

Select Milk Producers, Inc.**Testimony of Steve Cooper****In Support of Proposal 12****1. Introduction**

My name is Steve Cooper. I am the President and Chief Operating Officer of Continental Dairy Facilities, LLC (“CDF”) and Continental Dairy Facilities Southwest, LLC (“CDF Southwest”). CDF operates a butter-powder plant in Coopersville, Michigan, and CDF Southwest operates a butter-powder plant in Littlefield, Texas. Both CDF and CDF Southwest are wholly owned subsidiaries of Select Milk Producers, Inc.

I have a Bachelor of Science degree in dairy science and technology from California State University, Fresno. Before earning my bachelor’s degree, I earned an associate's degree in dairy production from Mount San Antonio College in Walnut, California. I have worked in the dairy industry, either on a dairy farm or in dairy manufacturing since I was 16 years old.

Following my graduation from Fresno State, I worked for three years as an assistant plant manager with Sonoma Cheese. I was then hired by California Milk Producers (now California Dairies, Inc) as a cheese plant supervisor working in a plant manufacturing 40-pound block cheddar cheese. For the last fifteen years of my time working for CDI, I worked in its butter-powder plants, ultimately holding the title of Vice President of Manufacturing Operations, where I had oversight responsibility for CDI’s manufacturing facilities.

I joined CDF in 2009, initially working with Continental Dairy Products, Inc, a cooperative that has since been merged with Select. I was hired to work with Continental as they were designing and building a new Class IV balancing plant to serve its owner producers in the Mideast

Marketing Area. I was involved in the design, construction, and commissioning of the plant and have been its General Manager and COO since its inception. In 2015, after Continental had merged into Select, I served the same role in designing, constructing, commissioning, and operating a sister plant in Littlefield, Texas to serve Select's owners in the Southwest marketing area.

I am ultimately responsible for all daily operations at both CDF and CDFSW including product manufacturing, milk sourcing, product sales, and food safety. In conjunction with Select's management and our producer directors, I am also responsible for short-term and long-term strategic planning for both facilities and related activities of the cooperative.

2. Scope of Testimony

The scope of my testimony today is related to the production and sales of buttermilk powder at both the Michigan CDF plant and the Texas CDF Southwest plant. In addition to the analysis presented in this testimony, I have reviewed and am familiar with the testimony of Chris Allen on this Proposal, and my testimony is intended to supplement and build upon his.

Both the Michigan plant and the Texas plant produce a variety of products. The predominant products manufactured are nonfat dry milk, butter, and buttermilk powder. Depending on market conditions, the plants will also produce condensed skim milk, whole milk powder, and bulk cream. I was asked by Select to analyze and provide testimony on the sales prices of low-heat nonfat dry milk and buttermilk powder for the period of January 2021 through June 2023. Specifically, I was asked to analyze the alignment of these prices at each plant for each month in that period. I was also asked to discuss the costs of manufacturing low-heat nonfat dry milk compared with buttermilk powder.

3. Data Reviewed and Analysis Performed

CDF and CDF Southwest maintain records of the prices received for all products sold, both on an individual sale basis and aggregated data for the purposes of internal reporting and analysis. I asked my staff to compile the sales data described above for each facility. I was provided the monthly average sales prices for low-heat nonfat dry milk (NFDM) and buttermilk powder (BMP) at each plant. That data was then compared monthly and for the entire period.

Included in this statement are a series of tables and graphs. The first table lists for the CDF Michigan plant, for each month, the price received for BMP as a percentage of the price received for low-heat NFDM in the same month. The average, maximum, and minimum are also reported. Over the observed period, BMP prices averaged 96.72% of NFDM prices. The maximum BMP price as a percentage of the NFDM price was 115.54%, and the minimum was 82.51%.

The second table provides the same information for the CDFSW Texas plant. Over the observed period, BMP prices averaged 96.59% of NFDM prices. The maximum BMP price as a percentage of the NFDM price was 114.67%, and the minimum was 82.89%.

