00 a.m. on Tuesday, January 16th, at the 502 Event Centre, which is the place we have been at in 3 4 Carmel, Indiana. We will meet through 5:00 p.m. on January 19th, which is that Friday. 5 6 Provided there is a budget that has been approved 7 for USDA, we will then reconvene at 8:00 a.m. on Monday, 8 January 29th, if needed, if we haven't concluded on the 9 19th, and we will conclude this hearing on Friday -- no 10 later than Friday, February 2nd -- we hope. 11 So any questions on that? 12 MS. HANCOCK: January 29th will be at the 13 502 Event Centre in Carmel, Indiana, as well? 14 MS. COALE: Yes. January 29th will be at the 15 502 Event Centre as well. 16 THE COURT: And we would go, if needed, until 17 5 o'clock on that very final day? 18 MS. COALE: Yes. And then we will have a big ice cream cake to celebrate the conclusion. 19 20 THE COURT: Sounds wonderful. 21 What do we get if we finish by the end of 22 January 31? 23 MS. COALE: Oh, we'll get two cakes and five gallons of chocolate milk, and it gets even better as it 24 25 gets shorter. 26 THE COURT: That sounds great. 27 Does anyone have any questions? 28 None. All right. We will reconvene on



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NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING January 16th, 2024, which is a Tuesday, at 8:00 a.m. Meanwhile, this 43rd day of the hearing is in recess. We go off record at 2:34 p.m. (Whereupon, the proceedings concluded.) ---000---

	TRANSCRIPT OF PROCEEDINGS December 08, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING
1	STATE OF CALIFORNIA)
2) ss County of fresno)
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4	I, MYRA A. PISH, Certified Shorthand Reporter, do
5	hereby certify that the foregoing pages comprise a full,
6	true and correct transcript of my shorthand notes, and a
7	full, true and correct statement of the proceedings held
8	at the time and place heretofore stated.
9	
10	DATED: January 29, 2024
11	FRESNO, CALIFORNIA
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16	MYRA A. PISH, RPR CSR
17	Certificate No. 11613
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December 08, 2023

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\$0.045 10380:6	\$2 10410:10	10 10280:5,6 10283:21 10342:23,25 10409:20	10410:15 10411:17
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60.07 10293:8 10384:8,12	\$2.50 10395:24	10334:11	10422:14 10423:6 10424:6 10425:4,9,15,24 10427:19,
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10422:12,15,16,18,21,26	\$3.85 10336:12	120 10411:2	1960 10295:4
10423:2,5,9,17,18 10427:20 10433:6	\$3.95 10354:23	120-day 10371:4	1975 10278:18
60.30 10267:6 10293:16	\$4 10333:22,24 10334:21,24,	124 10277:18	1976 10295:13,16
10336:21 10354:4	25 10335:24 10353:8	126 10414:19,20	1980 10295:4
60.40 10294:27 10307:13,17	10354:1	12634 10276:17,22	1988 10268:8
10396:11	\$4.35 10336:15	12646 10276:17,22	1990 10264:26
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60.70 10267:6 10268:15,18	\$5.05 10330:26 10331:16	130 10278:18	1993 10276:17,23 10316:10
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December 08, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

20- 10371:4	250,000 10303:25	325 10423:22	10309:21,25 10314:15 10398:13 10399:4,6,8
20-day 10371:5	26 10294:26 10423:25	33 10277:18 10290:27 10291:7 10349:19 10410:27	423A 10311:9 10398:15
200,000 10302:2 10303:26 10304:19	27 10301:25	10414:15,17 10425:27	10399:11,13,15
2000 10312:9 10383:25	27% 10276:26 10295:17	339 10423:25	43 10262:4 10330:20
10386:18	2701 10335:27	34 10290:23 10332:3,20	43% 10294:21
2002 10317:27	2704 10335:7,11	344 10431:23	43,448,000,000 10278:16
2005 10266:25	2709 10335:11,14,15	345 10388:23 10389:1,8	433 10274:17,19 10275:10
2006 10266:25 10267:5	28% 10266:28	10390:5,17 10396:7 10397:13	10387:28 10390:6,11 10397:1 10398:10,18,20,22
2008 10285:18,27 10344:17	29th 10436:8,12,14	35 10334:1	434 10274:18,19 10275:13
2010 10277:14	2:25 10432:26	35% 10276:13,28 10277:3	10283:20 10316:6 10321:15
2012 10312:10,17 10313:5	2:34 10437:4	10425:15	10342:26 10343:25 10349:19 10358:5 10398:11,
2015 10320:13	2nd 10436:10	350 10431:24	25,27 10399:1
2017 10303:3	3	353 10431:24	439 10262:18,20 10263:15 10264:2 10273:1,4,5,7
2018 10303:18		354 10431:24	43rd 10437:2
2020 10290:24 10291:16,17	3 10270:1 10312:21 10316:8 10369:25 10390:18 10408:2	355 10431:25	440 10400:6,7,16 10402:8,26
2021 10289:15 10333:28	10415:10,20,22	358 10431:25	10431:9
2022 10272:21 10278:16,18	3% 10351:4	36 10333:9 10392:23	441 10400:19,20 10402:11,
10280:19 10289:16,19 10303:18 10378:25	3,000 10413:23	369 10431:26	26 10406:19 10409:20 10411:21 10425:3
2023 10262:1,3 10268:11	3,108 10411:26 10422:27	374 10431:26	442 10400:22,24 10402:15
10278:24 10289:20	3.0 10282:8	38 10280:18	10403:3,24
10290:24 10378:26 10390:1	3.1 10281:15 10282:7	39 10390:18	443 10400:26,28 10402:18
2024 10437:1	3.70 10355:1	396 10431:27	10403:9,23
2054 10333:1,9	30 10264:16 10265:11		46 10290:23
2055 10352:19,24 10353:1	10276:12,28 10277:18 10290:23,27 10291:6,11	4	46% 10294:22
2086 10353:13	10369:25 10414:1,2,7,12	4 10282:20 10351:4	47 10335:9,15
2095 10354:10,11	300 10403:7,12 10404:26	10358:11 10416:6	48 10411:27 10412:2,4
21 10264:8 10269:7 10272:8 10290:15 10295:28	10406:10 10431:13	4.11% 10279:15	488 10280:19
10381:17 10435:9,12	301 10327:27 10328:7 10330:20 10343:2 10352:4	4.9 10282:8	5
21% 10278:5,15	10357:22 10358:7 10394:21 10403:7,12 10404:26	40 10369:24 10396:3	
22nd 10268:11	10406:10 10431:15,22	40% 10294:2	5 10293:7 10294:12,21 10310:3 10312:3 10321:14
23 10280:18 10281:4 10292:25 10384:5	302 10388:28 10389:2,3 10390:5 10392:23	400,000 10301:26 10302:2, 14 10384:27 10385:22	10360:26 10384:9 10392:28 10393:7,15 10404:9
24 10280:18	30th 10404:4	402 10431:26	10410:27 10419:3 10424:18 10425:27 10436:17
2413 10331:8 10332:6	31 10298:25 10343:24	403 10280:17	5% 10329:16
2469 10330:19 10331:13	10345:14 10436:22	405 10431:27	5.67% 10279:15
247 10278:17	312 10302:3	41 10339:15	5.98% 10279:14
2470 10331:10,11	314 10310:9	41.32 10291:12	50 10381:28 10420:15,18
25 10364:7 10371:5,14	31st 10404:4	417 10431:28	50% 10413:4
10420:15,19 10432:21	32 10384:26 10407:21	419 10431:28	50-cow 10322:24 10323:17
25% 10359:21,22 10369:18 10413:3,4	322 10431:22	42% 10294:23 10422:27,28 10423:16 10427:19	502 10436:3,13,15
250 10339:11	323 10431:23	423 10306:9 10307:3	509 10423:24



TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

RANSCRIPT OF PROCI	
51 10408:27 10423:25	752
51.8 10281:14 10282:7	
52 10403:15	
54 10267:1	8 10 103
55 10278:8	100
55% 10295:16	8-mi
55,165,000,000 10278:5,15	103
57 10274:17 10275:9 10398:19	8.6 80 1
58 10274:18 10276:17,22 10398:26	80%
59 10306:10 10309:21 10399:5	80s 83%
59A 10311:13 10399:12	84%
5:00 10436:4	86 1
5th 10276:17,23 10316:10	86%
	88 1
6	8:00
6 10278:2 10293:11 10294:21 10365:21	8:04
10416:10,11	8:30
6.28% 10279:14	8:32
60 10387:10	
60% 10295:4 10349:11 10425:16	9 10 103
62.7 10283:11,14,17,18	18
63 10262:19 10263:16 10264:1	9's ´
65 10266:27	9.6%
67 10283:11,15	90%
	91 1
7	95 1
7 10293:15 10294:22 10365:21 10368:19	99% 26 2
10407:20 10419:25	99.4
70 10330:11 10369:2570% 10316:15 10346:26	9:00
	9:35
700,000 10302:28	
712 10328:18,27	
73% 10276:27 10358:25 734 10423:24	a.m. 104
75 10413:4 10420:14,18	AA
75% 10369:11 10413:4	abilit
750,000 10301:3,10,20 10302:9 10304:25 10305:11	103 103

MARKETING ORDER	Pl
2 10329:20	ab
8	ab
10262:1,3 10310:28	ab
0369:9 10390:1 10403:23	ab 1
0424:4,5	1 1
million-pound-a-day 0324:22	ab
5 10281:8	ab
10358:25	ac
% 10276:27 10295:14	ac
s 10317:26	ac
% 10304:8	ac
% 10295:4	1 1
10334:4,7	ac
% 10425:18	1
10268:6	ac
00 10436:2,7 10437:1	ac
04 10263:21,24	ac
30 10274:12	ac
32 10274:15	ac 1
9	ac
10288:10 10310:24,27,28	1
0312:22 10343:9 10409:17, 8 10410:22	ac
10286:17	Ac
5% 10304:6,18	Ac
% 10346:28	ac 1
10423:26	1
10423:21	Ac
% 10295:5,7,15 10298:1, 6 10299:25	ad 1
.4 10272:9	ad 1
10 10288:13	1
35 10306:23,26	ad
	ad
Α	ad

a.m. 10288:13 10436:2,7 10437:1

AA 10296:11

ability 10319:23 10320:17 10324:26 10325:7,13 10339:8 10430:11 jured 10290:8 sence 10343:12 solute 10410:21 solutely 10273:25 0298:10 10306:14 0366:19 10376:25 0414:17 sorb 10323:23,25 oundantly 10265:22 ces 10370:16 cess 10321:25 commodate 10376:23 count 10289:25 10293:22 0315:10,18 10343:9 0357:10 curate 10312:12 10391:9 0394:12 etates 10343:1 hieve 10419:13 hieved 10304:4,10 hieving 10303:15 knowledgement 0376:18 knowledges 10365:24

10408:28

acronyms 10297:3

Act 10366:2

Active 10286:15

actual 10284:10,11 10291:24 10327:2 10348:19 10383:3 10387:2

Ada 10415:25,26,28 10416:1

add 10273:10 10366:12 10423:3

added 10280:13 10285:5,17 10309:24 10349:17 10367:26,28 10376:10

adding 10306:19 10381:28

addition 10344:9 10348:20

additional 10264:23 10279:27 10280:2 10288:1 10306:13 10319:21 10320:3 10323:25 10346:19 10348:8, 21 10356:18 10357:11 10372:1,3 10404:5

address 10284:21 10292:8

addressing 10284:22 10435:15

adds 10313:18

adequacy 10277:13

adequate 10276:6,11 10277:12,20 10321:18 10322:10 10358:12,19 10360:9,16,27 10429:18

adjacent 10318:12

adjust 10382:5,6

adjusted 10283:12

adjustment 10294:28 10303:20

adjustments 10294:27 10298:26 10319:13 10338:16 10362:26 10363:22,23,28 10369:3

Administrator 10376:8 10403:18

Administrators 10403:22

admission 10273:4 10398:18,25 10399:4,11

admitted 10273:5 10398:20, 27 10399:6,13 10432:7,9

adopt 10292:19 10419:8

adopted 10277:5 10287:20 10412:15

adopting 10292:9

adoption 10277:6 10357:2

advantage 10351:2 10358:23

advice 10378:28

advising 10404:18

advocated 10347:5

advocating 10307:9 10314:25,27

affect 10308:19,20 10324:27 10358:27 10360:18

affected 10365:2

affects 10303:5

affirmative 10434:19

afternoon 10390:1 10402:5

agencies 10320:12,18,21 10362:19

agency 10312:19

aggregate 10285:18 10340:7,11

aging 10342:27

agree 10337:12 10343:14



10302:9 10304:25 10305:11

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

10363:9 10383:18 10393:23, 28 10394:18,19 10433:9

agreed 10331:17 10432:27 10433:2

agreements 10276:16 10301:1 10318:15

agricultural 10268:26 10278:25 10356:7 10357:25 10435:26

ahead 10311:12 10317:12

Alabama 10418:13

Aldi 10339:28

algorithm 10418:23 10424:23

align 10285:8 10373:12

alignment 10374:14

allegedly 10289:27

allowable 10384:9

Allowance 10343:10 10414:22

Allowances 10343:14 10363:23

allowed 10321:27 10376:27

allowing 10372:11

almond 10368:10

alongside 10406:8

amalgamation 10427:24

amazing 10344:26 10386:19

ambiguity 10396:27

Amen 10309:18

amended 10376:22

Amendments 10276:16

amortized 10267:20

amount 10276:28 10288:5 10289:26 10356:21 10372:13 10409:18 10410:17 10428:6

amounts 10341:13 10382:14 10410:12

ample 10358:25 10359:19 10409:13

AMS 10272:23 10387:11

analyses 10405:8

analysis 10265:3 10289:26 10292:15 10296:24 10369:26 10402:26,27 10404:2 10405:9,12 analyst 10405:19,22 10411:4,5

analytics 10406:1

anchor 10402:15 10403:3,4

anhydrous 10265:15,25 10270:12

animation 10416:18

Announcement 10312:3

annual 10278:17 10282:12 10299:6

anybody's 10308:7

anymore 10301:21 10308:5 10315:23 10322:24 10346:7 10348:18 10349:17 10350:21 10359:5 10382:21

apologize 10286:10 10386:14 10387:22 10432:5

Appalachia 10384:8 10386:27

Appalachian 10293:8 10294:12,21 10349:25 10425:17,23 10426:14

apparent 10410:25

apparently 10350:1 10386:13 10401:11

appears 10276:13 10393:16 10394:14 10418:14

apples 10379:13

applicable 10299:20 10384:27

applied 10284:3,18 10286:16 10288:18 10289:11 10290:13 10299:17

apply 10285:3

appoint 10347:9

appreciated 10328:9

approach 10379:9 10405:9 10427:18,21

approached 10420:4

approaches 10289:12 10378:21 10427:25

approval 10292:23 10357:12

approved 10436:6

arbitrary 10267:23,27

Arcgis 10405:21

archaic 10294:28 10307:14

area 10270:10,13 10328:11 10338:13 10407:21 10410:27 10412:17 10413:25 10421:9

areas 10265:11 10276:15 10284:15,23 10285:7 10288:22 10290:14 10394:16 10395:9 10407:6 10408:26 10409:2 10410:3, 18 10412:4 10418:10 10419:14 10421:10 10424:11,20 10425:17 10426:3,4 10433:5

argue 10307:27 10325:11 10326:12 10334:10 10342:4, 10 10345:3 10348:24 10364:12

argued 10289:24 10383:19

arguing 10384:23

argument 10366:20

Arizona 10426:1,15

arrangements 10376:23

article 10302:4

Ashley 10399:25 10402:1

aspects 10292:9

assemblies 10393:17

assembly 10393:9

assessment 10393:23 10427:28

assessments 10384:18

asset 10320:19 10323:16 10380:7

Association 10262:11 10263:26 10275:7 10356:10 10396:26 10435:7,19

assumed 10369:28

assuming 10281:12 10326:19 10380:20 10381:24

assumption 10371:15

assure 10309:2 10344:12 10366:24 10371:28 10372:19

Atlanta 10327:5

attach 10282:14

attachment 10282:17 10291:22 10296:19,20,21 10376:6

attachments 10291:19

attention 10390:17

TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900 10392:11,22 10394:9 10409:23,24,26 10410:20

December 08, 2023

attract 10265:5 10288:1

attributed 10277:19 10322:9

audits 10312:11

August 10268:11 10279:24 10406:4

authenticate 10431:5 10432:13

average 10266:28 10304:19 10310:1,4 10311:26 10314:7 10328:28 10329:6,26 10330:9,25 10331:4,16,25 10332:11,17,22 10333:21 10334:17 10335:21 10353:5, 8,27,28 10354:23 10382:5, 25 10387:7,9 10394:27 10395:1 10412:23 10419:4, 8,14,28 10422:13,22 10424:6 10425:5,10,21,24, 25 10426:10,12,14,21

averaged 10281:9 10336:12

averages 10303:17 10349:21 10425:24

aware 10308:28 10398:3 10407:25

awful 10271:7

В

back 10262:2,3 10263:23,24

10271:23 10274:12,14,15

10306:23,25,26 10310:6

10318:7 10320:4,5,13

10328:3,5,6 10335:4

10345:1 10349:10,11

10368:17,24 10373:9

10389:6,18 10390:2,3

10392:10 10400:13,14

backwards 10422:23

10329:15 10392:19

bailiff 10347.9

10375:5

bad 10273:22 10316:24

balance 10350:27 10379:7

Index: agreed..balancing

balancing 10284:10 10370:9

10383:25,27,28 10386:11

10288:10,12,13 10300:3,25

10312:17 10315:6 10317:3

10352:3 10357:22 10359:18

10403:27 10406:4 10416:17,

28 10432:6,25 10433:8,28

B-R-O-W-N 10274:24

10265:24 10267:18

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

band 10423:8

banks 10280:18 10282:8

bar 10412:23 10413:3,6

bargaining 10321:6

barn 10273:12 10299:9,11 10346:4

barns 10346:6,21

barrel 10309:28 10311:26 10313:16,18,19,23,25,27 10314:1

base 10284:6,8,21 10289:4, 6,9 10307:14,25 10313:17 10366:13 10370:7 10371:15 10372:15 10382:2 10406:26 10409:2 10428:3,6,7,11,17, 18

based 10267:26 10275:28 10280:12 10281:11,28 10284:3,5,17,26 10285:6 10286:26 10287:10,16 10288:18 10296:23 10303:25 10304:6 10327:17, 18 10350:2 10358:13,14,15 10366:8,10 10367:13,25 10382:16,17,26 10416:7 10423:11

bases 10264:21

basically 10305:13 10345:16,20 10348:1 10366:10 10412:21

basing 10287:23,24

basis 10278:17 10288:4 10319:15 10411:13 10424:7

basket 10341:26

bear 10284:4,26 10288:19 10409:12 10410:7 10411:11 10416:13 10430:10,22

beautifully 10329:10

begin 10283:7 10288:9 10390:4 10432:27,28 10436:2

beginning 10270:26 10276:19 10278:12 10401:7 10420:6

behalf 10435:18.20

belabor 10390:25

belief 10297:26

beneficial 10338:12

benefit 10268:14 10302:1 10305:2

benefitted 10337:15

beverage 10264:13,20 10265:19 10280:11 10282:9

beverages 10278:27 10308:26,27

biannual 10299:6

Bible 10333:2

bid 10325:17 10381:6

bids 10326:23 10380:1

big 10308:17 10319:24 10320:20 10322:28 10339:1, 2 10340:24 10360:21 10383:8 10397:24 10404:25 10409:26 10411:13 10430:14 10436:18

bigger 10320:7 10322:21

biggest 10326:2,17 10338:27 10340:23 10370:15 10372:14,15,16 10380:8 10386:18 10408:9 10416:24

