

1 MR. SMITH: With that, I will turn to Staff.
2 Please proceed with your case.

3 MS. EDWARDS: Staff calls James Mehlhaff.

4 JAMES MEHLHAFF called as a witness, having
5 been first duly sworn
6 testified as follows:

7 EXAMINATION BY MS. EDWARDS:

8 Q Mr. Mehlhaff, will you please introduce yourself and spell
9 your last name for the record.

10 A My name is James Mehlhaff. I'm known as Jim Mehlhaff. My
11 last name is spelled M-e-h-l-h-a-f-f.

12 Q And how are you employed?

13 A I'm the director of the Grain Warehouse Division for the
14 Public Utilities Commission.

15 Q How long have you been in that position?

16 A I've been in that position since July of 2005.

17 Q Are you familiar with Anderson Seed of Redfield, South
18 Dakota?

19 A I am, yes.

20 Q And can you describe briefly your familiarity with this
21 proceeding and Anderson Seed.

22 A Anderson Seed was licensed, I believe, in October of 2011 as
23 a grain buyer.

24 MR. SMITH: Jim, can you pull the mike in just a
25 little bit.

THE WITNESS: Yes, I can.

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1 A Anderson Seed was licensed as a grain buyer processor in
2 October of 2011. They did business in South Dakota until
3 their license was revoked - or suspended in February and
4 then revoked 15 days after the initial suspension.

5 Q (By Ms. Edwards) Are you familiar with the bonding process
6 for grain buyers in the state of South Dakota?

7 A Yes, I am. It's set in statute - I believe 49-45-9 - that
8 a - that a grain buyer seeking a license must provide a
9 surety bond to cover their obligations or any breach of
10 obligations. The bonding is set in statute at - on a 3-year
11 average annual purchases for an established grain buyer.
12 When a new grain buyer comes into the state without an
13 established record, it's required that they provide
14 projected purchases based on the operations that they intend
15 to run, and then the bond is based on the projected
16 purchases.

17 In the case of Anderson Seed - I'll just expound on
18 that if you'd like - their projected purchases - or they
19 bonded for their projected purchases to be between 2 and 5 -
20 2 and \$10 million which required them to have a bond of
21 \$100,000, which is what they procured and provided as part
22 of their license obligation.

23 Q Thank you. What types of transactions would the bond cover?

24 A The grain buyer bond covers open payables; for example, if a
25 grain buyer, such as in this case, becomes insolvent and

1 does not have assets after liquidation to cover grain
2 payables, then the bond would come into play to cover those
3 payables.

4 Q Are there any transactions the bond would not cover?

5 A It's specifically laid out right in the statute 49-45-9 that
6 grain that is subject to the terms of a voluntary credit
7 sale contract may not participate in bond proceeds, and it
8 also states that on the face of the bond as well.

9 Q Were you involved in evaluating the claims against Anderson
10 Seed's bond?

11 A Yes. I supervised the - the process of evaluating all the
12 scale tickets and claims.

13 Q Can you describe the process you used to evaluate those
14 scale tickets and claims?

15 A The claim as was set out, which was approved by the
16 Commission prior to that, we mailed official claims forms to
17 all the - all of the known patrons of Anderson Seed. The
18 claim forms that we received, we measured them against what
19 we had determined as a result of our initial scale ticket
20 audit, which was performed by going to the Redfield
21 facility, taking copies of all the contract files and scale
22 tickets that were on premises, and also information that we
23 received from the attorneys that were representing Anderson
24 Seed.

25 We determined, based on those, what we - what we

MEHLHAFF BY EDWARDS

1 believed the documentation indicated was owed each patron.
2 We measured that against their check records to ascertain
3 what had been paid and what had not been paid, and we
4 measured against the contracts the spot prices on the days
5 of delivery to determine - to get a final determination on
6 what we figured each producer was owed.

7 Then we compared that with what was presented by the
8 producers when - when they filed their claims. If there was
9 a discrepancy in there, we tried to sort it out and see if
10 they provided additional information that we did not have
11 before. If we still felt that our initial scale tickets
12 showed an accurate claim amount, we sent letters - at the
13 end of that process, we sent letters to all the claimants.

14 Many times the claims we received were consistent with
15 what our scale ticket audit determined. Sometimes there
16 were minor discrepancies between the two, you know, based
17 on, perhaps a load maybe fulfilled a contract, and then
18 there was additional hundred weight that would have been
19 sold at the spot price on that particular day.

20 So there were small discrepancies that were all sorted
21 out. We sent letters explaining how we came to ours and
22 invited the producers to respond to those if they agreed
23 with us or if they had additional information or wanted to
24 discuss it further with us or - or seek a hearing in front
25 of the Commission to get to the bottom of those.