In certain months, the plants did not sell any buttermilk powder. No data is reported for those months. As an aside, for those months where no buttermilk powder was sold, I compared the Dairy Market News reported price relationship between low heat NFDM and BMP. For the four months when CDF did not sell BMP, the price relationships for the Central/Eastern reports were 95.90%, 89.17%, 119.18%, and 120.88%. For the four months where CDF Southwest did not sell BMP, the price relationships for the Western reports were 90.59%, 94.44%, 96.45%, and 82.46%. We present this data to demonstrate that the decision not to sell BMP in those months was not a function of a weak BMP market relative to NFDM. I also note that the four months that CDF did not sell BMP are not the same four months when CDF Southwest did not sell BMP.

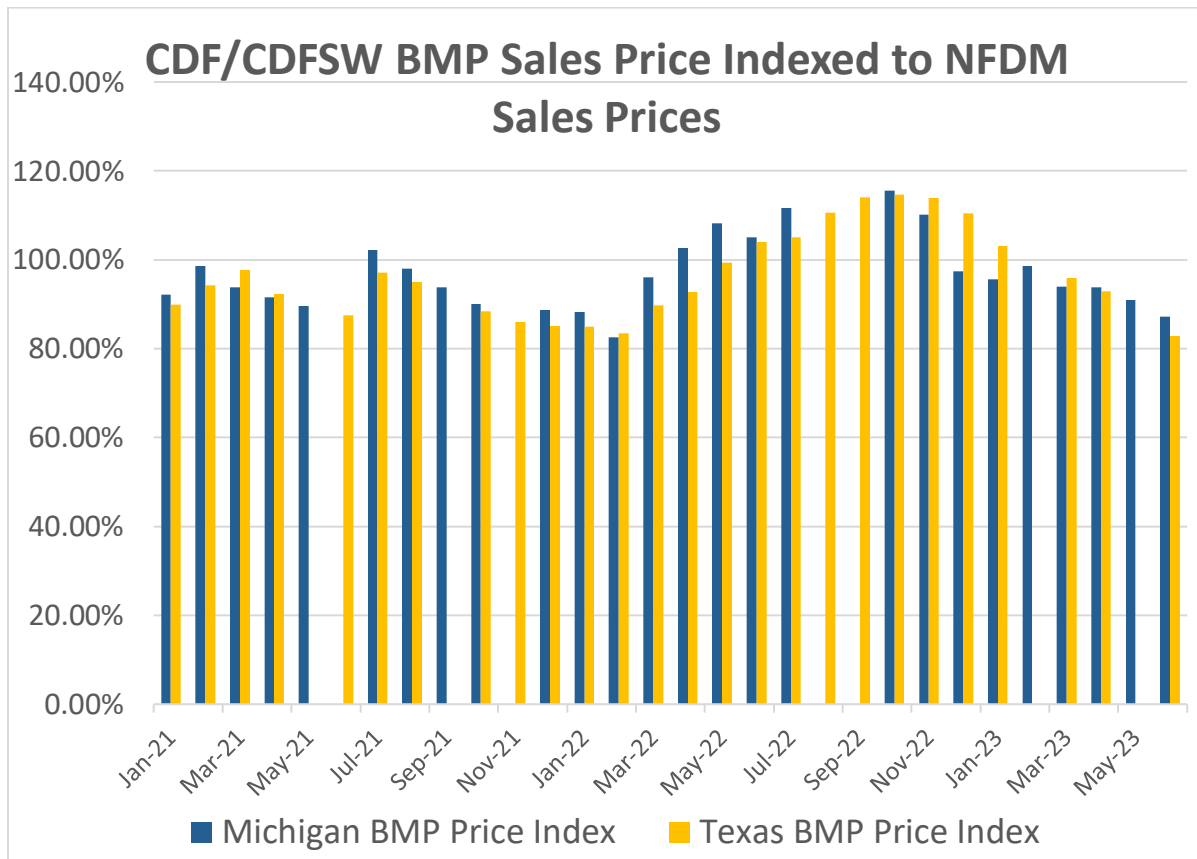
**Continental Dairy Facilities
Buttermilk Powder Sales Price
Received as a Percentage of NFD
Prices Received**