Bill 10317:27

billion 10369:24,25

bit 10271:3 10276:4 10285:28 10314:23 10370:10 10378:1 10379:4 10395:5 10397:28 10407:13, 14 10417:19,22 10420:3,14

black 10416:14

blend 10265:6 10267:17 10285:7 10286:23,24 10288:22,25 10290:22,25 10291:1,8 10373:11 10374:4,5,6,13,14 10382:2, 27,28 10383:21 10388:11,12 10390:27 10391:2,6,10,12, 19,20,22,28

blends 10373:25 10374:6

block 10309:28 10311:25 10312:6 10313:10,23,26,27 10314:2,7

blurry 10358:8

board 10326:9

Borden 10385:8

borrowed 10389:2

Boston 10382:4

bottler 10396:8,10

bottlers 10396:9

bottling 10393:18

bottom 10292:24 10304:16 10393:6,8 10403:24 10413:3 10420:6 **bought** 10271:27 10308:25, 26 10325:16 10379:27

bounce 10314:22

boundaries 10407:10

box 10413:3,7 10414:3

box-and-whisker 10411:19, 21 10412:21 10425:12 10426:18,22 10427:1

boxes 10412:19

boy 10400:23

brain 10427:4

brand 10341:22

brands 10340:27 10341:18

break 10274:11,13 10288:9, 11 10306:22,24 10328:2,4 10389:10,11,20 10423:28 10433:13

break-even 10382:24

breakfast 10280:17 10281:14 10282:6

briefly 10396:27 10412:18 10420:7 10428:3

bring 10351:16

bringing 10270:14 10292:20

brings 10363:5

Britain 10356:3

broader 10316:2 10344:7 10364:8 10365:11,15

brought 10274:10

Brown 10274:6,9,23 10275:1,8 10280:21 10288:16 10291:18 10297:18 10305:23,24,27 10306:10 10307:2 10309:20 10314:19 10322:20 10328:15 10351:24 10352:1 10387:26 10388:23 10389:4 10390:9 10396:21,25

Brown's 10305:22 10398:11

browsing 10390:26

BTU 10297:28

bucket 10406:25 10408:5 10420:13 10423:20,22,23,24 10426:6

buckets 10406:24,27 10420:10,13

budget 10436:6

TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

build 10268:3 10318:13,21 10324:21 10362:13

10368:16 10414:9,11

building 10318:18 10381:27 10428:20

December 08, 2023

built 10268:8 10318:26 10363:27 10386:10

built-in 10386:10

bulk 10273:26 10297:28 10298:3,6

bullet 10278:13 10287:14 10297:7 10322:6,8 10370:11 10373:8 10374:27 10375:25 10377:22 10379:15

bunch 10409:9

bundled 10426:23

Bureau 10265:2 10269:12

business 10323:10 10325:19 10340:1 10342:8 10347:19 10366:24 10374:10 10410:2

butter 10267:3,17 10271:15, 18,27 10296:11 10297:27 10317:20 10324:1 10327:19 10340:11,17,18,19,22,25 10362:15 10370:28

butterfat 10270:19 10273:14 10296:4 10303:23

buy 10271:28 10340:7,11, 12,18,19,20 10341:25 10346:9 10379:28

buyer 10321:8 10339:3 10371:10

buyers 10320:7,24 10325:11 10346:14 10347:17 10349:6

buying 10430:12

buys 10372:19 10385:5

С

cake 10436:19

cakes 10436:23

calculate 10309:27,28 10313:3 10422:11

calculated 10284:25

10319:14 10356:21

calculation 10272:17

calculations 10291:20

California 10286:21,23

Index: band..California

10336:25 10342:20 10343:8

10415:23

10423:11

10313:24,28 10314:5,6

TRANSCRIPT OF PROCEEDINGS NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

December 08, 2023

NATIONAL FEDERAL M	LLK MARKETING ORDER	PRICING FORMULA H	EARING
10300:7,17 10387:21	cautious 10377:7	chapter 10333:3	10420:17
10388:10,12 10391:11,18,19 10394:4 10395:2,9 10396:12	celebrate 10436:19	characterization 10321:22,	clarified 10314:25
10397:27 10398:4 10408:27 10426:1 10428:9	cell 10301:2,3,9,20,27,28	23	clarify 10307:3,19
call 10262:12 10277:21	10302:2,8,18 10303:4,7,10, 12,14,15,18,19,22 10304:4,	charge 10292:17 10319:10 10381:7	clarifying 10387:26
10299:14 10308:26 10311:8,	10,19,24 10305:7,11 10339:11,14 10349:28	charged 10384:11,18	Clark 10333:28 10334:2
12 10348:13 10356:6 10359:4 10387:17	10350:6 10384:27 10386:7, 11 10387:3	charges 10361:24 10372:1	class 10264:9,18 10265:2,4, 5,9,10,12,23,27 10266:9,12,
called 10269:12 10271:8 10311:24	census 10394:12	Charleston 10289:10	14,24 10267:2 10268:20 10270:27 10272:9,13,17,19
calls 10274:5 10399:27	cent 10325:18 10380:1	chart 10280:11,23,27 10282:24,25 10292:24,25	10273:12,16,20,21,25,26 10275:24 10276:1,7,25
candidly 10424:16	10381:10	10295:10 10303:17 10343:23 10349:20 10386:5	10277:8,9,12,14,16,17,21,22
candy 10272:4	center 10407:11 10415:25 10425:11	10411:15	10278:23 10279:4,11,19,27 10282:26 10283:9 10284:4,
Canton 10353:22,23,25	central 10270:25 10395:6,	charts 10402:11 10427:12	5,9,15,25,27,28 10285:3,4,6, 10,13,15,16,17,21,22
capacity 10268:1 10377:5	21,22 10396:12 10397:24 10430:24	cheaper 10270:28 10368:11	10286:17,19,21,22,25
capita 10278:17	Centre 10436:3,13,15	check 10313:1 10386:11	10287:15,21,23,24,26,28 10288:2,5,19,21,23 10289:1,
capital 10267:19		checked 10297:23 10386:12	21 10290:4,8,19,21,25,26,28
Capps 10281:2 10308:14	cents 10321:4 10372:9 CEO 10264:10	checks 10313:8	10291:6,8,9 10292:12 10293:20,21 10294:3,8,10,
10369:20	ceremony 10268:11	cheddar 10297:25 10298:12, 20 10310:4 10311:25,26	15 10295:11,15,22,24 10297:14 10301:2,8,12,13
Capps' 10279:2,9,12 10280:1 10309:3 10369:10	certified 10298:18 10349:16	cheese 10265:23 10266:23	10302:7,19,25 10303:27 10304:5,7,17,18,24 10307:6,
capricious 10267:23,28	cetera 10369:13 10383:21	10287:28 10295:26 10297:25,26 10298:12,16,20	10,16 10312:3 10313:18 10314:26 10315:12
capture 10279:1 10324:11	chain 10324:25	10303:28 10305:6 10313:22	10316:15 10321:19
captured 10285:16,26	challenge 10362:9 10379:5	10317:19 10324:1,18,22 10327:20 10339:16	10322:11,14 10323:2 10325:23 10339:21
captures 10279:6	10380:8	10340:10 10342:11	10342:22 10343:22 10350:5,
caramel 10271:18	challenges 10377:26 10382:9	10351:10 10359:13 10360:21 10362:15	13 10351:4 10357:9 10358:23 10359:21,22
care 10287:2 10362:14	challenging 10359:27	10371:12	10360:15,27 10366:7,8,10,
10375:17	chance 10290:17 10347:8	Chicago 10382:3,18	14,17,23 10367:16,17 10369:24 10372:2 10373:16,
careful 10268:20 10327:12	10433:26	10394:16	26 10374:12,15 10375:8
10338:26 10364:1,4,15 10379:23 10392:20	change 10280:14 10281:14	Chip 10351:26	10376:10 10377:1,2 10380:12 10381:19 10382:2,
Carmel 10436:4,13	10286:7 10289:9 10293:5	chocolate 10436:24	22,28 10383:1,2 10384:3,18
Carolina 10421:8	10294:18,23 10300:12 10307:23 10308:11 10311:8	chore 10297:20	10385:19 10388:9,11 10390:13 10391:14,18
case 10323:15 10326:26	10312:12,25 10315:1,24,25	Chuck 10364:11	10392:2 10393:18 10395:1
10331:27 10332:16	10321:24 10323:4 10327:10, 12 10343:17,23 10346:1	circulate 10424:2	10396:2 10397:21 10398:4 10405:12 10406:23 10408:3
10362:25 10366:25 10385:6 10395:17 10412:7,12	10348:2 10353:10 10367:13, 14 10381:14 10403:20	circumstance 10307:17	10409:7 10411:3,17,24,25 10414:26 10419:4,11,24
cases 10298:17 10300:6	10409:26 10410:14,16,21, 22,23 10411:10,13	circumstances 10320:4	10428:2,3,6,7,24 10429:1,26 10430:2,5,6,8
10377:4 10378:10	10412:13,15 10415:2	cite 10322:7 10392:5	classes 10373:6
cat 10400:27	10424:5 10425:18,26 10427:7	cited 10392:8	
catch 10324:9	changed 10344:27 10371:18	cities 10394:16 10403:3,4	Classic 10264:17 10265:20
catching 10414:14	10434:4	city 10353:25 10355:26 10361:15,17 10382:2	Claus 10297:22 clean 10344:14
categories 10279:13 10281:3	changing 10279:23 10315:22 10318:10	city/county 10402:15	clear 10265:22 10298:7
causing 10267:21 10360:3	10326:17 10338:26	clarification 10291:11	10299:12 10307:4 10309:14 10356:12,28 10381:3
cautions 10367:9	10404:20	10294:16 10345:27 10346:12 10353:16	10386:26 10387:7 10418:3
	channel 10281:1 10282:16	10361.16 10372.26	10422:28 10423:16 10426:8



TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

10361:16 10372:26

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

close 10262:26 10270:22 10317:1 10337:11 10370:2 10428:16

closely 10424:12

closer 10263:2 10358:25

Co-counsel 10431:7

- **co-op** 10319:9 10342:17 10349:6 10363:2,3
- **co-ops** 10319:17 10342:16
- **COALE** 10435:28 10436:14, 18,23

Code 10295:28

cognizant 10368:6,13 10385:17

coherent 10427:21

collecting 10312:28

colloquy 10309:10

color 10300:1 10406:28 10407:1,15 10408:4,5 10416:13 10417:10 10418:24 10421:24

Colorado 10408:22 10417:24 10418:2

colors 10409:22 10420:6,8,9

column 10311:22,27,28 10312:2,6 10313:10,17,21, 23,26 10314:4,5,7 10328:18, 27 10329:2 10331:11,12,18 10332:6 10333:1,28 10350:6 10353:4,6,27 10354:13,22, 26 10387:6 10426:9

columns 10311:21 10314:3

combination 10284:6 10397:3

combine 10265:28 10434:17

combined 10292:26 10293:16

commensurate 10326:4

comment 10362:18

- commenting 10298:25
- comments 10286:15 10392:6

commercial 10318:1

commitments 10371:20 10376:18

committed 10287:27

commodity 10327:17,18,19 10366:11 10367:4 10376:10 10419:23 10429:27 **common** 10320:12,19 10325:20 10345:2 10359:28 10362:19

companies 10298:20 10301:23 10320:7 10381:6

company 10264:11,16 10268:2,9 10270:22

compare 10379:1,13

compared 10298:28 10320:4 10337:13,16 10345:19,24 10414:7 10424:6

compares 10295:11 10425:4

comparing 10299:13,16,19 10425:24

comparison 10311:25 10402:19 10403:9 10420:1

comparisons 10313:22

compensate 10349:8

compete 10284:12 10338:23 10340:1 10370:13

competes 10368:14

10402:16

competing 10265:13 10332:4 10334:24,27 10341:21

competition 10286:18 10339:28 10388:3,9 10390:13 10391:23

competitive 10265:12,13 10271:10 10284:10,11 10286:26 10287:16 10318:6 10323:14 10325:19,27 10326:18 10327:11,12,23 10334:13 10337:3 10338:25 10341:17 10351:2 10367:4 10368:14 10370:10,12 10371:8,13,26 10373:3,16 10381:8,14

competitiveness 10371:19, 27 10390:20 10391:28 10397:16

competitor 10271:14,16,17

competitors 10271:11 10326:4,11 10327:24 10368:8

competitors' 10267:3

complain 10372:21

complete 10303:21 10317:15

completely 10291:13 10302:18 10306:18 completes 10305:21 10314:9

complex 10429:9

complicated 10365:11

component 10307:14 10312:4 10344:19

components 10265:22 10350:5 10370:7 10382:7

composition 10286:20

comprised 10272:10 10284:8

compromised 10279:21

computer 10352:27 10418:21 10420:21

computer's 10418:27

computer-driven 10424:22

computers 10424:24

computes 10281:22

concentrated 10264:12,21 10265:15 10270:19

concept 10287:19 10307:15

concern 10327:22 10338:28 10360:5

concerned 10271:17 10377:6 10424:27

concerns 10326:17 10350:23 10428:12

conclude 10436:9

concluded 10436:8 10437:5

conclusion 10304:22 10378:1 10436:19

concrete 10268:10 10346:22

condensed 10264:20,23 10265:14 10266:7,20,26 10267:10 10268:1,3 10269:21,25 10271:15,20, 23,26,28 10296:1

conditions 10285:20 10307:21 10323:12 10374:7

confident 10391:27

confirm 10391:5

confirms 10277:13

conformance 10346:11

confused 10352:14,15 10354:27

confusing 10378:1

TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

connection 10400:10

conservative 10289:14

December 08, 2023

considerable 10290:5

considerably 10285:6

consideration 10301:4 10361:6 10379:1,22,23 10384:25 10385:10 10429:13 10430:17

considerations 10276:1 10303:8

considered 10264:18 10285:14 10316:2 10319:20 10345:9 10369:1,11 10375:4,26 10377:24 10379:20 10380:16 10381:15 10432:7

consistent 10277:12 10322:27 10326:14 10342:3 10361:19 10370:20 10371:10 10378:27

consolidation 10323:8

constitute 10277:1

constrained 10375:13

construction 10318:11

Consulting 10280:28 10282:15,18

consume 10340:12

consumer 10371:1 10409:15 10430:24

consumers 10429:19 10430:14,16,19,21

consumption 10276:9 10278:17 10366:5

context 10344:7 10345:6

continental 10411:27

continuation 10350:17

10429:15 10430:12

continues 10414:5

continuing 10296:3 10416:26

continuous 10373:27

continuum 10310:28

contracts 10326:10

Index: close..contracts

10385:20

continue 10262:6 10288:16

10303:25 10311:17 10326:2

10412:2

10351:13

contend 10268:17

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

contractual 10376:17,23

contractually 10287:27

contradictions 10427:28

contradicts 10288:28

contrast 10295:5 10336:20 10418:17,19

contributing 10319:24

control 10324:6 10325:7 10348:22

controlling 10324:27

conventional 10322:15 10339:25 10341:6 10342:1

conversation 10364:9 10365:11 10380:12

conversations 10379:16

convert 10345:26 10346:1

converted 10317:19 10344:24

converting 10347:22 10349:10

cooperate 10340:26

cooperative 10287:27 10320:19 10338:11

cooperative-owned 10353:19 10355:12

cooperatives 10296:13 10301:23 10318:16 10320:8, 25,26,27 10321:11

coordinated 10320:14

- **copies** 10262:14 10387:24 10389:5 10396:20 10400:1
- **copy** 10262:16 10263:17,18 10283:20 10388:23 10389:1 10405:2

core 10412:25

corn 10266:3 10269:24 10323:18

correct 10267:14 10269:16 10283:5,23 10287:8,13 10291:22,25 10296:25 10298:9,15 10299:17,18,21, 28 10301:11 10302:13,14,21 10304:20,21 10307:7,8,11, 19 10308:14 10313:4,7 10315:13 10318:4 10323:27 10331:10 10332:15 10334:9 10345:16 10352:22 10353:8, 11,20 10354:2,3,4,5,6,20,24, 28 10355:2,5,9,14,17 10356:19,22,26,27 10357:3, 13 10366:14 10369:14 10380:22 10384:10 10387:5 10388:17 10390:14 10397:6, 8 10401:20 10402:9,10,13, 14,16,17,20,21 10404:13 10413:6 10415:13,14 10421:4,16 10423:12 10427:14

corrected 10282:26 10283:14 10306:15 10307:2 10309:20 10311:8 10398:14, 15

correction 10283:20 10285:23

correctly 10369:11

cost 10266:13 10267:19 10270:12 10280:10,14 10281:10,11,13,25 10282:9 10283:10 10284:9 10285:11, 13 10289:12,16,17,20 10292:16 10298:27 10308:4 10319:19,21 10323:13 10324:24 10332:27 10341:17 10343:27 10344:2, 9,28 10345:6,14 10346:20 10349:17 10361:4 10373:20 10375:3,4,8 10376:11 10378:21 10380:18 10397:22

costs 10280:4,12,15 10284:8,10,11,15,22 10285:14,19 10289:18,27 10290:3,11 10299:3,23 10319:8,13 10320:28 10321:2,9 10324:11 10343:11 10344:3 10345:17 10348:8,19,21 10357:18 10361:20,25 10366:8 10370:8,9,11,12 10371:15 10372:3 10373:3 10374:28 10375:2,6,7,11,19,26,28 10376:1,9 10378:25,26 10379:7 10430:9

cottage 10266:23 10295:26

counsel 10354:8 10384:16 10431:7

count 10301:9,27 10302:8 10303:6,14,18,19 10304:10, 19,25 10305:11 10339:11,14 10349:21,28 10350:6 10351:4 10384:27 10386:7 10387:3

counterproductive 10266:16

counties 10350:2 10404:19 10410:28 10411:26 10413:23 10416:2,3 10418:18,20 10422:12,14, 17,21,25,27 10423:1,5,7,16, 21,22,23,26 10426:13,14,16 10427:19 10433:5

countries 10301:25

country 10270:15 10285:4 10303:16 10305:15 10338:17 10393:19 10394:10 10395:10 10406:28 10407:3,6 10410:1 10416:4,27 10421:21 10424:14,19 10428:15

counts 10301:2 10302:1,2, 18 10303:4,7,11,12,15,20 10304:4,12 10305:7 10342:19

county 10328:18,21,25,28 10329:21,23,27 10330:13, 14,22,23 10331:24 10332:8 10333:10,14,17,21,28 10334:2 10335:12,16,19,22, 28 10336:21 10353:2,15,22 10354:9,16,17 10355:23,25, 26 10395:2,4,14,15 10402:18 10403:8 10404:11 10415:24,26,28 10416:1 10421:24 10428:2

couple 10292:14 10301:22 10305:28 10326:25 10328:15 10336:5 10337:28 10347:15 10359:25 10362:2 10374:1 10386:3 10387:26 10390:8 10416:28

court 10262:2.17.22.25 10263:1,4,8,20,23 10267:11 10268:5,7,23 10272:3,27 10273:3,9,28 10274:3,8,14, 21,25 10275:22 10276:3,18, 24 10277:28 10278:3,7,9,12 10279:5 10280:5 10281:16, 20,27 10282:1,4,21,23,27 10283:2,4,7,16,19,25 10285:28 10286:3,7,11,14 10287:3,5,9,12,14 10288:8, 12 10291:2,15,17,23,27 10292:28 10296:25 10297:1, 6 10306:6.21.25 10309:4.18 10310:7,23,26 10311:10,14, 16 10314:12 10317:11 10327:18,28 10328:5,9 10329:9 10330:1 10331:9, 16,19,21 10333:4,11 10335:14 10343:2,5,18 10345:27 10346:12 10347:6, 8,13 10352:5,26 10353:16 10354:13 10355:22,28 10356:4 10357:21 10361:16 10372:26 10376:5 10381:2 10387:16 10388:16,21,24,26 10389:1,4,9,18 10390:2 10392:12,14 10396:19 10398:17,24 10399:3,10,18, 21,24 10400:3,6,9,13,22,26 10401:2,6,13,18,22,27 10407:15,17 10420:17

10432:8,16,22,25 10433:18 10434:3,5,21 10435:1,17,22, 25 10436:16,20,26

cover 10275:20 10321:8 10372:12 10412:3 10427:10

covered 10337:13

covering 10301:6

covers 10369:25 10412:2

COVID 10347:11 10383:17

cow 10302:3 10303:6,8 10346:26 10348:7 10395:10

cows 10273:12,21 10303:13 10304:14 10305:17,19 10345:1 10346:6 10394:13 10395:8,20 10396:1

crazy 10383:18

cream 10264:20,23 10265:19,21,24,28 10266:23 10269:20,25 10270:17 10271:11 10296:2,5,6,14 10298:17,24 10300:19 10302:22,24 10344:18,19 10370:22,24 10371:9 10385:4,5,20,28 10436:19

creamy 10406:27 10408:6

create 10270:3 10361:12 10364:15

created 10293:23 10317:23 10402:12,16,19 10403:9

creates 10374:1,2

creating 10266:17 10326:15 10364:1

creative 10333:14

credit 10293:5,8,13,16 10294:6 10360:24 10377:18

credits 10277:5 10292:20, 26,27 10293:19,21 10294:2, 6,10,14 10315:11,19 10317:5 10356:17,18 10357:2,7,11 10359:28 10384:6

criteria 10284:3,18,26 10285:9 10286:16,17 10287:7,22 10288:18,21 10289:3,11 10316:19 10374:12,14 10397:20

criticisms 10378:20 cross 10306:3 10433:15 cross-elasticity 10308:18 cross-ex- 10391:24 cross-exam 10314:14



