I am Jason Smith, Director of Sales and Logistics, for Maryland and Virginia Milk Producers Cooperative. Maryland and Virginia's corporate office is located at 13921 Park Central Road, Herndon, Virginia. Maryland and Virginia is a Capper-Volstead cooperative association that has approximately 930 dairy farmer members located in ten states. Maryland and Virginia's team markets our members' milk on the Appalachian, Southeast, Northeast and Mideast orders. Maryland and Virginia is a member of Dairy Cooperative Marketing Association, Inc, also known as DCMA.

My responsibilities at Maryland and Virginia include overseeing the raw milk dispatch team, which manages the movement of approximately 180 loads per day of member and partner suppliers' milk, procurement of supplemental milk supplies, manages the relationships with our raw milk customers, and monitoring the monthly Federal order requirements. I've spent the good portion of my 20 plus year tenure with Maryland and Virginia focused on milk movements within our southeast area.

I'm here today to express Maryland and Virginia's support of Proposals 1, 2, 3, 4, and 5. I will testify on the marketing conditions within the Appalachian Order, based on my experience. It is critical and urgent to Maryland and Virginia's membership that the Federal Order's transportation credit provision continues to exist, and improvements are made, due to the current conditions in the market.

Maryland and Virginia owns and operates two fluid processing facilities within the Appalachian Order and is the contract milk supplier to several other processors in the region. Securing a sustainable milk supply for our plants and third-party customers is a top priority for my team.

As illustrated in DCMA's testimony, milk production has sharply declined in the southeast, down 32.4% over the last 15 years, creating challenges to maintain a secure milk supply. With that said, Maryland and Virginia relies heavily on supplemental milk from other regions, predominately the Northeast Order, to meet our year-round obligations. During the peak supplemental season, late summer/early fall, approximately 25 loads per day of supplemental milk is required to fulfill our demand.

The average distance to the market for the Northeast supply is approximately 450 miles. The transportation cost ranges between $4.90 to $5.25 on a per mile rate, based on the current input cost for trucking and diesel fuel price. That equates to roughly $4.43 per hundredweight, using the low end of the per mile rate range. In a typical month, the pricing delta available to handlers between the Appalachian and Northeast Orders range between $1.00 and $1.50 per hundredweight. Taking the high side to that range, the difference in the two Orders provides an offset to the transportation cost, but still leaves $2.93 per hundredweight of uncovered cost to move the supplemental milk to the market.

The current Transportation Credit provision provides some relief in covering the outstanding cost of transporting supplemental milk to the market but falls short in relation to the current transportation cost. Over the last several years, milk haulers have been facing increased costs in all aspects of their business; equipment, parts, oil, labor, insurance, and fuel all have seen double digit, in some case triple digit, percentage increases. With no updates to the Transportation Credit provision's mileage rate calculation components since 2006, the percentage of the cost covered by Transportation Credits continues to decrease. At the end of the day, haulers expect to get paid for transporting supplemental milk to the market, so the

current imbalance is covered through over order premiums or as a deduction from our dairy farmers' milk checks.

Proposal 1 and 2 will align the component factors of the milage rate, within the current Transportation Credit system, with the current freight rates. Making this change is imperative to maintaining a readily available milk supply to meet the ever-changing demand of the Class I market. Without these updates, supplemental suppliers will be less willing to commit raw milk volumes to the Appalachian Order during high deficit periods. This will negatively impact process capacity in the Appalachian Order, with a likely outcome of less capacity in the Appalachian area to provide local dairy products to the end consumers.

Since early 2000, eleven pool distributing plants closed within Maryland and Virginia's core area of the Appalachian Order. As these plants shuttered their doors, the distance to the next closest plant increased, and the cost of balancing the daily ebb and flow of the class I demand has increased substantially. As customers' orders for milk shift at the remaining pool distributing plants, raw milk loads are shuffled in and out of those facilities to ensure adequate supplies are available, without raw milk inventories exceeding silo capacity. With fewer plants in the network, there are less opportunities to utilize the next plant's silo capacity, therefore the ability to stair step milk throughout the region to align supply and demand is more difficult. With more miles between plants, the steps are taller, driving up the cost to land the milk at the next plant. A prime example being, when Pet Dairy of Richmond Virginia closed, milk from north central Virginia was forced to move to southeastern Virginia or the Carolinas, an increase in mileage to the market of 51% and 67%, respectively. If/when plant production in either

region declines, milk is forced to travel north to a balancing plant. Both moves increase the total cost to dairy farmers in the marketing area.