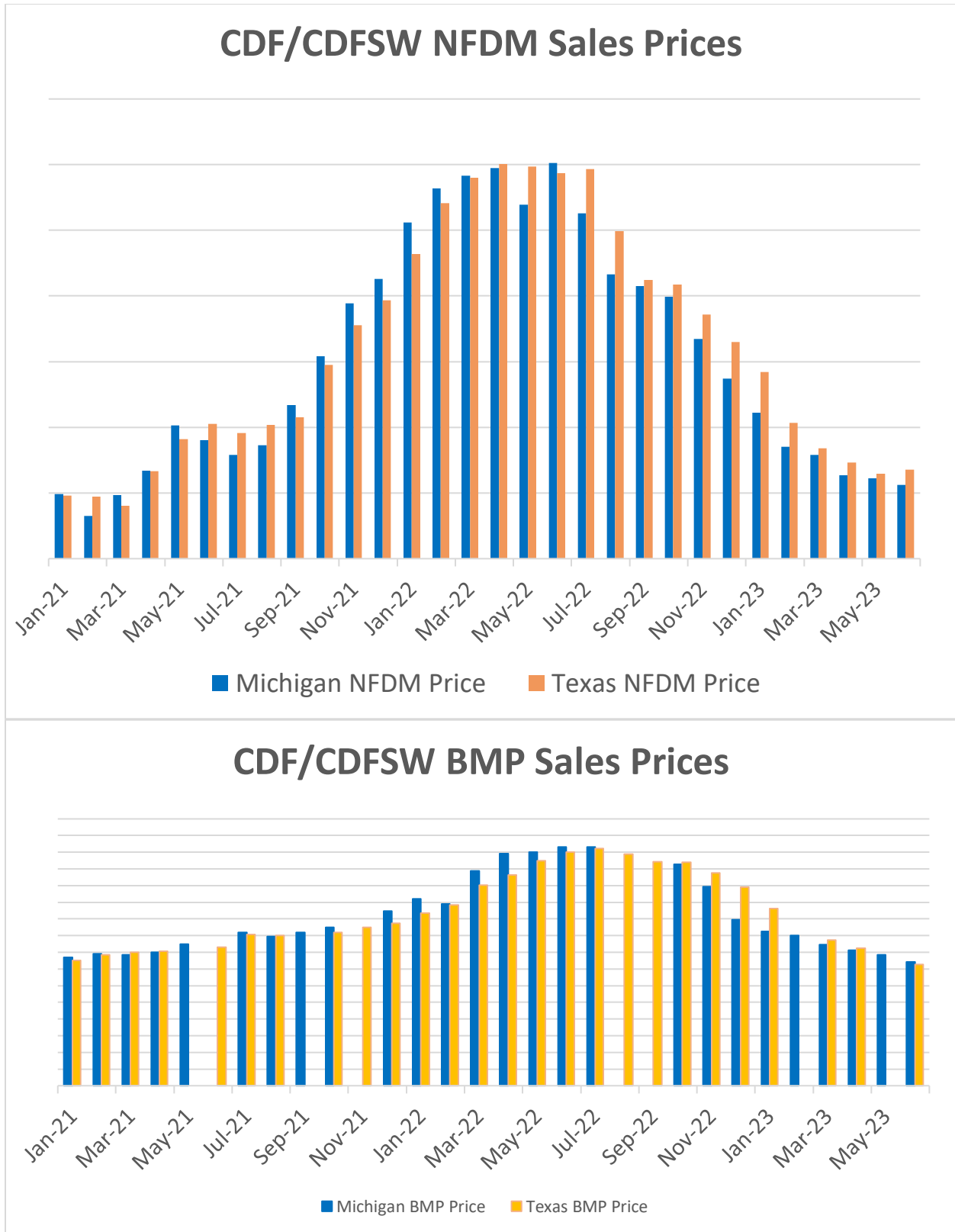
Month	Michigan BMP Index
Jan-21	92.16%
Feb-21	98.62%
Mar-21	93.82%
Apr-21	91.61%
May-21	89.63%
Jun-21	null
Jul-21	102.17%
Aug-21	97.98%
Sep-21	93.81%
Oct-21	90.09%
Nov-21	null
Dec-21	88.77%
Jan-22	88.25%
Feb-22	82.51%
Mar-22	96.05%
Apr-22	102.67%
May-22	108.20%
Jun-22	105.04%
Jul-22	111.67%
Aug-22	null
Sep-22	null
Oct-22	115.54%
Nov-22	110.15%
Dec-22	97.43%
Jan-23	95.67%
Feb-23	98.63%
Mar-23	93.95%
Apr-23	93.76%
May-23	90.95%
Jun-23	87.26%
Average	96.78%
Maximum	115.54%
Minimum	82.51%