TRANSCRIPT OF PROCEEDINGS Decembe NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

cross-examination 10268:22,23 10269:1 10314:11,16,17 10352:10 10358:1 10387:19 10391:25 10392:6 10432:12,20,27,28

cross-price 10368:27

curious 10337:2 10386:14 10412:27 10414:26

current 10268:18 10272:7 10276:6 10277:11 10292:19, 25 10293:4,8,12,16 10294:8, 10 10307:10 10312:23 10315:15,24 10321:18,20 10323:11 10328:28 10344:4 10350:15 10357:1,4 10358:15,16 10363:12,27 10367:13 10385:24 10390:5 10406:23 10408:23 10409:19 10410:15 10411:17 10413:26 10414:8, 18 10420:2 10425:5,9,15,19 10426:9

customer 10266:13

customers 10267:7 10288:2 10296:6 10298:16 10301:8, 13 10319:28 10344:20 10385:27

customize 10362:22

cut 10306:12 10312:4

D

D- 10338:2

daily 10361:18

dairies 10304:9 10323:20 10346:13 10387:21

dairy 10262:11 10263:26 10264:12,21 10265:22,25 10269:18 10273:19 10275:6 10281:5 10284:19 10285:20, 25 10301:24 10303:14 10308:24 10312:22,24,26 10317:8,17 10319:6 10320:27 10322:24 10323:6, 8,17,18,22 10324:7,10 10325:15 10344:14 10345:1, 15,17 10348:8,24 10350:23 10356:10 10366:25 10367:27 10368:15 10396:26 10397:14 10429:8 10435:7,18,24

dairymandered 10418:16

dairymen 10305:15

Daisy 10319:2

Dakota 10394:10,15,19 10395:19 10396:10 10398:2 damage 10363:18 Dan 10435:18 Darigold 10366:27,28 Darigold's 10367:1 dark 10422:2 10423:20,25 darker 10416:14 10421:15 darkness 10417:11 data 10282:17 10289:12,16, 17,20 10303:13,21 10306:12,13,19 10309:22,24 10310:1 10312:18 10313:1,7 10350:2 10378:21 10383:27 10386:5,13 10402:24,25,27 10403:5,10,11,25,27 10404:1,13,24 10405:2,4,5, 13,21,23 10406:1,8,11 10411:22 10412:26 10426:8, 19 database 10312:16 Datamark 10312:14 dataset 10412:22 10413:7 10427:4 date 10267:8 dated 10276:23 David 10433:3 Davidson 10332:7,8 day 10262:4 10264:28 10368:10 10436:17 10437:2 daycare 10280:17 10282:7 days 10305:28 deal 10405:13 10433:7,14 dealing 10314:3

dear 10417:25

debate 10265:3

decades 10303:4

December 10262:1,3 10370:24 10390:1

decentivize 10291:10,24

decide 10267:26 10380:9

decided 10268:2

decimal 10411:6

decision 10266:13 10267:16 10276:15,22 10292:18 10294:19 10300:5,10 10315:27 10317:4 10356:16 10357:16,17 10361:22 10369:6 10372:18 10381:15 10384:19,21,24

decisions 10323:19 10383:20 decline 10277:13 10278:20 10279:14 10280:2 10365:23 declined 10366:1 declines 10277:24 10279:3, 9 declining 10279:13 10366:26 10369:19 10430:7 decrease 10307:10 10315:12 decreased 10322:15,17 decreases 10315:16 deduct 10307:17 deemed 10277:1 deep 10340:9 define 10270:7 defines 10295:25 10339:1 degree 10277:19 10322:9 10337:5 10410:16 degrees 10279:24 10305:25 delay 10389:16 delays 10289:25 10360:1 delicate 10350:26 deliver 10319:25 delivered 10381:7 delivery 10277:5 10292:20, 27 10293:5,8,12 10319:7 10348:23 delta 10334:23 demand 10278:22,26 10279:18.21 10285:20.21 10322:14 10324:20 10368:21 10370:23 10371:1, 6 10376:9 10377:1 10393:12 demanding 10290:11 demands 10394:15 demonstrate 10278:25 10393:16

dent 10324:20

Department 10384:16

depend 10321:10

depending 10324:4 10339:20 10358:22 10360:15 10371:3 10373:18

depends 10321:11 10326:12 10341:10 10351:11 10359:2 depiction 10394:18

depool 10382:22

depooled 10272:16

depooling 10265:6 10290:20 10291:13 10351:9 10358:22 10360:16 10381:18 10382:9,13

derive 10367:23

describe 10321:19 10322:6 10417:18

describing 10313:9

design 10268:9

designed 10375:9

detail 10291:21

detail-oriented 10405:14

detailed 10388:1

determinants 10290:2

determination 10357:18

determinations 10297:19

determine 10298:4 10312:25 10324:2,3,4 10358:19

determined 10285:1 10435:14

determining 10319:24

develop 10427:6

developed 10293:24

deviate 10433:4,5

deviates 10418:2 10421:3 10424:21

DFA 10332:3,16,25 10334:1, 27 10336:7 10337:14,16 10354:8,20

DFA-PRAIRIE 10337:14

diagonal 10416:25,27

Diamond 10355:6 10365:17

dice 10337:25 10426:19

differ 10427:19

difference 10273:25 10318:6 10325:17 10327:13 10329:12 10334:23 10347:27 10363:20 10370:15 10374:5,8 10381:4,9 10391:28 10396:3,6 10409:18 10410:14 10417:27 10418:20,21 10419:15,27 10422:12,18,22



TRANSCRIPT OF PROCEEDINGS December 08, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

differences 10299:2 10320:3 10379:12 10384:4 10391:12 10422:7,8 10426:24

differential 10264:9 10265:2 10266:10,11,15 10267:6 10268:19 10271:13 10272:7, 8,12 10278:23 10279:4,11, 19 10280:9 10282:26 10284:6,7,8,14,21 10285:17 10288:1 10289:5,7,9,13 10290:8 10291:9 10294:3,8, 11,20 10307:14 10315:1,15, 28 10316:3 10326:26 10332:21 10337:20 10345:8 10350:15 10357:5 10361:8 10363:28 10366:16 10370:7, 16 10371:16 10372:6,14 10377:27 10378:2,6 10380:4 10381:13,25 10382:26 10390:14 10395:2 10403:27 10404:1 10406:26 10411:3 10426:10 10428:2,4,6,7,11, 14.17

differentials 10275:25 10276:2 10277:10 10283:10 10284:4,5,22,25,27,28 10285:4,10,15 10286:18,20, 22,25 10287:16,21,23,26 10288:19,22 10289:1,4,21 10290:4,12,19 10292:13 10293:20,21 10294:22,24 10307:6,10,16,22 10308:7 10314:26 10315:13.18.25 10321:21 10326:8,20,21 10342:21,22 10344:4 10349:2 10357:1,9 10362:3, 5 10363:11 10365:28 10366:16 10367:8 10368:27 10369:4 10372:15 10374:12, 15 10376:20 10378:17 10381:19 10382:9 10384:17 10388:9.11 10391:18 10395:24 10397:21 10398:4 10402:19 10403:6 10405:12 10406:24 10407:3,25 10408:2.4.15 10409:7.19 10411:18,24,26 10413:11 10414:9,11,13,26 10415:5, 17 10419:4,12 10420:2,4 10425:5,9,15 10427:11 10428:24

- difficult 10308:8,9 10323:23 10324:15 10327:4,11 10337:21 10338:3 10361:14, 18 10362:22 10382:8 10428:26
- digestible 10430:28
- digital 10296:20 10313:5
- dilemma 10338:2
- diligence 10338:21

dimes 10422:7

direct 10263:12 10275:4 10280:10 10319:11,19 10321:3 10402:3

directly 10296:13 10302:1 10319:9,16 10430:10

dirty 10392:18

disadvantage 10338:22

disciplined 10351:9

discount 10340:9

discourage 10288:23 10377:13

discouraging 10377:16

discrepancy 10265:26

discuss 10307:22 10325:9 10372:10 10427:10 10428:12 10432:23

discussed 10288:23 10354:8 10377:19 10380:19, 26 10407:24

discussing 10344:6

discussion 10263:22 10339:27 10351:17 10360:28 10365:3,25 10366:21 10368:22 10377:12,15,27 10396:5 10400:12 10414:22,25 10415:3 10432:24

discussion's 10351:17

discussions 10384:15

disfavor 10380:14

dishonest 10363:21

disincentives 10342:18

disincentivize 10291:24

disjointed 10427:24

disorderly 10266:18 10267:21 10270:4,6,7,18

disparate 10426:4

disruption 10360:3

disruptive 10380:10

disseminate 10324:4

distance 10413:19

distance-wise 10330:18

distances 10270:20 10361:22

distinct 10407:22 10408:20, 23 10424:17

distinguish 10309:5 10434:5

distri- 10409:1

distribute 10306:16,20

distributed 10262:14 10311:12 10400:1

Distributing 10293:1

distribution 10282:16 10393:11,21 10412:22 10413:15,23 10414:5,21

distributions 10413:27

divergence 10355:16

diversions 10321:26

divide 10319:17

document 10263:28 10306:9 10311:11,18,24 10350:4 10398:16 10424:1

documents 10402:6,23 10431:5,10

dollar 10289:26 10356:21 10361:27 10409:18 10410:17

dollars 10281:24 10282:2,6 10293:3 10362:3,4 10374:9 10419:27

domestic 10318:1

dominant 10265:12

doomed 10290:20

door 10323:18 10340:25

dots 10412:20,24

double 10276:28

doubling 10266:11

doubt 10362:21

download 10404:1,6,28

downloaded 10404:3,14

downs 10360:20

dramatically 10414:4

- draw 10304:22 10374:13 10390:16 10392:11,22 10394:9
- dried 10269:18

drills 10333:2

drinking 10367:28

drive 10409:1 10419:22

taltys.com - 408.244.1900 Index: differences..effective

driven 10336:28

TALTY COURT REPORTERS, INC.

drop 10320:13

dropped 10304:13

dropping 10325:24

dry 10265:14,25 10266:1,4,7 10269:19,21,27 10270:12, 16,19 10271:12,22 10367:2

due 10265:26 10268:1 10323:9

duly 10263:10

dumps 10273:13

duplicate 10311:23

dynamics 10320:25 10396:1

Е

e-mail 10433:28 10434:1,9

e.g. 10284:22

eager 10434:7

earlier 10278:28 10295:2 10302:23 10379:27 10385:12 10390:12 10417:22 10418:6 10426:17

early 10317:26

ease 10424:1

easier 10320:22 10321:12 10368:5 10406:10 10407:17

easiest 10418:4 10423:13

easily 10430:28

east 10333:15 10337:7 10351:6 10354:9 10421:24 10424:17

Eastern 10407:27

easy 10340:14 10369:2 10370:17

eat 10345:2

eating 10367:27

economic 10265:3 10269:23 10300:10 10323:12,19 10344:11 10377:21 10395:27

economists 10278:25

edge 10407:20

edict 10278:21

effective 10317:21

10385:23,24

effect 10343:15,21 10368:3

10320:11,14,20 10362:19

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

efficient 10424:22 10433:21	engagement 10390:13	evaluate 10402:24 10411:22	10273:1,4,5,7 10274:17,18, 19 10275:9,10,13 10283:14
efficiently 10270:10 10324:14	England 10276:15	evaluated 10314:28	20 10305:23 10306:9,10,15
	English 10351:26 10352:7, 11,26,27 10353:3,17,18	evaluating 10308:5	10307:3 10309:21,25 10310:4 10311:9,13 10312:
effort 10268:13 10290:20 10311:23 10427:25	10354:15,18 10355:19	evaluation 10315:4	10314:15 10316:6 10321:15
eggnog 10296:2	10433:28 10434:4,7,22 10435:2	evaporator 10268:3	10327:27 10328:7 10330:20 10342:26 10343:2,25
eggs 10340:22	enhancement 10419:21	event 10306:2 10436:3,13, 15	10349:19 10358:5,7 10388:23,28 10390:5,6,11,
elastic 10278:23,26	enjoy 10374:20	everybody's 10433:20	17 10391:2 10392:8,11,23
10279:19 10308:17 10309:6, 8,10,12 10369:19	ensure 10276:10	everyone's 10305:1	10394:21 10396:7 10397:1, 13 10398:10,11,13,15,18,19
elasticities 10280:1 10309:13 10368:22,25,26,27 10369:9	entire 10273:19 10304:11 10305:14 10338:17 10374:23 10390:23	evidence 10273:2,4,6,8 10307:23 10398:10,15,18, 21,23,25,28 10399:2,4,7,9,	20,22,25,26,27 10399:1,4,5 6,8,11,12,13,15 10400:2,3,7 16,17,19,20,22,24,26,28 10402:8,11,15,18 10403:3,9
elasticity 10308:13 10309:1	entirety 10292:7	11,14,16 10433:3,15	15,23 10406:19 10409:20
10322:23 10369:28	entitled 10431:14	evident 10304:28 10322:4 10392:1	10411:21 10425:3 10431:9, 13,15,17,22,23,24,25,26,27
elected 10338:20	environment 10325:27		28 10433:3,7
electricity 10279:28	10371:13	evidentiary 10322:4	exhibits 10274:16 10314:13
eligible 10295:3 10358:21	envy 10362:10 10363:24	evil 10337:20	15 10383:26 10387:25 10388:27 10400:15
eliminate 10290:20	10364:18,20	exact 10422:18	10402:26 10403:7,12
10291:13 10308:1,3 eliminated 10295:1	equal 10276:12 10294:2 10416:3 10422:21 10433:6	examination 10263:12 10275:4 10314:10 10356:13	10404:26 10406:10 10433:15
10307:15	equals 10294:23	10396:23 10402:3	exist 10317:25 10359:5
eliminates 10277:9	equate 10272:8	examined 10263:10 10275:2 10401:25	existing 10290:12 10379:17 10408:15
eliminating 10367:7	equates 10267:1,9,12	examples 10265:18	exists 10357:5
elongation 10413:11	equating 10268:19 10367:20,21	10267:24 10269:10	expand 10270:5 10373:13
emergence 10278:27		10318:22 10337:12,17 10338:9,10 10397:28	expansion 10268:12
emphasize 10273:10 10309:7	equipment 10267:17 10268:10	exceeded 10290:25,28 10291:8	expect 10320:1 10336:8
empirically 10360:19	equity 10379:21 10380:25	exceeds 10290:22	10361:23 10363:16 10391:10 10395:26 10407:9
employment 10308:23	equivalence 10288:25	Excel 10296:20 10404:23	10411:7 10416:7 10424:15 10435:8
emulsifiers 10269:19	equivalent 10385:1	10405:20	expectations 10362:12
encase 10361:26	Erin 10359:22 10364:19 10368:17 10379:6	excellent 10311:14 10356:4 10360:24	expected 10349:5 10413:15
encourage 10289:1 10377:5 10378:5 10385:15 10435:4	erring 10316:28	exception 10326:7 10371:11	expecting 10349:9
encouraged 10377:20	ESL 10341:15	exceptions 10277:3	expense 10268:13
encouraging 10277:8	established 10275:27	10304:28 10337:18	expenses 10324:27
end 10267:24 10298:21	establishing 10288:28	excerpt 10282:15	expensive 10266:10
10306:16 10312:22	estimate 10417:13	excess 10277:3 10289:22 10339:4,6,9 10341:28	experience 10299:8
10314:24 10364:24 10381:19,20 10404:3	Estimated 10280:9	excited 10404:7	10308:15 10319:18 10320:11 10339:3,24
10407:7 10408:7 10413:12 10424:9 10436:21	estimates 10281:11 10292:15 10358:15	exclude 10370:3	10340:22,28 10341:3,8 10347:23 10359:12,13,24
ended 10310:9	10386:28 10415:24	excluding 10296:1	10361:15 10367:16 10372:2 10373:7 10374:6 10385:3
ends 10385:6	EU 10301:25 10302:25 10384:28 10385:2,13,15	excuse 10284:11,20	10415:7,8,9,11
energy 10319:13 10379:7	Europe 10302:11,12,23,28	10286:28 10333:7	experiencing 10410:19
enforce 10347:17 10348:14	European 10301:25,26	exercise 10417:9	experts 10406:12 10434:15
enforcing 10339:12	-aropour 10001.20,20	exhibit 10262:18,19,20	explain 10265:3 10272:10



TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

Index: efficient..explain

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

December 08, 2023

10296:17 10416:20

explained 10305:26

explaining 10388:3

explains 10292:6 10393:7

explanation 10347:13

export 10302:11 10342:19 10345:19 10348:15

exported 10385:1,7

exporting 10301:24

express 10376:10

expressed 10397:13

extend 10342:2

extended 10342:1

extensive 10285:11

- extent 10302:6 10325:2 10327:15 10329:14 10397:10 10432:3
- extra 10262:16 10296:4,14 10348:2 10360:14 10375:16
- extreme 10367:9 10373:23 10422:1
- extremely 10325:19 10337:21 10338:3

eye 10418:4,25

eyes 10333:5 10394:20 10404:20

F

face 10323:23

facilities 10284:16,23 10297:28

facing 10325:10

fact 10265:8 10301:7 10304:20 10325:11 10346:15 10356:15 10357:10 10391:1,9 10394:24 10396:8 10413:19 10430:4

factor 10319:24 10324:6 10380:18

Factories 10272:4

factors 10318:11 10320:5 10383:23

factory 10271:28

facts 10275:25 10296:16 10365:24

factual 10275:28

fail 10300:4

fair 10318:7 10319:25 10321:22 10322:16 10323:7 10326:5,11,24 10334:14 10337:4,27 10338:13,17 10343:28 10350:27 10351:20 10361:25 10368:1 10372:12,13 10375:14 10408:16 10423:15 10426:26 10430:25

fairly 10347:2 10348:4 10359:17,18 10391:15 10423:11

faith 10365:5

fall 10415:24 10416:1,2,5, 11,19,22,23,25 10417:2,4, 13,15,17 10419:6,15 10423:17

fallen 10278:5,15 10295:22

familiar 10319:3 10336:3,4 10395:4

farm 10265:1 10269:12 10286:20 10295:17 10298:5 10299:6,17 10304:11 10317:27 10323:24 10324:28 10345:15 10346:16 10348:8,20 10388:10 10393:20 10397:16 10429:28

farmer 10303:1 10319:9 10324:7,10 10435:24

farmers 10270:9 10285:25 10295:9 10296:13 10302:1, 17 10303:10,14 10319:6,16 10320:27 10323:8,22 10336:5 10362:21

farming 10324:19 10325:20

farms 10298:4 10299:26 10300:3,12 10304:2 10322:21,24 10323:27 10325:11,23 10329:22 10336:6 10337:14 10344:10, 17 10346:11 10347:22,25 10348:5 10393:10

farther 10334:9 10378:12

farthest 10354:13

fast 10431:12

fat 10265:15,26 10270:12 10273:15,17

fault 10371:22

favor 10380:14

favorite 10415:24 10426:15 FDA 10305:10 fear 10325:21

February 10374:22 10436:10

federal 10264:15,19 10265:11 10270:2 10272:14 10277:2,14 10280:10 10288:4 10293:4,11,15 10295:15,28 10301:20 10303:13,17,19 10320:18 10349:21 10350:18 10351:2, 13 10358:27 10362:12,28 10363:9 10365:26 10366:3 10367:7 10371:22,25 10375:14,21 10376:19,22 10378:3 10384:8 10386:6