As milk moves farther distances within the Order and total cost of transportation increases, the Class I location differentials are not adequately compensating dairy farmers for milk movements within the order. Producer milk located in Harrisonburg, Virginia often delivers to Newport News Virginia, which is approximately 207 miles from Harrisonburg. The milk originates in a $2.90 class I location differential zone and Newport News, Virginia is in a $3.20 class I location differential zone, a $.30 difference in the location differential. Based on the per mile rate discussed earlier, the $.30 per hundredweight delta in the Class I location differentials between the origin point and delivery location covers approximately 15% of the cost of moving the milk within the market. As transportation costs have increased over the years, the percentage of transportation cost covered by the class I location differential has dramatically decreased. DCMA's Proposal 3 provides additional compensation and incentives to move milk within the Order, offsetting a portion of the deficiencies in the current Class I location differentials. By adopting this proposal, dairy farmers will be compensated more fairly for getting their milk to the market.

Another challenge facing the Appalachian Order is the fluctuation of Class I demand based on seasonal and weather-related events. Snowstorms and filling the school pipeline often are the times I dread the most from a logistics standpoint, as these events tax our milk marketing and transportation systems. Each year we face the challenge of filling the school pipeline, and we see an exponential increase in orders for a four-to-five-week period. During this time, all available reserve supplies are fully deployed to the Appalachian area. The Transportation

Credit system allows us to tap into the reserve supplies, and offset some of the transportation cost, but we need the proposed improvements to continue to have those supplement supplies available. Without the proper tools to incentivize the supplemental suppliers, those supplies could very well stay home for a greater return.

Last year, during the period of August 20th through September 27th, school pipeline filling season, Maryland and Virginia reloaded and then transferred to Class I plants approximately 80 loads of milk from our pool supply plant, Valley Milk Strasburg Virginia, to meet the increased demand during this period. To be honest, this was a last resort as Maryland and Virginia was desperate to get supplemental milk to the market.

Our team reached out to several of our local milk haulers from Maryland and Pennsylvania, requesting they deliver farm direct milk to the Appalachian market. All these haulers declined for a multitude of reasons. Most of these haulers in Maryland and Pennsylvania pick up multiple producer routes on farm pick tankers which are not equipped to travel long distance. There is also a timing issue of picking up multiple stop routes and delivering the longer distance. The driver cannot legally make the turn within the driver's available hours of service. Delivering milk farther distance, also ties up additional equipment which the local haulers do not carry in their fleet. It's hard for haulers to justify carrying additional equipment, to only utilize that equipment in a short period of the year. So, our best alternative was to have the Maryland and Pennsylvania haulers deliver loads to Valley Milk, a pool supply plant on the Appalachian Order, and then transfer that milk out of Valley Milk's silos onto transport tankers. This allowed us to utilize over the road hauling companies that are accustomed to delivering longer distances.

Maryland and Virginia was successful at moving additional loads to the Appalachian Order to meet the demands of the market. However, the expense of covering all the transportation costs to move that supplemental milk to the market was absorbed by dairy farmers.

Based on this example, Maryland and Virginia fully supports DCMA's request to allow milk originating from a pool supply plant within the Appalachian order to qualify for the Distributing Plant Delivery Credit. This allows a handler to assemble milk from smaller farms, deliver that milk to a central location and then transfer those loads to a Pool Distributing Plant to fulfill the Class I demand, reducing the burden to dairy farmers with unintended cost of supplying the market.

The current market conditions in the Appalachian Order demand that milk within the Order move father distance, at a higher transportation cost. It is also critical that supplemental supplies are readily available to meet the demand of the Order. Based on these facts, improvements to the Order's transportation system are absolutely necessary to maintain orderly markets, while also maintaining an adequate raw milk supply for the in-area processors that provide local dairy products to the end consumer.

Maryland and Virginia supports Proposals 1, 2, 3, 4 and 5 and requests a timely decision.

Thank you for the opportunity to present this testimony.