**Continental Dairy Facilities Southwest
Buttermilk Powder Sales Price Received
as a Percentage of NFD Prices
Received**

Month	Texas BMP Index
Jan-21	89.94%
Feb-21	94.29%
Mar-21	97.71%
Apr-21	92.37%
May-21	null
Jun-21	87.44%
Jul-21	97.05%
Aug-21	95.06%
Sep-21	null
Oct-21	88.35%
Nov-21	86.00%
Dec-21	85.05%
Jan-22	84.94%
Feb-22	83.52%
Mar-22	89.76%
Apr-22	92.80%
May-22	99.34%
Jun-22	104.06%
Jul-22	105.04%
Aug-22	110.63%
Sep-22	114.08%
Oct-22	114.67%
Nov-22	113.86%
Dec-22	110.48%
Jan-23	103.10%
Feb-23	null
Mar-23	95.94%
Apr-23	92.92%
May-23	null
Jun-23	82.89%
Average	96.59%
Maximum	114.67%
Minimum	82.89%

Related information is presented graphically. The first graph plots the monthly sales prices of BMP for the Michigan and Texas plants expressed as a percentage of the NFDM prices for the plants. You will see close alignment in months where both plants sold BMP. Graphs two and three plot the NFDM price for the Michigan plant against the prices for the Texas plant and the same analysis for BMP. Again, you will see a close alignment between the two plants.





In addition to examining the sales prices of NFDM and BMP, I also examined the plants' manufacturing costs for low-heat NFDM and BMP. I note that neither CDF nor CDF Southwest participated in the price surveys conducted by Mark Stephenson or Bill Schiek. The reasons for our decision not to participate will be testified to separately when Select addresses Proposals 7, 8, and 9. Nor will I discuss during my testimony the actual manufacturing costs of CDF or CDF Southwest for NFDM or BMP.

However, I did examine whether the stated manufacturing cost relationship noted by USDA during order reform was accurate in my experience and in the operations of CDF and CDF Southwest. The order reform decision found that it cost two cents more to make buttermilk powder than to make nonfat dry milk powder. The actual process of drying buttermilk and drying skim milk are essentially the same. We utilize the same equipment and processes to make both products. The only difference is that it takes somewhat longer to dry buttermilk than to dry skim milk. That additional drying time requires additional natural gas. While the specific additional cost would vary directly with the actual costs of natural gas, the incremental fuel cost to CDF or CDF Southwest in 2023 would be approximately two cents.

4. Conclusions To Be Drawn

- a. For both the CDF plant in Michigan and the CDF Southwest plant in Texas, the actual prices received for the sale of NMDF and BMP are closely aligned. In addition, in no month was the price for BMP more than 18% less than the prices received for NFDM. For CDF and CDFSW, the reality is that BMP receives nearly the same price at low-heat NFDM.

- b. The prices received for NFDM produced in Michigan and Texas, as well as the prices received for BMP produced in each location are also closely aligned. There is very little difference between the prices received for either product that could be attributed to geography. Those differences that do occur on a month-to-month basis are virtually nonexistent on an annual basis. There appears to be little regional difference in the prices received.
- c. The price information from CDF and CDFSW is consistent with the Dairy Market News data comparing NFDM and BMP prices in both the Western market and the Eastern/Central Market. The average of the DMN BMP price relationship of 97.5% testified to by Chris Allen is consistent with the CDF/CDFSW price relationship of 96.7%.
- d. CDF and CDF Southwest's cost to manufacture BMP is higher than the cost to manufacture NFDM. That additional cost is due to additional drying time and associated fuel. Although the costs will vary with natural gas prices, the Department's estimate that the make costs for BMP are two cents higher than the make costs for NFDM are appropriate.