Federation 10390:18

feed 10376:1

feedback 10401:15

feel 10333:2 10346:11

feeling 10273:13

fees 10382:6

fell 10278:17

fewer 10270:16

fictions 10273:27

field 10326:10,24 10332:26

fight 10347:3

fighting 10320:13

figure 10313:3 10356:23 10364:17,24 10392:28 10393:7,15

figures 10282:12

figuring 10369:27

file 10404:7 10411:6

files 10404:28 10405:1,22

fill 10341:25

final 10277:6 10292:18 10294:18 10310:10 10317:4 10357:16 10360:8 10361:22 10362:18 10384:21,24 10427:13 10436:17

finally 10267:5 10403:8 10404:7

financial 10265:16 10323:22

financially 10323:11 10379:25

TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

find 10303:3,24 10319:12 10324:13,16 10333:2 10350:20 10351:9 10353:28 10360:12 10407:18 10431:10 10372:3 10389:17 finer 10266:6

finish 10280:23 10306:3 10392:15 10433:27 10436:21

fine 10333:6 10338:8

finished 10267:10 10392:16 10393:11,22 10434:12

firm 10280:27

five-minute 10274:11 10288:9 10306:22

fix 10276:5 10375:14

flat 10414:3,5

flatten 10378:6

flavor 10265:20

flavored 10279:16

flip 10421:13

flipping 10416:17

floor 10429:4

Florida 10293:11 10294:21 10304:8 10349:25 10357:7 10386:18,27 10407:1 10408:8 10416:27 10425:14, 27 10426:15

flow 10361:28 10373:27

flowing 10375:22 10421:19

flows 10393:10

fluctuates 10371:6

fluctuation 10327:21 10382:14

fluctuations 10276:7

fluid 10276:9,11 10277:24 10278:4,14,22 10279:18 10284:12 10292:21 10293:1 10295:3,18 10297:16 10322:15 10324:26 10325:6, 10 10326:1,21 10328:21,24 10329:22 10332:1,4 10333:19 10334:1 10336:2 10337:3 10341:1 10342:9 10359:13 10365:28 10366:4 10367:3,22,26 10369:12 10370:12,22 10371:3 10378:11,12 10379:28 10382:20 10402:18 10403:8, 16 10409:14,16 10430:8

FMMO 10264:26 10266:17 10267:20,22,26 10276:26 10290:22 10295:21 10406:23 10411:1 10412:2, 16 10425:6 10426:15 10429:13 10430:17

Index: explained..FMMO

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

December 08, 2023

ATIONAL FEDERAL M	THE MARKETING ORDER		LARING
FMMOS 10407:10 10412:1,9	frequent 10341:6	generate 10405:18	Grade 10284:9 10294:27 10295:3,4,6,7,8,9,12,14,15,
focused 10403:28 10409:10	Fresno 10395:2,4,15	generated 10394:27 10395:16	17,20,25,26 10296:7,9,10,
focusing 10299:24	Friday 10262:1,4 10390:1 10436:5,9,10	generations 10323:20	11,12 10297:15 10298:2,5,0 8,14,16,18,24,25,26,27
folks 10364:24 10380:14 10405:28 10423:19	friend 10374:24	generous 10321:26	10299:5,7,17,20,25,27,28 10300:3,4,8,18,25 10301:1
follow 10396:25,27	friends 10346:5	geographic 10405:26	10307:27,28 10308:1 10315:23 10316:1 10339:4
follow-up 10403:1	front 10263:19 10310:19	10411:1 10428:1	6,9 10341:28 10343:28
fond 10364:11,13	10328:11 10402:6 10415:25	geographically 10426:4	10344:3,12,17,18,20,21 10345:2,3,4,15,22 10346:23
food 10264:12 10265:18	frozen 10266:23	gerrymandered 10418:15	26,27 10347:16,17,25 10348:5,9,17,18,23 10349:
10266:21,22 10267:15 10280:3,18 10282:8	frustration 10305:9 fuel 10319:13 10379:4	GIS 10405:25 10406:8 gist 10388:17	16 10358:20 10370:8
Foods 10262:11 10263:26	full 10270:1	give 10265:17 10267:23	10375:28
10275:6 10354:19 10356:10 10396:26 10435:7	fully 10266:4 10361:23	10280:24 10288:7 10295:13	graded 10345:22,23
foodservice 10369:13	10366:17	10320:18 10333:7 10352:3 10357:22 10378:6 10389:5	gradient 10378:15 10416:13 10418:24 10424:10
10370:1	fun 10299:10 10405:15	10406:21 10412:18	gradients 10408:4
forces 10270:11 10429:8	10411:1	10431:17 10433:25 10434:18	grading 10298:28 10345:20
forest 10412:7,11	function 10317:22,25 10326:28 10359:16 10378:9	giving 10272:25 10290:17	gradual 10407:5
forget 10297:4 10324:1 10378:24	functionality 10265:21	10294:9 10338:1 10382:7	grammar 10292:1
forgotten 10306:1	fundamental 10288:28	glad 10280:26 10433:12	granting 10322:5
form 10296:4 10393:17	10290:2	Glanbia 10297:25 10298:21 10318:28 10344:16	graphic 10392:28 10393:3
10405:3 10412:27 10430:28	fundamentally 10430:23	Glanbia's 10298:12	grappling 10427:13
formations 10342:14	future 10361:3	goal 10419:13	gray 10421:1,2,7 10423:20, 22 10424:8
formula 10313:18 10368:16 10419:11	G	God 10344:25	great 10271:13 10276:3
formula-driven 10429:9	G-A-L-L-O-W-A-Y 10262:24	good 10262:25,27 10263:4, 14 10264:10 10265:1	10320:19 10324:19,24 10358:8 10361:10 10368:10
formulas 10279:23	gallon 10281:8 10341:12	10269:3,4 10271:17	10369:22 10378:3 10405:1
10285:26 10429:13 10430:17	10380:3,6 10381:7,12 10410:8,11	10275:8,23 10304:4,12 10305:8 10306:6 10312:12	10406:23 10417:3 10419:1 10436:26
Fort 10330:14 10335:7,18	gallons 10280:16 10281:7	10314:19,21 10318:22	greater 10285:26 10422:12
10336:23 10337:8	10341:16 10436:24	10323:19 10325:14 10326:14 10329:14	21 10423:5
forward 10387:18 10399:22	Galloway 10262:13,24	10338:23 10341:24 10342:8 10343:5 10345:17 10347:19	greatest 10318:12
foul 10310:13,14	10263:9,14 10264:10,11,16 10268:2,9,21,24 10273:10	10348:24 10349:14	green 10393:9,19,26 10394:3,5,7
found 10354:14 10360:12,13	10385:12	10351:27 10352:5,13 10353:1 10358:3,4 10360:25	Greenville 10318:23,24
10432:10	Galloway's 10262:15	10361:11 10364:17 10365:9, 18 10367:2 10373:18	grocery 10340:24 10341:26
foundation 10363:9	gathering 10427:18	10374:3,10 10376:7	10366:24
four-generation 10264:11	gave 10337:17 10355:26 10433:12	10386:20,23 10387:14 10392:14 10399:20	groundbreaking 10268:11
fourth 10370:3 10371:1 10400:26	general 10285:12,14	10401:18 10402:5 10413:21	Groundhog 10264:28
FR 10276:17,22	10309:11 10350:18	goodness 10379:3	Group 10351:27 10399:26,
fraction 10295:2	10359:15 10375:26 10435:23	goods 10393:22	27 10402:2
frankly 10367:9 10408:10,25	generally 10318:13,15	gosh 10378:7	groups 10281:5 10324:19 10347:24 10427:26
10412:9 10413:16	10319:10,19 10320:21 10323:21 10339:22	government 10262:16 10278:21 10280:10	grow 10323:18 10430:11
free 10346:17	10341:17 10360:12	10283:10 10317:8,17	growing 10394:13
frequency 10347:19	10371:11 10395:4 10407:27	grab 10262:16	grown 10318:8 10320:26
	TALTY COURT R	FPORTERS INC	

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

growth 10290:6 10377:5

guess 10275:18 10327:9 10360:6 10369:22 10372:21 10379:10,19 10383:24 10398:1

guide 10345:19,20 10369:5

guidelines 10299:13,16

guys 10404:26

н

half 10325:18 10341:15 10380:2 10381:10 10421:20

ham 10340:19

Hancock 10314:18,20 10317:13 10327:26 10328:7, 8,13,14 10329:13 10330:4 10331:11,17,20,22 10333:9, 16 10335:15,17 10343:4,7, 20 10348:6 10351:24 10433:19 10435:10 10436:12

Hancock's 10415:24

hand 10374:4 10392:18

handled 10373:4

handler 10325:6 10379:20 10380:25 10403:19

handlers 10302:7,19 10324:26 10325:28 10326:21 10384:18

handling 10372:3

hands 10344:25

hang 10311:4 10427:26

happen 10358:24 10364:4 10412:16

happened 10320:6 10373:9 10432:9

happening 10410:26 10412:8,10 10413:22 10414:21 10416:25 10417:26

happier 10305:19

happy 10369:7 10390:23

hard 10309:5 10318:20 10365:10 10380:15 10385:13 10398:1 10407:18 10411:23 10428:18

harm 10278:24 10279:20 10367:11 10379:25

harms 10429:20

hats 10323:6

hauling 10320:28

He'll 10435:23

head 10397:28

health 10303:7

health-enhanced 10279:15 10340:28

healthier 10303:6,12 10304:15 10345:2

hear 10280:26 10307:23 10330:1 10350:19 10395:23

heard 10280:28 10350:22 10355:11 10364:27 10373:2 10374:26 10376:17 10377:12 10379:16 10380:13 10381:26 10385:11 10414:22,25 10422:5 10428:21,25 10430:6 10434:23

hearing 10262:4 10263:15 10264:1,26 10266:25 10267:5,15 10273:1 10275:10,13 10306:9,15 10307:2 10309:21,25 10311:8 10355:5 10360:28 10363:7,11 10365:14,25 10368:8,23 10374:27 10390:12 10397:1,13 10398:10,11,13,15 10402:9 10403:5 10405:1 10414:23 10433:27 10436:9 10437:2

hearings 10264:27 10307:9

heart 10417:25

heavily 10317:26

heavy 10303:27,28

held 10354:6 10432:6

helped 10364:9 10365:7 10405:19

helpful 10423:19 10433:22

helping 10406:9

helps 10362:6 10419:13

high 10266:4 10304:7

10305:1,14 10417:13 high-level 10404:23 10412:18

high-nutrition 10341:21

high-protein 10341:21

higher 10266:15 10287:25, 28 10289:17 10290:11 10298:23 10350:13 10366:23 10375:19 10396:12 10398:5 10407:26 10408:10 10417:4,17 10423:17 10425:13 10429:24 10430:9

higher-of 10383:19

highest 10367:17 10382:28 10407:26 10416:15

highlighted 10379:17 10383:10

highly-regulated 10429:8,10

Hiland 10336:2

Hilmar 10297:25 10298:12, 20 10300:17

Hilton 10355:6 10365:17

hired 10405:19

historically 10288:3 10428:26

hitting 10429:4

hold 10352:7

honest 10344:24

honestly 10316:17 10325:14 10330:13 10371:20 10372:7 10378:12 10385:18 10386:18

Honor 10262:14,16 10268:21 10272:28 10274:2, 5 10278:2 10283:13 10305:21 10306:4,8 10310:16 10311:6 10314:9 10328:13 10351:26 10352:3, 27 10355:20 10398:9 10399:17 10400:1,5 10432:3,15 10433:17,19 10434:8 10435:28

hope 10333:5 10347:6 10436:10

hoping 10340:18 10387:23

horrible 10327:8

hot 10269:24

hour 10389:11

house 10344:25 10348:1

HTST 10341:12

huge 10362:9

humongous 10406:11

hundred 10381:12

hundredweight 10267:7,11, 13 10268:16,18 10272:12 10273:21 10279:3,10,27 10283:1,4,9 10289:8 10291:5 10293:3,10,18 10319:14 10325:16 10330:26 10333:22,25 10334:21,27 10335:24 10410:6,7

December 08, 2023

hurry 10360:2

hurt 10362:27

husbandry 10345:3 10349:14

hydrate 10266:1,4 10267:17 10269:18

L

I- 10338:2

ice 10264:20 10265:19,21, 24,28 10266:23 10269:20,25 10270:17 10271:11 10370:22,24 10436:18

Idaho 10271:5,6 10351:3 10409:3 10428:15

idea 10382:7 10383:6

identical 10311:2

identification 10262:21 10274:20 10276:20,21,22 10400:8,21,25 10401:1

identify 10299:23 10317:5 10400:15 10401:27

identity 10295:28

IDFA 10262:19 10263:16 10264:1 10274:5,17,18 10275:9 10306:10 10307:9 10309:21 10311:13 10314:25 10350:12,17 10356:28 10358:17 10367:8 10398:18,25 10399:4,11 10434:26

IDFA's 10307:3 10315:24 10356:12 10376:21

IDFA-58 10283:21

II 10264:9,18 10265:2,4,5,9, 23,27 10266:9,14,24 10267:2 10270:27 10272:13, 17,19 10273:12,25 10339:21 10380:12

III 10265:12,23,27 10273:20, 26 10285:16,21,22 10287:28 10290:21,25,28 10291:8 10297:14 10301:12 10313:18 10317:2 10366:10 10384:3 10419:24

Illinois 10421:10

imagination 10430:1

imagine 10318:19 10381:27

Index: growth..imagine



TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

TRANSCRIPT OF PROCEEDINGS Decemb NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

10383:7

impact 10293:26 10324:23 10366:4 10370:3 10383:20 10420:3 10429:11 10430:2

impactful 10410:2

impacts 10280:9 10290:10 10381:24 10414:24 10416:24 10430:10

implemented 10361:23 10412:14

implication 10266:14

important 10281:17 10291:3 10293:25 10301:28 10307:24 10338:19 10351:7, 11 10363:25 10364:26 10366:18,19 10378:17 10386:21 10397:25 10409:12 10410:23,24 10412:6 10414:24 10419:10, 11 10427:6 10429:7 10430:18

imposed 10300:23 10301:3, 8 10302:7,19

imposes 10301:10 10302:28

imposing 10304:24

improvement 10331:3

improvements 10386:17,18

IMS 10296:23,28 10297:1, 12,14 10298:1,7,18 10299:1 10349:16

in-plant 10293:12

inadvertently 10306:12

incent 10429:24

incenting 10419:21

incentive 10266:12 10340:16 10344:11,14 10370:20 10374:2 10382:22 10386:10 10387:4

incentives 10291:13 10302:17 10304:14 10342:18

incentivize 10295:9

inclined 10307:16

include 10289:8 10291:19 10295:26 10309:12 10314:14 10350:8 10398:2 10403:24 10422:17 10423:2

included 10321:2 10403:16 10434:16

includes 10297:13,24

including 10289:21 10293:20 10296:2 10305:2,9 10308:13 10427:19 10434:15

incongruity 10276:8

inconsistent 10275:28 10289:12 10378:21

increase 10265:6 10267:7 10268:16 10275:24,26 10278:19 10279:4,10,26 10280:3,10 10281:10,12,26 10282:26 10283:4,9 10285:24 10288:4,22 10290:26 10291:5,9 10293:9,13,17 10294:10,15, 19 10307:6,16,18 10320:23, 24 10321:21 10324:11 10334:21 10336:17,21 10356:16 10366:3 10406:28 10407:8 10409:6 10411:3 10421:28 10425:10,14,19

increased 10272:7 10277:15 10282:5 10292:19 10323:5 10343:10,15 10345:12 10357:7 10384:17 10408:12 10422:4

increases 10275:27 10278:24 10279:19 10289:14 10292:16 10294:3, 7 10302:3 10323:25 10356:26 10361:24 10408:6 10410:3.5

increasing 10264:9 10282:9 10326:8 10342:21 10357:9

increasingly 10277:20 10322:10 10323:23

increments 10406:24 10420:10

incur 10281:10 10361:4

incurred 10284:12 10345:15 10348:20 10370:12

incurring 10361:20

incurs 10348:8

Indiana 10328:19,22 10329:21,27 10330:16 10417:4 10436:4,13

Indianapolis 10328:24

indication 10356:24 10424:20

individual 10318:16 10361:7 10412:12

industrial 10264:18 10266:22,26

industries 10326:6

industry 10266:7,26 10268:2 10273:19,24 10297:3 10300:27 10305:8, 14 10320:20 10323:7 10324:23 10363:10,15

inelastic 10309:6,7,14

10365:12 10434:16

10435:19

inelasticity 10322:20

inflexible 10362:28

infor- 10312:15

information 10281:2 10285:11 10293:25 10311:28 10312:13,16 10337:26 10365:9,18 10374:20 10377:24 10378:22,25,26 10388:1 10403:2,17,21 10404:9,15, 17 10405:26 10426:28 10427:1,2,3 10431:17 10433:11

infrastructure 10363:27

ingredient 10266:9,21 10267:26 10270:3 10366:8

ingredients 10264:12,18,24 10265:10,14 10266:1,12,17 10267:18,25 10269:18 10270:19 10271:1,12,22 10385:11,12

Innovation 10351:27 10399:25,27 10402:1

inputs 10375:13,15

inquiry 10434:2

insert 10320:10

insisted 10286:19 10388:8, 10 10391:17

inspected 10299:5

inspection 10298:4,11 10300:4,15 10347:18

inspections 10299:6 10346:8,10,14,15 10347:20

instance 10394:5

insufficient 10285:21

intake 10361:19

intended 10351:28

intent 10337:20

intentional 10310:21 10364:3

intentionally 10380:14

intentions 10361:11

interconnection 10406:6

interest 10409:16 10429:18 10430:23 10434:26

interesting 10322:19 10340:9 10344:22 10350:28 10382:11 10406:18 10408:25 10420:24 10428:13

internal 10309:1 10427:28

internally 10275:27 10369:26

International 10262:11 10263:26 10275:6 10356:10 10396:26 10435:7

internet 10434:24

interrupt 10301:5 10392:12

Interstate 10296:28 10297:12 10298:8 10345:23

introduced 10431:10 10432:4,7

introducing 10290:15

invest 10430:11

investment 10267:19 10271:22 10363:26

investments 10367:12

invite 10268:25

lowa 10419:19

irrelevant 10276:1 10305:12 10345:5

issuance 10277:22

issue 10288:20 10290:1 10323:28 10349:12 10363:1 10372:15,16 10377:2,3 10378:27 10380:25 10385:19 10388:5

issues 10264:28 10325:21 10375:20 10377:9 10430:5

items 10264:18,24 10265:4 10269:20 10345:13 10388:19

IV 10265:10 10266:12 10267:2 10268:20 10272:9 10273:21 10285:16,22 10290:21,25,28 10291:8 10297:14 10301:13 10366:10 10372:2 10384:3 10419:24

J

January 10290:24 10370:25 10384:1 10399:23 10415:19



TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

Index: impact..January

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

10433:21 10436:2,5,8,12,14, 22 10437:1

jarring 10414:23

job 10304:12 10305:16 10320:14 10362:10 10363:24 10364:19 10371:25 10375:21 10376:28 10392:14

Johns 10318:28

joint 10336:6 10337:14

joke 10340:14

joked 10367:1

Judge 10392:18 10396:19

July 10291:16,17 10404:15

jump 10413:27

jumped 10267:6

June 10370:26 10404:13,15 10405:7

justification 10265:16 10289:20 10321:20 10395:27

justifications 10379:26

K

K-E-E-F-E 10401:5

Kaiser's 10279:28

Kansas 10408:22 10419:19

Keefe 10399:27 10400:18 10401:4,24 10402:5 10431:2,16 10432:20,28 10433:1,14 10434:12,15

keeping 10338:25 10346:11 10429:8

Keith 10435:19

kid 10299:9,11

kill 10338:18

kind 10269:8 10273:13 10292:28 10297:22 10337:23 10339:1 10340:3, 10 10344:25 10351:5 10358:8 10359:7 10362:28 10363:9 10366:13,22 10367:1,10 10369:16,21 10370:6 10372:23 10373:8, 27 10375:12,18 10376:1 10377:23 10379:8 10384:17 10394:9 10404:20 10405:24, 28 10407:2,22 10409:21 10414:17 10416:17 10417:10 10420:13 10426:17,19 10427:21 10433:22,25

kinds 10302:16 10304:2,3 10305:7 10341:20

knew 10273:13 10297:6

knowing 10318:14

knowledge 10368:26

Kroger 10308:23 10309:1 10327:5 10328:21,24 10329:15,16 10330:23 10331:28 10332:25 10333:19 10335:18 10337:13,15 10339:3,4,24 10340:1 10341:11,22,28 10342:5 10352:20 10353:7 10354:1,6 10355:8,11 10362:26,27 10363:3 10367:17 10379:28 10385:4, 8,19

Kroger's 10332:20 10334:4, 25 10353:11 10359:14

L

L-I-C-K-I-N-G 10333:13

labeled 10392:28 10400:16, 19

labor 10379:4

laborious 10431:19

lack 10275:28

lactose-free 10279:16 10341:8,12,13

land 10323:17

laptop 10274:9 10400:10 10401:9

large 10287:28 10297:24,25, 26 10341:12 10371:21 10407:6 10410:26 10411:3 10415:7,9,11 10417:3 10425:19,28 10427:4

largely 10393:26

larger 10323:21,24 10325:10 10408:14 10422:9

largest 10271:25 10273:19 10290:22

lasts 10305:5

late 10404:15

latest 10394:12

lead 10289:5

leader 10339:25 10341:1,4,9

leaders 10340:23

leading 10278:25

leads 10368:18

leave 10306:4 10362:16 10372:24,27

left 10283:15 10331:11 10344:10,17 10354:13 10363:13 10388:19 10430:26 10432:16

left-handed 10401:11

legal 10288:4 10305:12 10362:20 10376:26

legend 10420:6

legitimate 10327:22

lenient 10347:2

lens 10338:15

lenses 10337:26

letting 10392:14

level 10286:21 10317:23 10322:16 10332:26 10345:10 10348:20 10366:20 10397:16 10404:11 10412:16

levelling 10326:10

leverage 10340:4

liberal 10359:17

license 10346:19

licensing 10346:18

Licking 10333:10,17,21 10352:19 10353:1,2,7,11

life 10324:17 10338:24 10339:17 10342:2,3 10355:7 10371:5

light 10406:27 10421:1,2,7 10423:22

likelihood 10265:8

likes 10372:20

limit 10301:3,10,20,21 10302:9,12,28 10352:12 10384:27 10385:2,23,24 10386:1

limited 10288:22 10325:12 10347:24

limits 10302:10 10304:25 10325:2 10384:27

lines 10331:26 10335:27 10393:7,9,10,19,21,26 10394:4,5,7 10412:19

liquid 10265:22 10266:1,3 10267:18 10269:24

TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900 list 10296:19,21,23 10297:13,19,23 10298:1,7,8, 13 10299:1,13 10306:12 10311:27 10369:9 10370:11 10402:18 10403:4,12,14,16, 19 10404:8 10431:10,12 10432:6

December 08, 2023

listed 10384:8

listening 10309:4

live 10378:8

load 10339:12,13

loads 10385:28

loaned 10389:4

local 10264:22 10270:8,20 10271:9 10288:26 10371:27

locally 10373:3,4

located 10264:13 10270:14 10332:21 10334:25 10335:18 10396:8

location 10284:6,14,22 10290:10 10331:28 10334:27 10344:24 10396:9

location's 10285:7

locations 10287:26 10288:26,27 10290:3 10304:2,9 10318:2 10328:16 10330:11 10393:12

locked 10405:1,3

logic 10377:26 10398:1

long 10279:23 10285:1 10312:28 10347:28 10374:18 10376:25 10406:5 10415:4

long-term 10430:12

longer 10294:28 10295:9,17 10300:18 10344:8 10363:3

looked 10281:6 10284:21 10298:27 10315:2 10338:5,9 10343:23 10358:18 10378:23 10381:28 10382:16 10383:13,15 10388:17 10395:19 10419:6 10425:8 10426:28

losers 10266:18 10270:3

10326:16 10329:15

10361:12 10364:2,15

loss 10339:25 10340:23

Index: jarring..loss

lose 10340:15

10367:12

loses 10340:17

10341:1,4,9

TRANSCRIPT OF PROCEEDINGS Decemb NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

lost 10266:27 10268:19 10272:9

lot 10271:7 10298:17 10302:21,23 10305:9,25 10307:23 10308:6,9,10 10309:1 10312:26 10317:23 10320:8,9,16 10321:12 10323:6 10324:17 10326:13 10336:9 10337:19,25 10338:21 10340:8 10341:18, 20 10342:10 10345:16,22 10346:8,9,13 10347:2,16,25 10348:12 10350:21,22 10360:14 10361:1,11 10362:23 10363:26 10365:5, 8 10368:5,22 10370:7 10371:26,28 10372:4 10375:7,20 10377:4,27 10378:10 10379:27,28 10381:5,6,8,10 10382:13 10383:8 10393:26 10394:3, 6,8,11 10395:8,20 10397:24 10406:8 10408:10 10409:25 10413:11 10414:6,8 10418:22 10419:5 10425:26 10426:18 10427:3,9,25,27 10430:6,13 10433:11

lots 10331:26 10364:10 10365:17 10385:3,4 10396:1 10405:8

lousy 10338:24

love 10323:4 10327:24 10358:23 10378:9

low 10286:21 10303:15 10304:10,16 10305:7 10362:5,7 10391:15 10396:3 10408:26

lower 10301:2,28 10302:9, 10,12,17 10303:5,7,12,20,26 10305:10 10321:24 10323:2, 3 10331:19 10342:21 10368:5 10387:5 10407:7 10413:3 10416:4 10423:18 10425:14 10429:26

lowered 10277:18 10322:8 10368:2

lowers 10370:2

lowest 10366:24 10406:25 10408:5 10428:14

luckily 10365:14

lumping 10426:5

lunch 10280:17 10281:15 10282:6 10389:11,13,17,20 10390:10

Lynchburg 10355:8,12

Μ

M-I-K-E 10274:23

made 10265:21 10270:13 10293:27 10296:10 10297:23 10302:9 10313:7 10318:15 10326:13 10328:8 10338:20 10357:15 10361:10 10367:13 10380:9 10384:20 10386:17 10392:6

magnitude 10411:8 10414:28

main 10269:8 10271:14 10409:24 10425:22

Maine 10288:24 10377:14 10422:3 10435:18

maintain 10288:25 10299:26 10348:9,23

maintaining 10298:27 10343:27 10344:2 10345:15, 17 10348:9 10375:27,28

maintenance 10299:22 10346:3

majority 10270:24 10295:6 10327:16 10403:14

make 10264:20,24 10265:28 10266:6,7,8 10269:8,23 10273:23 10279:5 10281:20 10282:23 10283:19 10296:5 10297:19 10300:5 10309:14, 17 10310:12 10312:11 10313:3 10318:20 10321:25 10324:13 10326:14 10327:9, 22 10338:16 10339:20 10343:10,14 10345:22 10350:24 10351:17 10352:8 10356:11 10358:7 10359:8 10362:16,22 10363:20,23,28 10364:14 10365:28 10366:17 10367:5,11,12 10368:13 10370:23,24,26,28 10371:1,14,20 10374:7 10378:17,20,28 10379:11, 24,25 10380:6,8,13,16 10381:3,13 10385:5,14,20 10386:25 10389:5 10396:27 10400:10 10401:7 10405:22, 23 10413:2 10414:22 10424:3 10430:20 10433:16

makers 10340:25

makes 10266:13 10267:16 10271:21 10284:24 10296:8 10324:20 10342:8 10362:28 10370:12

makeup 10372:6

making 10269:21 10272:4

10299:12 10305:1,5 10323:19 10327:15 10347:4 10357:6 10363:19 10377:7 10379:22 10380:27 10386:20,23 10406:9

manage 10382:9 10404:22, 24

management 10376:26,27 10377:3

managing 10303:10 10405:13

mandate 10288:4

mandatory 10278:21

manufacture 10269:15 10297:13 10299:14

manufactured 10266:17 10286:19,28 10287:1,19 10296:4 10301:24 10388:4

manufacturer 10267:16,24 10270:3 10271:16,21 10367:2

manufacturers 10265:20,25 10266:18 10270:16,17 10296:11 10351:10

manufacturers' 10267:4

manufactures 10264:17 10270:28

manufacturing 10264:13 10265:18 10266:21 10284:13 10285:2,3,5 10287:25 10296:14 10301:24 10318:11 10349:15 10350:14 10351:1 10359:12 10370:13,21 10371:21 10377:2 10378:13 10379:7 10382:20 10383:8

map 10315:15 10316:1,3 10337:20 10345:9 10357:5 10363:28 10364:1,13 10366:17 10367:13 10370:16 10372:14 10373:15 10377:27 10378:2, 6 10393:17,25 10394:18 10406:18,23 10407:11 10408:1,12 10409:17,18,23, 25 10410:5,13,22 10411:5 10415:10,20,22,7,28 10416:6,10,11 10417:7 10418:5,28 10419:2,3,25,27 10424:4,5 10427:3 10428:10

mapping 10405:20

maps 10361:8 10402:12 10404:10 10405:18,19,22 10406:17 10408:5 10409:21 10417:11 10419:6 10425:8 10427:12 March 10276:17,23 10312:10 10316:10

margin 10325:21 10366:24 10367:20

margins 10324:27 10367:18

Marion 10328:18,21,25

Mark 10364:11

Mark's 10365:7

marked 10262:20 10264:1 10274:20 10275:9 10306:10 10398:16,18,25 10399:4,11 10400:7,20,24,28

markedly 10373:24

market 10265:12 10270:10, 21 10276:13 10295:18 10304:11,12 10307:21 10317:2,7,24 10318:1,6,9,10 10320:4,5,25 10321:10,11 10322:1 10324:11.16 10326:15,19 10329:19 10341:11 10342:9,11 10351:5.11 10358:21 10359:2 10360:14 10361:12 10362:16 10363:5,12,13 10366:17,26 10367:4,22 10370:19,20 10371:9 10372:24,28 10374:7 10375:8,17 10376:8,11 10377:2 10378:10 10380:11 10381:8 10397:23,25 10403:17,18,21 10429:5,8, 11,12,14,17,22 10430:9,22

market's 10376:28

market-clearing 10317:18 10318:2

marketing 10264:19 10266:19 10267:21 10268:26 10270:4,6,7,18 10272:14 10276:15,16 10300:19 10320:11,18 10356:7 10357:25 10362:19 10363:1 10435:26

markets 10271:2 10288:26 10294:11 10295:19 10304:9 10318:2 10320:12 10324:2 10327:17,19,25 10332:23 10334:16 10341:11,15 10342:15 10359:12,13,20 10360:9,15 10361:7 10363:20 10365:3 10367:25 10370:21 10376:10 10377:9, 14 10379:25 10383:8,18 10429:9

maroon 10410:4 10421:16, 19 10424:9

material 10284:24 10430:9



TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING materially 10278:19,24 mid-'90s 10271:26 10269:21,22,26,27 10270:8, milk's 10281:11 10307:28 10279:20 10398:5 10308:17 10331:23 10,12,17,21,22,27 10271:1, mid-november 10434:1 7,15,23,26,28 10272:13,14, 10332:13 10336:15 math 10423:11,13 15,17,19 10273:24,25 10337:15 10341:24 middle 10377:8 10393:8 10361:10 10276:6,7,8,9,10,11,12,13, matter 10345:7 10357:14 10394:10 10413:4,7 14,26,27 10277:8,11,14,15, 10372:1 Milk-36 10389:3 Mideast 10373:19 10424:18 20,22,24 10278:4,14,22,26 matters 10262:5 10425:18,23 10279:14,15,16,18 10280:2, Milk-39 10388:25 10389:8 11,12,13,14,16 10281:5,7,8, maximum 10291:12 10384:9 Midwest 10286:24 10304:1, milked 10348:7 12,14,26 10282:5,9 10284:9, 7,17 10347:26 10382:19 Mckee 10376:7 13,15,23 10285:7,12,13,19, 10383:10 10386:16,17 milks 10341:3,21 21,24,25,26 10286:28 10388:13 10391:12,20 MDIA 10435:20 10287:1,19,24,28 10288:1,6, Miller 10435:19 MIG 10350:20 10431:16 24,26 10290:2,6,10 meaning 10286:7 million 10266:27 10267:1 10433:23 10434:16,17,20, 10292:21 10293:1 10295:2, 10268:12,17,19 10272:9 meaningful 10410:2,12 5,6,7,8,12,16,20,21,24,25, 22,25,27 10280:17 10282:7,8,10 26,27 10296:1,7,10,12,28 means 10269:18,20 MIG-229 10431:22 10283:11,17 10394:11 10297:12,15,16 10298:2,6,8, 10321:25 10322:17 10323:4 10,14,16,18,26 10299:25 MIG-28 10431:13 millions 10281:23 10282:2,5 10326:22 10374:4 10387:4 10300:10,16,23,27 10301:2 10434:19 MIG-30 10431:23 Miltner 10435:13,17 10302:3 10303:6,16 10304:14,27 10305:1,5,10, meant 10331:6 10335:11 mimic 10391:11 MIG-31 10431:23.24 12,15,17 10308:26 10314:20 measuring 10329:14 MIG-33 10431:23 10316:11,24 10317:3,6,7,19 mind 10359:12 10360:4 10318:12,14,26 10319:7,11, 10368:17 10371:26 mechanism 10267:27 MIG-34 10431:24 21,25 10321:18,25 10409:13 10410:7 10411:11 10357:13 10322:10,15 10323:4 10416:13 MIG-35 10431:25 median 10412.24 10413.8 10324:2,5,7,13,20,26 mindful 10429:14 MIG-36 10431:25 10325:6,16 10326:1,6,13,21, meet 10285:21 10301:26 28 10327:6,15,16,22 minds 10359:11 10302:8,10,25 10371:1 MIG-38 10431:28 10328:21,24 10329:3,17,22 10385:17 10394:15 10330:5,28 10332:1,4,17,21, mine 10346:5 10380:24 MIG-42 10431:28 10409:14,16 10410:27 26 10333:19,24 10334:1,20, 10436:4 minimum 10285:24 MIG-54 10431:25 25,26 10335:25 10336:2 10320:17 10332:27 10337:3,5,13 10339:12,13, meeting 10298:5 10372:17 MIG-55 10431:26 10344:28 10361:27 25 10340:4,8,13,23 10341:1, 10385:21 10429:18 10362:14 10375:23 10409:2, MIG-57 10431:26 6,12,23,24 10342:1,9,11,15 3 10415:22,23,25,27,28 Meijer 10368:9 10344:9.11.12.25 10345:22. MIG-58 10431:27 10416:1,8 10419:9,13 23 10346:5,9,18,28 10347:4, members 10288:5 10315:8 10429:1,4,15 10430:3,4 17,27 10348:1,12,13 MIG-60 10431:27 10350:20 10434:17,25,26 10349:5,11 10351:27 Minnesota 10288:24 MIG-61 10431:27 10353:10.28 10355:13 membership 10351:12,20 10377:14 10378:9 10419:19 10358:13,14,20 10359:1,10, MIG-64 10400:17 memorized 10339:10 Minnesotans 10378:7 13,15,18,23,25 10360:1,8, 12,23 10361:1,2,18,21,28 MIG-64A 10400:19 mentioned 10270:27 minor 10348:4 10362:4,15,17 10363:2,18 10271:1 10303:12 10328:7 MIG-64B 10400:22 10365:23 10366:1,4,8 minus 10382:28 10420:11 10355:23 10367:16 10367:2,3,22 10368:1,9,10, 10422:15 10423:9,20,21 10379:27 MIG-64C 10400:27 11,13 10369:12,23 minute 10288:7 10325:9 mergers 10320:9 MIG-64D 10433:3 10370:18,22 10371:21 10335:4.5 10400:9 10432:17 10372:1,20 10373:6,19,21 message 10269:9 Mike 10274:6,23 10275:1 10374:2,8,28 10375:11,17, minutes 10288:10 10389:10 10305:27 10392:18,19 22,24 10377:12,13,20 met 10385:6 10430:26 10431:5 10432:16, 10378:4,5,12,15 10379:28 mileage 10315:1 21 methods 10275:26 10381:6,8,12 10385:1 miles 10270:24 10286:27 missed 10350:10,11 10386:20,24 10387:6 meticulous 10405:14 10287:17,18 10330:11 10386:13 10390:18 10391:21 10332:3,20 10334:4,6,11 metropolitan 10334:16 10392:23 10393:9,20 missing 10369:16 10336:25 10394:14 10397:22,24 mic 10401:15 10398:4 10399:25,27 Mississippi 10418:13 military 10280:18 10282:8 Michigan 10270:25 10402:1 10409:13,14,16 10421:21.25 10419:21 10424:24 milk 10264:15,19,20,22,23 10360:21 10421:8 Missouri 10408:22 10417:3 10265:5,9,10,11,14,15,26 10429:19,28 10430:12 10419:19 microphone 10262:26 10266:4,7,8,14,20,26,28 10435:11,13 10436:24

mistake 10350:11

10401:8

10267:1,3,9,10 10268:1,3

Index: materially..mistake

TRANSCRIPT OF PROCEEDINGS December 08, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

NATIONAL FEDERAL M	ILK MARKETING ORDER	PRICING FORMULA H	EARING
mix 10264:17 10265:19,20, 24 10269:20,25 10270:17	mouth 10401:8	NDPSR 10311:25,26 10312:10,18,23 10313:22	10417:28 10420:2,4 10427:10
10271:11	move 10273:1 10285:7 10306:23 10319:21	necessarily 10270:13	NMPF's 10287:6 10402:28
mixes 10264:20	10321:14 10358:22 10360:8,	10272:15 10285:8 10321:4	10404:8 10408:3 10417:6,
	13 10361:21 10374:2,8	10341:18 10346:19	14,16,23 10418:1,8
model 10284:26 10289:25	10376:16 10377:20 10378:4,	10368:25 10369:19	10419:28 10423:1,6
10293:23 10328:28 10329:6,	5,16 10398:10,15 10401:16	10370:18 10372:20	Nmpf_final_class_1_
16,26 10330:8,25 10331:4, 16,24 10332:11,17,22	10407:8 10416:12 10420:12	10373:11 10378:11 10380:9	differentials.xlsx. 10431:14
10333:21 10334:17,24	10424:24	10381:19 10391:3 10409:27	
10335:21 10336:12,17,21	moved 10409:2	10410:16 10411:14	non-class 10317:2
10353:10 10355:16 10365:5,		10421:25 10424:15 10427:26	non-co-ops 10342:7
8 10368:23,24 10378:23	movement 10289:1 10337:5 10377:13 10416:27		·
10380:17 10394:27,28	10377.13 10410.27	needed 10286:22 10288:1,	non-fluid 10276:10
10395:16 10397:15,26 10398:5 10415:22,24	movements 10362:16	27 10289:2 10317:6 10347:21 10359:9 10374:18	non-regulated 10410:28
10417:13,15,18,20,21	moves 10373:19 10414:4	10347.21 10359.9 10374.18	10425:17 10426:3,4
10418:3,22,23 10419:4,28	maria 10001/00	10394:15 10436:8,16	non-sweetened 10264:21
10420:21,23,24,26 10421:3,	movie 10264:28	needing 10321:20	nonetheless 10292:9
11,12,14 10422:4,16,26	moving 10270:19 10284:15,	needing 10321.20	nonetheless 10292.9
10423:12,18 10424:6,13,26, 28 10425:5,21,25,26,28	23 10288:24 10377:12 10378:16 10397:22	Neenah 10264:13	nonfat 10265:14 10266:7
10426:24 10428:16,17	10407:17 10433:15	negative 10265:6 10420:10,	10269:21,27 10270:12,16 10367:2
10433:5		14,15,18 10421:3 10424:8	10367.2
model's 10417:27	mozzarella 10297:24,26	negotiate 10319:21,23	normal 10346:3
	Multiple 10285:10	10320:17 10321:7 10325:7	north 10373:25 10421:8
modeling 10406:3	multiples 10373:24	10326:9,22 10371:24	Northeast 10351:7 10382:12
moderated 10379:4		10372:1	10421:9 10422:1 10425:17,
modern 10322:22 10346:27	multiplied 10272:13	negotiated 10327:3 10372:4	23 10426:11,13
modest 10421:27	multiply 10382:28	negotiating 10319:27	northern 10359:20 10407:20
	Murfreesboro 10330:24	10362:20	Northwest 10394:3 10426:1
moisten 10290:18		negotiation 10321:3,5	
mold 10342:13	N	10377:9	note 10403:23 10424:3 10425:22
moment 10263:21 10406:21	naked 10418:4	negotiations 10373:5	noted 10306:11
10432:19,22		neighborhood 10410:8	
moments 10432:23	names 10333:14	neighboring 10338:13	notes 10433:16
Monday 10436:7	Nashville 10289:9 10332:3,9		notice 10408:9 10417:10
money 10319:17 10340:15,	NASS 10312:9,18	netted 10293:21	noticed 10408:24
17 10370:19 10375:16	national 10278:4,14,18	neutral 10315:8	November 10434:1,9
10378:7 10410:12	10281:11 10305:10	Newark 10333:17 10334:5	
month 10273:15,17,20	10312:22 10314:20	Newport 10355:13	number 10262:20 10265:28 10272:11 10273:7 10277:28
10291:12,15 10316:25,26	10326:13 10329:3,17 10330:5,28 10331:23	•	10282:2 10283:14 10311:1
monthly 10311:25 10312:3	10332:13,17,21 10333:24	News 10355:13	10325:17,22 10333:8
10387:7,9	10334:20,24,26 10335:25	nice 10312:16 10352:9	10359:1 10380:2 10382:24
months 10264:22 10290:23,	10336:15 10337:15	10378:7,8 10385:16 10407:1	10394:13 10395:15
28 10291:7 10309:27	10340:26 10341:18,22 10347:4 10353:10,27	10409:21	10398:22 10399:1,8,15 10400:4,7,20,24,28 10416:2
10311:27 10313:2 10382:17	10347.4 10333.10,27	Nicholson 10290:4	10420:14,25 10422:12,25
10387:10 10394:28	10388:25 10389:3,8	Nicholson's 10364:11	10427:13 10431:17
morning 10262:1 10263:14	10390:17 10391:21		numbers 10272:22
10264:10 10269:3,4	10392:23 10398:3 10411:25	nickels 10422:7	10274:19 10278:9,10
10273:11 10275:8 10314:19,	10412:1 10435:11	Nicole 10314:20 10333:7	10279:12 10280:19,22,24
21 10351:27 10358:3,4	nationwide 10264:25	10335:6	10281:17 10282:1,16
10380:13 10387:13	10275:25	NMPF 10279:22 10285:9	10294:5,9 10296:16
10398:16	naught 10268:13	10286:17 10287:22	10306:13,18 10309:2,3 10310:2,11,18,28 10312:4
motivated 10433:20	•	10288:20 10289:3 10354:8	10325:24 10346:26
mouse 10407:12	NBTU 10358:20	10404:18 10408:2 10409:18	10356:25 10358:12,22
	NCIMS 10345.23 10347.3	10410:15 10415:12	10360-17 10370-1 10382-11

NCIMS 10345:23 10347:3



Index: mix..numbers

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

10394:12 10416:15 10419:14,17 10430:28

numerous 10271:8

0

oath 10367:10

objected 10405:16

objection 10273:3 10398:17, 24 10399:3,10

objective 10366:3

obligation 10302:8,18

observation 10379:10 10396:4 10414:16

observations 10407:2 10413:18 10417:12

observe 10301:12 10305:4 10371:8 10417:26

observed 10417:23

observing 10416:21

obtain 10428:26

obtained 10404:13 10428:27

obtaining 10284:9

occur 10365:4

October 10290:24 10296:23, 27 10297:12 10394:28

odd 10413:23 10418:12

odds 10391:14

off-the-record 10263:22 10400:12 10432:24

offended 10308:25

offer 10341:11

offered 10435:16

official 10306:17 10386:13 10387:24

Ohio 10302:5 10319:2 10332:28 10333:17,21,27 10334:2,5,17 10352:16,19 10353:11,15 10354:9 10355:23,26

Oklahoma 10376:7 10418:11 10419:19

older 10309:27

one-off 10326:9

onesie/twosies 10421:23

open 10404:20

opening 10360:21

operate 10324:24 10325:28 10363:10,13

operation 10352:20 10353:11

operations 10393:18

operators 10410:1

opinion 10351:19 10360:7, 17 10368:28 10372:7 10373:4 10374:14 10384:14 10385:22 10426:2 10428:28

opportunities 10383:9 10397:26

opposed 10299:27 10323:24 10326:9 10409:4 10419:8

opposing 10367:6,7

opposite 10268:18 10377:28

opposition 10264:8 10275:21 10307:5 10315:7 10434:18 10435:9,12

option 10290:21

options 10308:5

orally 10397:5

orange 10393:10 10410:4 10421:15,19 10423:24,25

order 10264:16.19 10265:11 10276:10 10277:15.21.23 10284:5 10288:5,25 10289:1 10290:23,27 10291:6,10,11 10293:7,8,11,15 10294:12, 18,21,22 10295:16 10300:13 10301:10 10304:6 10311:4 10321:25 10325:28 10326:2 10348:8,22 10350:8,18 10351:2,13 10358:16 10359:4 10362:12 10363:1 10365:26 10375:14 10376:19 10378:3 10382:12 10384:9 10386:14 10389:12 10407:20,21 10408:27 10410:27 10413:17,25 10414:1,2,7,12,15,19 10424:18 10426:11,14 10427:6

Order's 10371:22,25 10375:21

orderly 10361:28 10429:17 10430:1

orders 10270:2 10272:14 10276:17 10277:2,4,9,18 10285:8 10292:13,22 10293:4 10303:13,18,19,22, 26,28 10304:16 10320:18 10322:7 10349:21,27 10356:17,19 10357:8,19 10358:27 10359:8 10363:9 10366:3 10367:7 10372:18 10373:11,24 10377:8 10382:15 10383:12 10384:7 10386:6,9 10407:23 10412:13 10425:27

organic 10279:15 10341:3 10347:25 10351:4

orient 10302:6

original 10309:25 10398:12

originally 10312:9

outgoing 10393:21

outlet 10317:18 outlets 10326:23

outlier 10412:28

outliers 10412:24

outlined 10370:6

over-order 10321:7 10428:21 10429:2,7,10

overarching 10427:21

overcommits 10377:1

overhead 10342:24

Overheads 10342:27,28

overlap 10337:10 10410:16 10413:19,28 10414:18

overlapping 10413:25

overvaluing 10363:18

overview 10289:6 10412:18

own-price 10278:26 10280:1 10368:21,26

Ρ

owned 10354:20

ownerships 10336:9

p.m. 10390:3 10400:11 10436:4 10437:4

pace 10352:6

Pacific 10426:1

pacing 10276:4

package 10369:23 10435:24

packaged 10296:5 10325:16

pages 10431:9

TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

paid 10285:24 10293:19 10319:9 10346:15,16 10406:13,15

painted 10299:10 10346:4

panels 10268:10

panhandle 10418:12

paper 10369:20 10401:10 10416:16

December 08, 2023

parable 10273:23

paragraph 10272:6 10390:19,23,27 10393:6,8

Pardon 10422:23

parentheses 10388:20

part 10296:1 10298:6 10315:26 10316:2,27,28 10319:20 10321:5 10323:10 10344:22 10345:9 10346:18, 22 10351:7 10357:17 10362:1,11 10365:14 10371:7,9,28 10379:3 10384:25 10394:1 10395:10 10406:1 10429:7 10430:14

participate 10300:8,9

participation 10318:8 10358:16

parties 10262:15 10376:18, 24

partly 10352:14

Partners 10264:17 10318:23

parts 10303:15 10314:28

passed 10323:20 10384:19

past 10300:7 10379:6

pass 10298:11

10405:27

10269:25

10426:25

pawn 10364:23

passage 10413:16

pasted 10312:4

pasteurize 10266:2

patterns 10408:11,21

pay 10288:5 10304:26

10319:10,18 10347:28

10409:23,24 10410:20

paycheck 10387:3

paying 10319:7,16

Peninsula 10270:25

Pennsylvania 10290:14

penny 10325:19 10380:3

Index: numerous..penny

peak 10278:5,15

10381:10,11

10360:2 10361:19 10386:9

TRANSCRIPT OF PROCEEDINGS December NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

people 10270:11 10327:6 10340:7,25 10344:24 10346:9 10347:24 10349:10 10365:2 10367:27 10378:7,8 10380:7 10385:16 10386:22 10394:6,8,11 10395:8,21 10396:1 10407:12 10411:8 10416:28 10418:21,22,25 10420:21 10433:22,24 10434:23,24,25 10435:4,5

people's 10427:25

percent 10294:9 10410:14, 19

percentage 10277:15,17 10294:6,14,17 10295:20,21 10351:12 10356:25 10422:20 10424:7

percentages 10321:24 10322:7 10323:2

perfect 10311:10 10328:1

performance 10359:3

performed 10342:20

performing 10343:8

period 10291:14 10383:16, 22 10435:20

periods 10308:16 10379:2

permeable 10299:9

person 10309:5,6 10406:8 10432:1

personal 10299:8 10320:11 10359:11,24 10376:3 10377:3 10405:5

personally 10297:18 10365:1

persons 10434:17

perspective 10323:1 10376:3 10427:23

petition 10404:9

petted 10273:12

phases 10415:2

phasing 10414:24

phenomenon 10278:28

physically 10379:24

physician's 10367:10

pick 10383:25

picked 10312:10 10384:2

picture 10316:3

pie 10271:20

piece 10318:17 10369:16

pieces 10312:13

pinch 10326:2

place 10263:22 10267:17 10277:7 10290:7,27 10291:6 10319:25 10385:13 10400:12 10432:24 10436:3

places 10312:8 10342:10 10362:26,27 10377:13 10411:6,12 10414:7 10415:6 10418:14 10419:17,20 10420:22,23,25 10421:20,26 10428:15

Plains 10417:3 10419:18

plan 10268:12

planning 10433:26

plant 10287:28 10292:26 10293:1,2 10296:7,8,14,18, 23 10297:12,25 10298:10,18 10300:16 10302:23 10308:25,26 10318:13,25 10324:22 10327:3,5 10328:21.24 10329:22 10330:23 10332:1,4,16,20 10333:19 10334:1,4,25,27 10335:18 10336:2 10337:14 10338:11,19 10346:16 10349:6 10353:7,19 10354:9,19 10355:8,12 10360:21 10366:12 10371:12 10372:19 10377:5 10380.6 10385.6 10393.20 10402:18 10403:8,14,19

plant-based 10278:27

plants 10277:16,22 10284:12,13 10287:25 10292:21,28 10296:3 10297:13,15,16,24,27 10298:12,28 10299:20 10302:24,26 10304:3,27 10318:11 10319:4.18 10324:18 10325:23 10334:24 10337:3,10,13,14, 16 10338:12 10339:20,23 10342:16 10348:14 10349:15 10359:14 10361:4 10362:23 10363:19 10370:13,14,17,22,23 10371:11,21 10378:11,13 10379:18,21 10382:19,20 10385:4 10393:10,11 10403:12,16

plants' 10381:14

play 10290:3 10361:13 10429:12 10430:16

playing 10326:10,24 10332:26 **plays** 10320:20 10322:28 10340:5

pleasing 10418:25

pleasure 10387:14

plenty 10317:1,3 10409:14

plot 10411:19,22 10412:21 10427:1

plots 10413:20,24 10425:12 10426:18,22

PMO 10295:25 10299:19 10301:3,10 10304:26

pockets 10421:9

point 10266:6 10267:28 10287:22 10293:25 10295:13 10297:8 10298:3 10301:28 10302:27 10311:7 10316:24 10317:22 10318:4 10322:6,8 10326:3 10327:9 10337:23 10342:19 10348:23 10349:7 10355:27 10356:15 10357:6 10381:21 10398:9 10420:20 10424:3 10425:2 10428:19

pointed 10301:7

pointing 10393:26

points 10279:21 10300:28 10302:9 10378:19 10408:27

policy 10427:7

pool 10265:9 10268:14,17 10300:8 10321:25 10351:7,9 10373:17,20 10382:5,23

pooled 10276:27 10277:15 10358:13 10359:1 10360:15

pooling 10291:10 10358:26 10381:20 10382:14 10383:20

pools 10304:6

poor 10273:21 10338:1

pop 10421:24

population 10290:6

populations 10341:13

portion 10284:10,11 10372:5 10402:9 10414:23 10417:3 10428:2

position 10288:27 10307:4 10315:9 10356:12 10363:17 10376:21 10381:14

positive 10420:19 10424:9

possibly 10327:23 10370:26 10422:7 10424:1

posted 10391:25 10397:7 10402:28 10403:1 10404:4

potential 10343:10 10427:7

potentially 10270:15

pounds 10266:27 10267:1 10272:13 10278:5,16,18 10281:7,8 10302:3 10350:5 10369:24 10381:12

powder 10267:3,17 10270:28 10271:15,18,27 10297:27 10317:19 10324:1 10327:20 10342:13,15 10362:15 10367:3

power 10321:6,11

Powerpoint 10274:7 10275:13,17 10305:22 10316:7,9 10321:15 10342:25 10343:25 10358:6 10387:28 10398:12

PPDS 10265:7

practically 10414:3

practice 10305:14 10347:20

practices 10347:1

practicing 10349:14

Prairie 10329:22 10336:6

pre-submitted 10434:14

precise 10294:5

predict 10435:3

predicted 10279:2,9 10334:24

prefer 10271:9

preliminary 10262:5

premise 10366:14

premises 10359:8

premium 10319:14,20,22,23 10321:7 10362:13 10429:10

premiums 10319:27 10320:13,21 10321:3 10361:12 10373:4 10428:22 10429:3,7

preparations 10432:12

prepared 10357:23 10432:1

preschool 10280:17 10282:7

present 10275:14 10369:8

presentation 10274:7 10275:14 10305:22 10316:7, 9 10321:15 10342:25 10343:25 10358:6 10365:7



NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

10369:10 10398:12

preserve 10290:12 10379:17

pressures 10323:22

pretend 10369:8

pretty 10303:3 10342:4 10345:4 10346:2 10347:23 10364:11 10371:3 10382:14 10385:16 10391:27 10407:7 10418:24

prevails 10268:13

prevalent 10323:9

prevent 10435:5

previous 10298:20 10308:23 10312:24 10313:5 10314:15 10408:12

previously 10263:6 10275:2 10287:20 10401:19,25 10420:1 10426:26

previously-entered 10387:25

price 10265:6,23,26 10271:13 10273:14 10278:19 10279:28 10285:2, 6,16,17,24 10286:23,24 10288:25 10290:22.25.26 10291:1,6,8 10298:23 10300:11 10303:20 10310:5 10311:25 10313:3,10,19,22, 25.26 10314:1.2.7.8 10317:8,17 10320:17,18 10322:27 10324:2,7,9,12 10326:3,8 10327:16 10329:16 10332:21 10338:25 10344:11,12,13 10347:27 10361:27 10362:6 10368:2 10374:13,14 10375:23 10377:10 10381:9 10382:21,28 10388:11,12 10390:27 10391:2,7,10,12, 19,20 10396:2,11 10411:24, 25,28 10419:11,21 10429:4, 13,16 10430:17,22

price-enhancing 10419:12 10429:5,21 10430:4

priced 10429:26

prices 10279:27 10285:5,8, 23 10288:22 10293:20 10311:26 10312:4,6,11,24, 25 10325:7 10342:22 10343:22 10350:13,14 10368:5 10373:11,27 10382:3,4 10383:21 10391:22 10419:22 10429:1, 9,15,21,24 10430:3,25

pricing 10267:27 10270:11 10285:26 10300:6 10312:16,

27 10358:26 10362:14

primarily 10264:22 10297:13 10320:28 10383:17

primary 10402:27 10429:23

prime 10280:28 10282:15,18 10304:17

principle 10290:13

principles 10427:21

printed 10387:23

printing 10404:26

prior 10266:27 10334:1 10343:9 10388:4 10404:8

prisons 10369:13

private 10302:7 10349:6 10376:24

privately-negotiated 10301:1

problem 10311:16 10339:1 10371:24 10375:21 10429:5

problems 10375:9

proceed 10286:14 10328:12 10401:28

proceeding 10263:6,7 10401:20 10431:11

proceedings 10437:5

process 10269:14,22 10402:23 10404:24 10405:5 10427:10,16

processes 10271:24

processing 10267:16 10284:16,23

processor 10264:11 10265:4 10430:8

processors 10270:9 10292:17 10301:2 10303:16 10304:24 10324:19 10430:2, 13

produce 10322:22

produced 10290:6 10295:2, 5 10350:5

producer 10268:14 10292:22 10305:2 10372:17

producer's 10387:3

producers 10304:28 10318:16 10390:18 10430:14 10435:14

producing 10285:12,13,19 10296:3 10374:28 10417:27 product 10266:9,22 10267:25 10269:15 10270:14 10278:19 10281:3 10296:9 10312:23,26 10324:12 10325:8 10339:17, 25 10340:11 10366:23 10367:18 10370:25 10371:4 10430:21

production 10266:27 10276:8 10284:15 10290:10 10302:3 10304:14 10346:26 10358:15 10419:22 10429:25

productive 10303:13

productivity 10303:5

products 10264:15,21 10265:19 10266:22,24 10278:23 10279:18 10285:20,22,23 10286:19,28 10287:1,19 10295:25,26,27 10296:2,4,6,8 10297:14 10300:20 10301:24 10302:22 10308:19,28 10312:24 10324:3 10326:1 10327:23 10345:21,23 10366:9,11 10368:14 10384:28 10388:4 10429:25, 28

profitability 10430:10

profitable 10325:24

program 10280:4,12,15 10282:6 10317:9,18 10350:15 10365:26

programs 10281:9 10303:14,18 10349:22 10362:13 10386:6,8,28

progressive 10346:28

project 10406:5

projects 10405:27

promise 10358:7

promised 10432:14 promote 10266:18 10270:4,

6 10361:28 10429:17

promotion 10281:5 10341:14

promotions 10368:4

pronounced 10418:7

proper 10266:1

properly 10315:19 10350:25 10432:13

properties 10393:11

proponent 10289:19

December 08, 2023 ARING

proponent's 10266:10

proponents 10268:15 10275:26 10289:8,24 10290:8 10293:23 10301:6 10304:23

proponents' 10268:12

proposal 10264:8 10265:2,5 10269:7,12 10275:11,21,24 10279:3,10,22,26 10280:3,9 10281:10,28 10284:3,17,24 10285:10 10286:15,17 10287:23 10288:18,21 10289:4,11,13,15,21 10290:26 10291:5 10292:6, 8,16 10294:3 10301:7 10304:23 10307:6 10315:7, 8,28 10316:1 10329:3 10330:5,28 10331:23 10332:23 10333:24 10337:16 10338:11 10343:13 10354:1 10355:14 10356:25 10357:9 10361:10 10381:26 10398:3 10404:9, 13 10408:3,7,28 10409:4,11, 19,25 10410:15 10411:17 10414:13,19 10415:1 10417:6,14,16,17,19,20,23, 28 10418:1,2,8,22,28 10419:1,2,28 10420:21,22, 23 10422:14 10423:1,6,12 10424:6,13,21 10425:4,9,15, 24 10427:16,19,22,23 10428:10,11,13,14 10433:19,24 10434:24 10435:9,22

proposals 10326:13 10356:12 10357:15 10384:20 10402:28 10404:5 10415:18 10435:15,24

propose 10389:10

proposed 10272:8 10276:16 10278:23 10279:19 10294:3, 7,15,22,23 10331:19 10353:10 10355:13 10367:8 10376:20 10378:4 10408:2 10413:14,26 10415:1

proposing 10315:12,15 10329:17 10357:1

protein 10303:23 10305:6 10313:18

proud 10386:19

proves 10321:19

provide 10289:26 10291:11 10292:16 10312:11 10326:23 10356:18 10384:1

provided 10282:15 10285:11 10295:28 10308:14 10356:24



Index: preserve..provided

December 08, 2023 NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

10357:12 10378:22 10405:21 10436:6

providing 10289:5 10305:16 10430:20,27

provisions 10358:27 10377:18 10378:4

public 10409:16 10429:18

published 10281:4 10292:18 10316:15

Publix 10385:8

pull 10310:2 10313:2 10359:17 10406:18 10419:14,17 10427:20

pulled 10310:3

purchase 10280:10 10319:10

purchased 10268:9.10 10353:20

purchases 10265:11

purchasing 10282:9

purple 10416:14

purply 10407:1

purpose 10277:7 10288:28 10312:19

purposes 10285:14 10303:1 10433:26 10436:1

put 10266:8 10267:16 10269:27 10271:18 10280:23,27 10281:4 10296:15 10305:27 10308:6 10312:14,20 10315:14 10318:17,23 10343:2 10348:2 10398:14 10424:1

putting 10315:26 10347:26 10362:3.4

Q

qualifications 10298:5 10305:4

qualify 10301:11

quality 10300:10,27 10304:27 10305:1,6,14 10339:4,7,17 10341:24 10348:12,13 10386:23

quantity 10290:10

quarter 10371:1 10421:3 10422:9 10423:3

guarters 10422:7

guarts 10368:11

question 10299:26 10300:22 10317:22 10322:21 10330:1 10356:11 10360:11 10366:2 10368:1 10376:21 10379:19 10392:16 10397:11 10410:15 10411:20,21 10434:10

questioner 10328:10

questions 10268:25 10273:1 10311:18 10329:9 10356:5,6 10357:26 10368:19 10386:4 10387:12,15,16,27 10388:27 10389:12 10390:9 10396:21 10436:11,27

quickly 10359:18 10381:14

quit 10322:25

auote 10285:18.27 10316:10,14

quoted 10286:1 10316:20

R

raise 10277:9 10290:19 10292:12 10307:27 10342:22 10362:6

raised 10277:18 10289:7 10322:8 10323:26 10326:21

raises 10398:4

raising 10301:18 10357:18 10380:4 10428:24 10429:1

ran 10382.4

random 10313:8

randoms 10313:2

range 10304:6 10309:12 10334:13 10337:3 10395:24 10414:6,8,10,11 10423:17 10433:23.25

ranges 10420:7

rarely 10381:9

rate 10384:9

raw 10267:9 10340:4 10430:9

re-read 10287:2,14

reach 10323:16

read 10264:6 10268:7 10269:11 10280:7,22 10282:28 10291:2 10297:10 10365:27 10384:14 10388:16 10390:10,23 10391:6 10427:9

reading 10280:16 10331:9

reads 10282:24 10283:14

ready 10274:12 10299:11 10306:11 10328:3 10371:2 10389:18

real 10265:18 10295:18 10298:27 10307:21 10308:4, 19 10339:11 10340:8 10349:12 10368:9 10375:23 10424:23

real-world 10265:4 10269.10

realistic 10290:21

realistically 10369:24

realities 10290:9 10363:12

reality 10300:27 10301:21 10366:7

realize 10305:11 10324:20

realized 10286:9

reason 10289:28 10301:5 10302:21 10307:28 10308:1, 3 10312:11,17 10322:3 10329:24 10336:10 10349:13 10372:8 10377:20 10380:26

reasonable 10276:14 10277:1 10304:23 10415:3

reasoning 10377:15

reasons 10298:15 10301:22 10305:7 10360:7 10366:16 10377:28 10409:10

rebuttal 10433:23

recalibrate 10363:14

recalibration 10363:16

recall 10279:22 10305:22 10316:17

recap 10433:3

recapture 10269:8

receipts 10361:15,18

received 10273:7 10277:21 10398:22 10399:1,8,15

receiving 10298:14 10359:28 10409:25

recent 10278:28 10279:26 10303:2,3 10356:16

recently 10277:5 10292:18 10353:19 10397:9

recess 10435:27 10437:3

recognition 10284:9 10371:10

TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

recognizable 10299:3

recognize 10307:22,25 10308:4 10372:8

recollect 10397:18

recollection 10332:10 10391:26 10392:2

recommend 10419:8

recommendation 10332:13 10334:20 10335:24 10336:15,18,22

recommendations 10427:7

recommended 10332:17,21 10334:25,26 10337:15 10395:1 10396:2 10412:15

reconvene 10433:21 10436:1,7,28

record 10262:2,3 10263:20, 21,23,24 10264:6 10274:8, 14,15 10283:20 10288:10, 12,13 10297:10 10306:25,26 10309:16 10311:3 10318:23 10322:5 10328:5,6 10352:15 10364:17 10374:21 10383:3, 4.20 10386:12.25 10388:1 10389:1,5 10390:2,3,24,25 10391:5,6 10392:17 10394:25 10396:20,28 10400:9,11,13,14 10424:2 10427:9 10431:18 10432:4, 22,25,27 10434:10 10437:4

red 10421:19 10422:2 10423:25

redirect 10356:13 10387:17 10396:22.23

redo 10348:3

reduce 10265:6 10290:20

reduced 10357:1

Reducing 10302:1

reduction 10314:26

refer 10296:19

reference 10295:13 10296:18,21 10298:3 10302:4 10306:19 10331:14 10350:3 10355:27 10391:16

referenced 10303:2 10306:9 10345:14 10390:11

referencing 10387:24 10388:4 10391:21 10396:8, 13

referred 10298:19 10310:26

referendum 10292:22

Index: providing..referred

10357:11

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

10397:14

referring 10308:22 10387:27

reflect 10286:20 10290:9 10303:7 10363:12,15 10388:9 10392:17 10397:15

reflected 10285:19 10394:25

reflecting 10365:12 10376:9

reflection 10387:2

reflective 10269:12

reflects 10281:13 10284:14 10375:23 10376:7 10397:3

reform 10284:5 10368:24 10373:9 10374:15

refusal 10290:1

region 10375:12 10417:28 10425:20

regional 10286:18,20 10375:8 10377:27 10379:12 10386:22 10388:3,9 10390:12,20 10391:23 10397:16

regions 10286:27 10287:17 10373:16 10391:13,22 10392:1 10395:28 10409:28

regs 10348:18

regular 10341:23 10344:13

regulated 10264:15 10265:9 10270:11 10285:24 10338:24 10344:12 10361:27 10374:5 10396:2, 11 10412:5 10429:3,21

regulation 10300:11 10327:10 10376:22 10380:22 10429:16

regulations 10267:22 10296:1 10300:6 10351:8 10386:12

regulatory 10385:28

regulatory-wise 10387:5

reject 10339:13

rejected 10292:7

relate 10285:12 10365:4 10374:28

related 10289:16 10390:11, 12 10409:11

Relatedly 10277:21

relates 10300:22

relation 10305:24

relationship 10286:26 10287:17 10295:18

relationships 10290:12 10336:9 10379:18

relative 10294:19 10366:9 10382:7 10383:7 10401:8 10410:23 10411:9,13 10422:4 10424:5,18 10425:9,14,15,19,21,26,28

released 10317:4

relevance 10284:4,27 10288:19

relevant 10294:28 10301:4 10315:23 10316:20 10351:5

reliability 10432:10

relied 10282:16 10289:19 10403:17

rely 10286:4 10387:23

remain 10274:25 10300:16 10401:22

remaining 10323:5 10431:4 10432:21

remarkable 10305:16 10386:17 10395:25

remember 10291:15 10327:28 10359:4 10369:10 10377:15 10398:7 10404:17 10430:19

reminded 10431:7

reminder 10411:10,12

remove 10316:1 10345:7 10357:21

removing 10369:4

renumbering 10310:20

repealed 10317:27

repeat 10278:8 10279:8

repetitive 10347:16

replace 10311:3

replaced 10265:9

repooling 10359:17

report 10280:28 10282:15 10312:23,24,27 10313:15 10350:4 10386:28

reported 10272:16,18 10312:8 10313:19 10350:1 10382:3,4

Reporter 10345:27 10346:12 10353:16 10361:16 10372:26 10420:17 reporting 10312:10,20 reports 10310:2

represent 10294:6,7,14 10351:27 10356:25 10393:9, 10

representatives 10434:16

represented 10393:18

request 10294:19 10322:5 10404:5

require 10276:9 10295:25 10296:12 10297:14 10304:27 10339:4 10346:14 10349:15

required 10299:7

requirement 10276:14 10302:25 10321:27 10341:28 10349:28 10385:21

requirements 10277:13 10298:28 10299:20 10300:16,23,26 10301:8 10339:21 10342:14 10348:11,14,15 10359:3,17 10385:27

requires 10298:17 10339:6

requisite 10277:17

rescheduling 10436:1

reserve 10276:9,12,14,26,28 10277:1,3 10316:11,25 10317:6 10358:13,14,17,19, 27 10360:9,18 10373:21

respect 10286:27 10287:1, 18,21 10418:1

responding 10434:2

responds 10322:18

response 10322:23

responses 10329:10

responsible 10320:28

rest 10341:26 10416:3 10424:18

restraints 10268:1

restrictions 10347:5

restroom 10389:15

TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

result 10267:22 10280:1 10303:21 10305:18 10357:2 10429:20

results 10267:23 10308:13 10418:3 10422:13 10423:12, 18

resume 10390:6

retail 10264:24 10265:24 10266:23,24 10267:24 10278:22,26 10279:2,9,18 10280:2 10308:28 10322:15 10326:23

December 08, 2023

retailer 10278:19 10308:16, 21

retire 10322:25

retirement 10323:16

retur- 10309:20

return 10396:20,22 10424:2 10430:28 10433:1

review 10297:18 10309:16 10397:26 10405:14

revisions 10284:24

revisit 10306:6

rewarding 10303:20

rewet 10269:14

rewetting 10265:17 10266:2 10269:11,18,20

Richard 10376:7

Richmond 10329:23,26 10330:16,17

rid 10351:14

ridge 10408:21 10418:11,12

ridges 10407:10 10408:16, 18,19,20 10417:23 10418:6, 10

rigorous 10339:12,15 10426:6

risk 10318:19 10347:15

10376:26,27 10412:9

Robertson 10330:21

role 10290:4 10320:20

26 10376:25 10429:12

room 10297:6,11 10307:26

10328:8 10362:16 10363:8

10322:28 10340:5 10361:13,

robust 10262:25

Roman 10310:19

10372:24,27

Rooster 10356:1

Index: referring..Rooster

10430:16

rise 10320:15

risen 10295:21

10419:20,21

Rob 10387:21

TRANSCRIPT OF PROCEEDINGS NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

Rosenbaum 10262:9,10 Sally 10399:27 10400:17 10263:13,25,27 10268:21 10401:4,24 10272:27,28 10274:1,2,5 sanitation 10348:22 10275:5,6 10277:25 10349:14 10278:1,2 10280:20 10282:11 10283:13,27 Santa 10297:22 10288:14,15 10291:18 saturation 10417:10 10292:3 10293:28 10297:17 10305:21,26 10306:8,27 sauce 10356:2 10307:1 10309:9,19 10310:16,25 10311:6,11,15, savings 10348:26,27 19,20 10314:9 10356:8,9,14 scale 10270:17 10407:8 10357:20 10387:17 10396:22,24,25 10398:9 scary 10368:11 10399:17 10435:6 SCC 10303:14 10386:6 rough 10433:25 scenario 10330:25 roughly 10295:14 scheme 10266:10 row 10310:9,26,27 10311:1, 2 10331:10 10352:17,19,24 school 10280:16 10281:14 10282:6 10353:13 10354:10,11,15 10355:4 schools 10369:12 10370:1 rows 10310:11 scoot 10263:2 rule 10277:6 10360:8 Scott 10305:23,24 rules 10297:14 10345:24 scratcher 10397:28 10362:24 10376:27 10382:13 10385:24 screen 10275:22 10406:20 run 10328:8 10340:24 scroll 10392:26 10393:15 10341:14,18 10342:16 seaboard 10407:27 10345:1 10428:17 10430:5 10431:12 seasonality 10316:24 running 10340:8 10348:24 seat 10355:25 10368:10 10416:25 section 10366:25 10388:2,7 runs 10395.1 10408.21 10390:10 rural 10395:12,20 10406:6 Sector 10284:19 10397:14 Rutherford 10330:22.23 seeks 10384:16 10331:13,23,24 select 10267:25 10435:13, Ryan 10435:13 14.16 self-imposed 10371:20 S sell 10287:27 10296:6,14 **S-A-L-L-Y** 10401:4 10298:21 10302:24 10325:28 10326:3 10327:6 S-I-M-U-L-A-T-O-R 10284:20 10339:24 10340:7,15 10344:19 10349:21 S-T-A-R-K 10353:17 10370:25 10385:14 sale 10286:18,27 10287:1,18 10430:19 10298:17 10340:9 10368:10 selling 10319:6 10325:8 10388:3 10326:4 10332:26 10385:3 sales 10265:13 10268:20 sells 10324:7,12 10385:13 10272:9 10277:24 10278:4, 14,20,24 10279:2,9,13,20 sending 10411:7 10280:2 10295:12 10308:20 10312:23 10323:2 10365:24

sense 10269:23 10326:14 10342:8

sentence 10270:1 10279:8 10282:24,25 10317:15

10347:6 10373:10

separate 10271:24 10306:3 10357:12 10362:14

series 10402:11 10431:5

serve 10276:7,11 10277:12, 20 10288:2 10321:18 10322:11 10334:15 10361:14 10370:19,20 10429:18

served 10366:18

serves 10295:19

service 10268:26 10319:10 10324:11 10356:7 10357:25 10363:5 10435:26

serving 10276:10 10295:18 10303:16 10327:3 10376:11

session 10262:1 10390:1 10403:2 10404:16,17

set 10284:5 10285:2,5,17 10286:26 10287:16 10315:19 10344:4 10345:21 10355:13 10356:18 10366:13,14 10368:18

setting 10276:1 10284:28 10285:9,15 10286:17 10287:21,23 10288:21 10289:3 10290:4 10327:2 10352:5 10368:27 10374:12. 15 10397:21 10429:15

setup 10348:1

severe 10277:24

share 10295:12 10309:2 10339:8 10407:4 10431:3

sheet 10350:3

shelf 10338:24 10339:17 10342:2,3 10371:5

shift 10413:10,13

shipment 10377:21

shipments 10377:17

shipped 10277:16,22

shipper 10346:19

Shippers 10296:28 10297:12 10298:8 10345:24

shipping 10277:13,17 10304:3 10321:24.27 10322:7 10348:15

ships 10298:5

shocked 10346:27

short 10306:12 10352:2 10374:18

shortcomings 10292:8

shorter 10436:25

shoulder 10308:7

show 10279:26 10289:17 10291:19 10293:4 10303:9, 14 10386:21 10412:23 10414:5 10426:21

showed 10397:8

showing 10303:5 10410:4

shown 10262:18 10283:23

shows 10303:17 10309:3,22 10339:12 10406:23 10412:23

shrinkage 10325:22

sic 10286:18 10291:10 10418:22

side 10265:13 10316:28 10393:25 10418:18 10419:23 10421:13

side-by-side 10418:19

sides 10315:9 10365:12

sign 10429:3

significant 10361:24 10373:20 10379:24 10381:13 10410:19 10415:16 10421:23

significantly 10275:24 10280:3 10292:19 10298:23 10299:2.3 10357:18 10375:12 10417:20 10421:11 10422:4

similar 10264:27 10286:23 10388:12 10391:19 10395:20 10396:1 10407:7 10414:16,20 10416:9

similarity 10419:5

Similarly 10296:8

similarly-situated 10379:21

simple 10337:17 10423:11

simpler 10310:2

simplistic 10393:16

simply 10273:1 10280:14 10281:6,9 10284:12 10300:5 10311:21 10313:19 10344:18 10380:18 10381:28

Simulator 10284:19 10397:14

single 10277:14 10338:18 10343:13



10366:1 10367:17 10369:12,

24 10370:4 10371:21

10385:15 10430:6

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

sink 10344:25 10348:3

sir 10399:18

sisters 10273:16

sited 10396:10

sitting 10273:16 10423:14 10424:25

situation 10271:4,10 10408:23 10429:23

situations 10429:27

- size 10320:24 10338:28 10355:26
- skim 10264:23 10265:14 10266:8 10269:21 10273:14 10279:23

slap 10392:18

slice 10337:25 10426:19

slide 10283:10,28 10286:4 10287:6 10288:17 10289:3 10290:15 10292:4,25 10294:1 10295:23 10296:15 10298:20,25 10300:2,21 10303:9 10321:17 10343:28 10349:20 10358:11 10365:27 10369:9 10370:5 10373:8 10374:11,25 10376:16 10377:11 10378:19 10379:14 10381:17 10384:5,26 10386:3

slides 10292:14

- slightly 10286:3 10294:13 10300:21 10339:21 10348:2
- slope 10362:8,9

sloppy 10345:4

slow 10376:5 10420:16 10434:6

slower 10276:4

- **slowly** 10276:19 10278:10 10291:3
- small 10324:18 10347:25
- smaller 10323:8,24,26 10411:9
- Smith 10335:27 10354:19 10435:18,23
- smooth 10346:21
- snowstorms 10359:25

software 10406:3

sold 10264:24 10344:13

solely 10381:24

solids 10265:17,25 10266:2, 5,28 10269:14 10271:9 10273:14,17 10279:23

solution 10424:23

solutions 10265:1

solve 10338:2 10339:2 10375:8,21

solves 10311:16

somatic 10301:2,9,26,28 10302:2,8,17 10303:4,7,10, 14,18,19,22 10304:4,10,19, 24 10305:11 10349:21,28 10350:6 10384:26 10386:7, 11 10387:2

sophisticated 10365:6

sort 10405:11,14 10416:25 10418:15,23

sorts 10419:20

sound 10274:8 10330:12 10336:27,28 10401:18 10427:6

sounds 10324:19 10330:18 10337:1 10436:20,26

sour 10296:2

source 10282:17 10306:13, 19 10309:24 10311:22 10313:7 10402:25,27

sources 10271:10 10306:12 10309:23 10312:21 10313:5 10403:24

south 10288:27 10337:7 10359:14 10374:2,8 10377:17 10394:10,15,19 10395:19 10396:10 10398:2

Southeast 10293:15 10294:23 10303:27 10317:5 10349:25 10356:17 10357:8, 19 10360:6,8 10372:18 10373:19,24 10378:4 10383:8 10384:6,19,25 10386:15,27 10393:27 10394:2,17 10407:9,26 10408:13,14 10415:6 10417:5 10425:27

Southeastern 10277:4 10292:13,21

southern 10377:14 10407:20 10408:8

Southwest 10350:8 10426:1

space 10357:23

spatial 10395:1 10406:2

spatially-related 10406:7

speak 10330:14 10340:22 10344:10 10358:26 10409:21

speaking 10352:6 10431:12 10435:23

special 10277:4 10285:13 10342:14 10374:28 10375:2, 3,4

specials 10340:24 10341:19,20

specialty 10324:18,22 10341:20 10405:28

specific 10275:27 10277:7 10287:26 10289:26 10292:8 10316:17 10330:10 10390:19 10391:22 10392:5

specifically 10264:19 10280:22 10300:6,26 10313:23 10387:27 10390:28

speculative 10266:15

spell 10262:23 10274:22 10333:11 10355:28 10401:3

spent 10324:17 10393:5

split 10351:19

spoken 10391:7

spore 10342:14,18

spot 10313:8

spread 10407:3

spreadsheet 10296:20 10312:5 10339:1 10352:4 10398:13 10403:9,10 10404:12,25,27 10431:13

spreadsheet's 10383:3

spreadsheets 10291:19 10402:28 10432:2

spring 10415:23 10416:2,4, 7,8,19,21,23,24 10417:4 10419:6,15

Springfield 10333:27 10334:2,17

sprinkled 10410:28 10421:22

squeezed 10430:8

St 10318:28

stabilizers 10269:19

stable 10382:14

stainless 10318:17

stall 10346:6

TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900 stand 10274:10 10347:9 10357:24 10399:28 10405:25

December 08, 2023

standard 10295:28 10301:26 10305:13 10345:4, 20 10347:16

standards 10339:5,7,9 10342:12 10345:21 10347:17

standpoint 10324:18 10346:10 10368:4 10372:17

stark 10353:15,17,21 10418:17,19

start 10275:18 10278:12 10297:7 10299:14 10315:21 10316:8 10318:21 10352:15 10358:10 10361:7 10380:4 10397:11 10402:22 10413:9 10420:5,28

started 10310:10

starting 10320:15 10380:21 10392:15 10428:19

startling 10279:4,11

starts 10273:17 10390:19 10406:25

state 10262:22 10267:28 10268:15 10271:25 10273:24 10274:21 10302:5 10346:6,17 10375:15 10395:19 10396:10 10401:2 10422:3

stated 10271:21 10414:13

statement 10272:6,25 10373:14 10374:13

statements 10296:16

states 10295:3,6 10346:17 10347:3 10348:18 10352:12 10393:27 10411:27 10412:2, 4

States-produced 10295:8

stating 10391:17

statistics 10406:1

status 10298:27 10299:27 10343:28 10344:3 10348:9, 23 10375:28

stay 10423:8

stays 10378:18

steady 10278:20

10433:14

steadily 10295:21,22

step 10269:15 10363:7

Index: sink..step

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

Stephenson 10364:11 10378:24 10422:6 10434:15

Steve 10262:10 10263:25 10275:6 10356:9 10396:25 10435:6

stick 10358:6

Stimulator 10284:19

stops 10407:18

store 10305:5 10340:2 10370:24 10381:7

stores 10340:24 10360:2 10381:6

story 10319:4

strain 10394:20

strategy 10308:28

strengthening 10278:27

stretch 10274:11 10288:9 10306:22 10430:1

stricter 10347:4

strictly 10272:17

Strike 10299:14

striking 10283:21

stringent 10301:9 10304:25

strong 10300:16

stronger 10347:5

structural 10363:15

structure 10323:13

structured 10350:24

struggle 10325:20 10326:28

stuck 10267:8

studies 10278:24 10279:1 10303:4

study 10284:20 10289:15,22 10303:2

study's 10289:27

stuff 10370:24 10410:9

subheading 10313:22

subject 10292:22 10315:11 10372:7 10385:2 10432:10

submitted 10277:6

subsidiary 10264:17

substantial 10278:20 10410:3 10425:10

substantially 10418:3 10424:13

substitutes 10278:28

substitutions 10308:18

subtracted 10313:25,26 10314:1,4

subtracting 10314:6

successful 10303:10 10320:9

sufficient 10276:9 10321:6 10431:17 10432:10

sugar 10266:3 10269:24

suggest 10311:7 10329:17 10364:6 10423:28

suggested 10289:6

suggestion 10364:8

summarize 10413:2

summarized 10387:28 10412:26

summarizes 10275:14

summary 10404:9,10,23

summer 10370:27 10403:2 10404:15

super-high 10348:12,13

supplier 10340:3 10360:3 10377:1

suppliers 10302:8 10325:10 10360:24,25 10361:2 10363:2 10377:5

supplies 10277:3 10359:19

supply 10270:23 10276:6,9, 11,12,27,28 10277:8,11,14, 20 10284:13,23 10285:19,20 10287:24 10288:6 10290:2 10296:12 10298:10 10301:1 10316:11,25 10317:8 10318:12,14,15,19,21,26 10321:18.20 10322:10.18. 20,23,26 10323:5 10324:25 10358:12,13,14,18,19,21,28 10359:9,10 10360:9,16,18, 22,27 10361:3 10363:4 10370:13,14 10373:21 10375:11,13 10376:9 10378:12 10409:13 10429:18

supply/demand 10323:28

supplying 10361:2

support 10275:25,28 10289:21 10317:9,18 10350:13,15,17 10402:12 10428:24,28 10433:24

supported 10287:25

10289:23

supporting 10357:4 supports 10351:13

supposed 10264:28 10375:14 10430:3

supposedly 10289:17

surface 10326:18 10328:11 10338:26 10372:16 10411:24,25,28

surfaces 10299:9 10377:10

surplus 10317:19

surpluses 10429:27,28

surprise 10391:1 10394:26 10395:14

surprised 10309:3 10385:18 10395:23 10396:4,6 10424:16

surprising 10298:1

survive 10323:11 10326:3

sustain 10429:22

swear 10263:8

sweetened 10264:20 10266:20,26 10267:3,10 10268:1,3 10269:25 10271:15,19,23,26,28 10296:1

sweetener 10266:3

switch 10267:18 10270:28 10271:23,27

switched 10265:25

sworn 10263:10 10274:25 10275:2 10401:22,25

syrup 10269:24 10271:19

system 10351:13 10361:28 10362:13 10375:9

systems 10405:26 10406:6

т

T-A-R-R-A-N-T 10335:16

tab 10405:6,7

table 10280:7,8 10281:19,21 10283:23 10310:3 10312:3 10402:15 10403:6 10412:27 10413:1 10425:2,4 10427:2

tables 10310:18 10402:11 10406:11 10427:12

tablet 10391:26

TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

December 08, 2023

tabs 10405:8 tabular 10412:26

tail 10314:24

takes 10370:18

taking 10265:8 10269:21 10315:9,10,18 10415:19

talk 10270:26 10271:3,14 10300:23 10301:17 10307:13 10308:16 10309:7 10314:12 10319:26 10325:27 10343:27 10348:12 10349:1 10361:5 10370:8,10 10375:7,19 10385:7,8 10392:2 10417:24 10422:8 10428:3 10435:26

talked 10302:23 10308:23 10322:20 10325:11 10339:19 10342:20 10344:23 10368:7 10377:11 10379:6 10391:24 10397:27 10406:4 10417:22 10430:13

talking 10300:26 10309:8 10316:11 10320:16 10321:17 10325:15 10326:20 10346:5 10348:19, 21 10349:20 10358:11 10360:26 10365:23 10368:21 10374:25 10375:26,27,28 10376:2,16 10381:18 10384:6,26 10385:12 10386:8,9 10391:21 10410:5,9,10 10411:8 10413:22 10420:1 10425:11 10428:1

talks 10370:16 10374:11 10376:7 10379:15

tank 10269:21 10273:26 10297:28 10298:3,6

Tarrant 10335:12,15,19,21

TAYLOR 10269:2 10272:5,

team 10308:24,27 10364:18

24 10358:2 10373:1

10376:12 10381:16

technically 10348:16

telling 10269:9 10280:23

10281:23,25 10310:24

Index: Stephenson..telling

technician 10274:9

tanks 10266:7

Target 10339:28

10336:20

10387:13

10404:18

task 10369:2

TRANSCRIPT OF PROCEEDINGS Decer NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

December 08, 2023

town 10340:2,3 10354:16

traditional 10279:14,16

traffic 10289:25 10327:7

10281:21,22 10286:3

transmission 10279:28

transportation 10277:4

10289:12,16,17,18,20,27

10290:3,11 10292:20,26

10293:12 10294:18

10315:11,19 10317:4

transcript 10279:6

10296:26 10397:7

transfer 10281:13

tough 10367:5

tracking 10281:1

tracks 10424:13

10346:4

tells 10412:23

temperature 10266:4 10339:15 10348:10,14,22

temperatures 10269:26

Temporal 10276:7

ten 10266:28 10272:1,3 10389:10 10434:16

ten-minute 10389:9

tend 10324:24 10342:16 10362:21 10385:10 10405:5

Tennessee 10330:19 10331:13,24 10332:8

Tentative 10276:16

term 10269:17 10309:12

terms 10355:14 10410:24 10414:26

tested 10303:22

testified 10263:6,11 10264:26 10266:25 10267:15 10275:3 10290:5 10305:26 10401:19,26 10406:4 10409:5

testify 10305:28 10306:11 10315:6

testifying 10307:5 10406:13 10435:19

testimony 10262:15 10263:17 10264:4,8 10269:7 10275:10,15,20 10279:12 10282:14 10285:12 10287:11 10291:19 10292:6 10296:20.22 10302:5 10310:14 10311:2,5 10314:24 10316:9 10326:16 10342:24 10350:19 10355:11 10356:15 10357:6, 23 10365:2 10374:26,27 10376:17 10379:16 10387:28 10388:4.7.8 10390:6,11,12 10391:6,17, 23 10392:1 10393:5 10396:7 10397:1,2,4,12 10398:11 10400:17 10402:8,12 10403:5 10409:5 10422:5,11 10427:8 10428:21,25 10434:13,14,18,19

tests 10344:19

Texas 10335:3,16,19,28 10336:12 10416:26 10418:11 10419:19

thankfully 10359:9 10383:26

themself 10409:22

theoretically 10424:22

theory 10265:17 10269:11

thing 10291:27 10301:13 10305:3 10307:3 10308:17 10320:10 10327:14 10329:15 10338:3,24 10348:1 10361:21 10362:8 10368:7 10371:8 10374:3 10378:17 10397:25 10404:21 10405:24 10408:9, 24 10409:12,24 10411:2,11, 28 10412:21 10414:17 10420:24 10425:22 10426:22

things 10315:22 10320:6 10322:19 10326:25 10344:23 10345:28 10346:22 10347:15 10359:27 10361:9 10362:2 10363:15 10364:14 10368:12 10369:5 10374:1,9 10380:22 10383:18 10401:6 10403:20 10406:1 10411:23 10418:4 10419:23 10420:20 10433:4

thinking 10376:19 10410:23 10427:17

thinks 10358:17

thinnest 10367:18

thought 10299:1 10322:19 10334:8 10365:6 10368:8,18 10369:27 10386:21 10408:24 10411:5

thoughts 10414:27 10427:7 10428:23

three-quarters 10369:22

three-year 10353:5

threshold 10316:16

thrive 10430:11

throat 10288:7 10290:17

tied 10265:23

tight 10371:22 10375:18

tightened 10360:22

tiles 10412:25

Tim 10262:12,24 10263:9 10264:10 10385:12

time 10265:1 10267:20 10269:19 10279:24 10285:4 10291:14 10307:24 10308:16,24 10309:17 10312:28 10316:14,25 10317:24 10324:17 10328:1 10340:17 10346:15 10351:24 10355:6,21 10356:18 10373:10 10374:6, 15 10383:16,22 10384:3,4 10387:13 10393:2,4 10406:5 10408:13 10409:2 10413:16 10415:2,4 10420:12 10424:3 10430:7 10432:4,11 10433:20 10435:20

times 10264:27 10271:8 10295:2 10297:23 10325:18 10336:5 10339:26 10341:5 10347:26 10360:10 10362:23 10363:22 10378:1 10381:9,10 10383:1,17 10416:16,28

timing 10357:15

tinkering 10364:14,27

tiny 10285:28 10324:21

title 10276:25 10277:11

titled 10292:25

today 10263:17 10264:4 10269:5,13 10295:5 10306:11 10307:5 10316:20 10318:2 10323:15 10342:9 10349:12 10351:28 10401:12 10406:26 10408:20,26 10409:10,14,27 10414:2 10415:19 10418:7 10424:25 10428:6,7 10432:11,28 10435:27

today's 10314:14

told 10273:17 10394:26 10411:18

tools 10340:23

top 10270:1,2 10293:19 10363:14 10369:25 10379:6 10390:19 10408:7 10413:4, 12

topic 10277:26 10278:22 10279:2 10282:19,20 10284:1,2,17 10285:9 10288:18,20 10290:1,16 10292:11,12,14 10293:19 10294:1,25,27 10295:10,23, 24 10296:3 10300:22 10301:6,18 10308:8 10360:27

topics 10306:4

total 10266:2,28 10276:13, 26,27 10279:13 10280:2,16, 24 10281:6,8,12 10282:5,9 10295:12 10324:20 10358:14 10369:12 10387:6 10412:8 10422:11,20 10427:27 10434:22

totally 10380:12

totals 10280:19

10319:12 10327:1 10356:17 10361:24 10371:18

10377:18 10378:21 10379:3

10380:18 10384:6 trees 10412:7,10,13

10372:19 10373:20

tremendous 10270:20

tremendously 10427:4

trend 10379:9 10391:11

trouble 10309:15 10347:3 10359:25 10360:22 10361:8

truck 10319:15 10321:4

true 10318:9,18 10320:2 10326:6 10331:27 10335:20 10336:8 10340:10 10346:1 10355:15 10361:21 10370:1, 2 10387:1 10395:3

trust 10394:23

Tuesday 10436:2 10437:1

Tulare 10395:14

turn 10307:2 10309:22 10310:6 10321:14 10328:17, 18 10343:24 10349:19 10353:13 10365:21 10370:5 10381:17 10415:10

turning 10309:20 10379:14 10384:5

twice-annual 10346:14

Tyler 10335:28 10336:5,12, 24 10337:6,7

type 10368:25 10375:21 10405:9 10406:3

types 10303:16



TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING

typically 10411:8

typo 10283:15

U

U.S. 10284:19 10385:15 10397:14 10411:26

ubiquitous 10349:17

Uh-huh 10329:8 10330:21 10367:24 10402:14 10404:14 10411:16 10417:8 10422:3

ultimate 10266:13 10321:8

ultimately 10324:2 10412:12

umbrella 10289:5

uncertain 10269:17

unchanged 10306:14,18

uncompetitive 10363:19 10380:6

uncondensed 10267:3

unconsumption 10366:22

undefined 10289:4

undergoing 10278:20

undergone 10277:24

understand 10310:23 10311:5,6 10344:2 10363:4 10364:13 10365:8 10372:21 10394:24 10398:1 10406:10 10412:6 10422:6 10423:20 10428:18

understanding 10341:27 10366:15 10374:16 10377:26 10380:23 10384:13 10392:3 10412:10 10428:5

understated 10289:27

understood 10397:2,4 10423:10

undervaluing 10363:19

uneconomic 10377:17

unevenly 10284:3,18 10286:16 10288:18 10289:11

unfortunate 10323:3,15

uniformly 10285:3 10290:13

unimportant 10411:14

unique 10284:8 10342:5,7 10414:2 10415:26,28

unit 10297:28 10298:6

United 10295:3,7 10325:15 10350:23 10393:27

units 10298:3,4

universal 10359:28 10421:25

University 10284:18,25 10289:14,22,24 10293:22 10353:5,26 10354:23 10397:15 10398:5

unlike 10266:23 10380:12

unreasonable 10391:10

unregulated 10265:10 10266:22 10271:2,8

unrelated 10300:10

unsurprising 10408:25

unusual 10408:21

up-to-date 10403:21

upcharge 10268:15

update 10384:16

updated 10363:12 10415:5, 12,15

Upper 10270:25 10286:24 10304:1,7,17 10382:18 10383:10 10386:16 10388:12 10391:12,20

ups 10360:20

urban 10394:16 10395:9

USDA 10276:12 10277:1 10280:3,18 10282:8 10284:5,28 10285:1,15,18, 27 10287:20 10288:3 10290:19 10292:9,12,18 10298:28 10299:13,16 10307:15 10308:6 10310:3 10312:2 10316:11,15 10338:2,21 10356:16 10357:8,10 10364:17 10375:27 10386:13 10402:28 10403:15 10429:14 10434:2 10436:7

USDA's 10350:2 10374:11 10429:13 10430:17

USDSS 10284:20 10368:24 10380:17 10394:27 10395:16,23 10420:4 10422:13,22 10423:6 10427:20

user 10267:24 10271:25

utilization 10272:17 10273:19 10276:25 10286:22 10295:11,15 10304:6,17,18 10316:15 10362:6 10371:23 10373:25 10382:1,26 10383:1 10391:13,14

utilizations 10373:15,18,23

utilized 10289:15 10402:25 10432:5

v

validate 10405:23

valley 10395:6,11,21,22 10396:12 10397:24

valuable 10285:25

value-added 10366:23

Vandenheuvel 10387:20,21 10388:8,19,22,25,28 10389:3,8,14,16 10390:4,7 10392:13,17,21 10396:17 10397:3

Vandenheuvel's 10397:12

variable 10425:1

variables 10381:28

variation 10423:6

varied 10285:6,28

varies 10319:18 10424:13 10428:2

variety 10427:5

vary 10316:25 10373:3 10422:15,26

vast 10265:26 10295:6 10377:5 10403:14

vat 10266:8 10269:28

vegetables 10340:20

venture 10318:23 10336:6 10337:14

verification 10432:11

version 10306:15,17 10310:19,27 10314:15 10398:13,14

versus 10292:26 10298:24 10313:23,27 10345:18,23 10348:12 10358:26 10386:16 10409:19 10424:17 10425:25

vertical 10417:19

TALTY COURT REPORTERS, INC. taltys.com - 408.244.1900

view 10315:24 10318:5 10345:18 10364:5 10371:7 10375:18 10377:2,8 10378:2,16 10397:13 10404:27 viewed 10366:22 10369:26

December 08, 2023

views 10287:10

Virginia 10289:10 10355:8

vis-à-vis 10420:4

vision 10335:4

visiting 10336:5

visualizing 10406:9

visually 10408:10 10416:8

Vitaliano 10289:6,13

voice 10262:25 10399:20

volatile 10384:3,4

volume 10263:1 10276:3 10280:12,13 10401:14

volunteer 10406:15

vote 10277:7 10351:14

voted 10315:11

Vulin 10399:24,25 10400:5 10401:27 10402:1,4 10407:28 10420:27 10432:3, 15,19 10433:10,16,18

w

W-O-O-S-T-E-R 10356:2,3

wait 10314:13 10331:9

walk 10292:14,24 10300:28 10316:5,6 10324:25 10420:7

walking 10350:26

Walmart 10339:28

waning 10317:24

wanting 10327:6

wash 10344:25

10355:23,26

10384:4

walls 10299:9 10348:3

wanted 10300:7 10344:20

watch 10416:12 10432:9

water 10375:20 10406:6

Wayne 10329:20,22,27

ways 10324:13 10337:25

10426:19 10427:5,18

Index: typically..weaker

weaker 10321:28

10330:13,14 10354:9,16,17

10366:4 10395:20 10401:13

watching 10391:26

10351:15 10370:10 10375:1

NATIONAL FEDERAL MILK MARKETING ORDER PRICING FORMULA HEARING Weather 10322:27 witnesses 10285:10 10387:27 10388:7 10391:7 10286:19 10287:25 10392:9 10397:4 10398:11 website 10403:18,19 10402:8 10422:10 10424:1 10288:23 10289:19 10338:1, 10 10391:21 10433:23,24,25 week 10340:13 wrong 10366:15 10411:6 10434:14,20 10435:9,12 weeks 10431:11 wrote 10391:4 10392:3,4 wizards 10404:23 weight 10308:7 wondered 10270:5 Х weighted 10310:1,4 wonderful 10383:26 10311:26 10314:6 10382:25 10436:20 Xs 10412:19,23 weird 10359:7 wonderfully 10378:8 Υ well-running 10344:14 wondering 10373:13 west 10289:10 10351:3 ya 10347:12 Wooster 10319:2 10354:12 10375:20 10394:3 10409:4 10355:24,25 10356:1 10421:21,26,27 10424:17 year 10268:7 10282:10 10295:16 10299:6,10 Wooster's 10354:16 western 10290:14 10421:20 10300:15 10340:17 10346:8. word 10283:21 10291:24 wet 10288.7 10 10347:20 10360:10 10296:26 10309:10,14 10374:23 whatsoever 10295:7 10310:20 10316:18 year-round 10371:2 10388:16 10390:27 10391:1, wheelhouse 10405:21 6 10434:6 years 10266:28 10268:2 whey 10295:26,27 10296:8, 10279:26 10295:14 wording 10286:4 10 10300:19 10324:1 10303:25 10304:13 10364:7 10327:20 10344:20 words 10286:8,25 10287:15 10366:27 10367:1 10371:14 10311:4 10376.8 10387.9 whiskers 10412:25 work 10268:9 10308:10 yellow 10393:21 10406:28 white 10279:14 10407:15 10309:1 10312:26 10318:20 10408:6 10423:24 10421:1,2,7 10423:23 10319:28 10320:21 yesterday 10262:7 10273:11 10351:18 10361:11 whitewashing 10299:11 10339:27 10365:7 10378:24 10364:11,14 10367:5 whoa 10317:11 10343:18 10422:5 10371:24 10372:24,28 10381:28 10406:8.16 wholly 10357:12 yield 10305:6 10433:11 wholly-owned 10264:16 yogurt 10266:23 10296:2,10 workbook 10405:6 10362:15 wicked 10364:3 worked 10327:4 10359:10 York 10346:6 wide 10382:15 10365:8 10366:28 10405:23 wider 10413:15 working 10308:16 10317:5 Ζ 10318:20 10320:14 widest 10419:16 10321:12 10324:17 zone 10326:26 10372:16 10405:27 Winchester 10289:10 zoned 10417:20 works 10274:9 10364:13 wind 10429:26 10385:13 winds 10429:25 world 10265:18 10318:1.9 winners 10266:18 10270:3 10385:11 10404:27 10326:15 10329:15 10424:24 10361:12 10364:1,15 worn 10323:6 worried 10346.7 Wisconsin 10264:14 10270:25 10284:18,26 worries 10286:11 10289:15,22,24 10293:23

10353:5,27 10354:23 worse 10273:18 10325:12 10365:5 10397:15,27 worth 10335:7,18 10336:23 10398:5 10416:26 10419:20 10337:8 10355:7 10421:10

wisdom 10399:22

10367:12

witness's 10390:5

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written 10262:15 10263:17

10264:4 10275:10,15

10282:14 10291:18 10296:22 10302:5 10376:22

