(2) components will be priced at levels that inform producers about which component has the greatest value and that make it worthwhile to produce that component, and (3) components will be priced at a level that will return a positive result to the manufacturing industry. All three of these goals are constrained by the requirement that the total value of the component prices must be equal to the Minnesota-Wisconsin price. Further, a protein price slightly higher than one based on the barrel cheese price will result in an other nonfat solids price that is closer to the market price for lactose.

Since the protein price contained in this decision will be only 5 cents greater than the price that would be computed using the barrel cheese price, rather than the 43-cent difference proposed by NAJ (using the whey protein price), the impact on producers should be very similar to the results shown in the exhibits presented by CMPC.

b. Other nonfat solids. The balance of the M-W price, after the values of protein and butterfat are removed, should be priced on the basis of "other nonfat solids." The other nonfat solids price per pound will be computed by subtracting from the M-W price, at test, the butterfat price times the butterfat test of the milk in the M-W price survey and the protein price times the protein test of the milk in the M-W price survey. Because the computation of the other solids price is based on a residual value, the other solids price could be negative without further adjustments. Therefore, if computation of the other solids price results in a negative price, the protein price will be adjusted (downward) to result in a zero value for the other solids price.

As a residual, a NAJ witness stated, the other nonfat solids price would represent the value of lactose and ash, which are the primary constituents of the other nonfat solids, and the difference in value between a competitively set price for milk, the Minnesota-Wisconsin price, and the value of that milk based strictly on product prices.

An expert witness for NAJ testified that a higher price for other solids than would be computed by using a protein price lower than that proposed by NAJ was not justified because a higher other nonfat solids price would defeat the purpose of multiple component pricing: to give producers an economic incentive to increase the protein content of their milk. The witness also explained that since the "other nonfat solids" consist primarily of lactose, for which there is a limited market and cheaper substitutes, there is no reason to have a high other nonfat solids price.

A witness for CMPC explained that the CMPC proposal would result in a higher price for other nonfat solids than the NAJ proposal. The witness testified that reduced emphasis on the protein price and increased emphasis on the other solids price would reduce the impact of multiple component pricing on handlers and producers. The witness observed that the average difference in handlers' cost of milk between the current skim-butterfat pricing system and the CMPC proposal was less than one cent per hundredweight, while the NAJ proposal would result in a difference of slightly over three cents per hundredweight.

The CMPC witness pointed out that the same relationship was applicable to returns to producers. In fact, the witness stated, when comparing the effect of the current skim-butterfat pricing system on handlers' obligations with both the NAJ proposal and the CMPC proposal, there is a narrower spread from the highest difference to the lowest difference and a smaller standard deviation with the CMPC proposal than the equivalent comparisons with the NAJ proposal.

An alternative residual price was proposed by NCI and supported by Kraft. A witness for NCI testified that instead of placing the residual value on the other nonfat solids, the residual value should be placed on the remaining pounds of fluid milk. The witness explained that this residual fluid price would be calculated by subtracting the value of 3.5 pounds of butterfat and the value of the protein based on the protein test of the milk in the Minnesota-Wisconsin price survey from the Minnesota-Wisconsin price. The resulting value would be divided by 100 minus 3.5 minus the protein test of the milk in the Minnesota-Wisconsin price survey.

The NCI witness testified that placing the residual value on other nonfat solids would yield an "other nonfat solids" price that could not be recovered in the marketplace. In addition, he stated, although the butterfat price is based on the butter market and the protein price would be based on the return to cheese manufacture, the other nonfat solids price would have no relationship to any particular established market or component. The witness also testified that since another nonfat solids test would not be needed for the NCI proposal, administration of the pricing plan would be easier and less expensive than the other pricing proposals.

NCI, Kraft and A-E excepted to the use of other nonfat solids as the pricing factor to represent the residual value of

the M-W price. NCI suggested that the same argument used in the Southern Michigan revised recommended decision (59 FR 64464) for the use of a fluid carrier component to represent the residual value of the M-W price be used in this final decision. Kraft and A-E also supported the use of a fluid carrier component. In its exceptions, Kraft stated that use of a fluid carrier would moderate pricing extremes between producers, and that use of other solids to price the residual value of the Minnesota-Wisconsin price overprices lactose and fails to recognize the value of the fluid portion of milk.

The proposal by NCI to place the residual value on a "fluid carrier" component has some merit in that it does not try to apply the residual value to a component such as other solids, on which the market may not place a value. The major drawback to the NCI proposal is that it ignores one of the components of milk, other nonfat solids, which is composed of lactose and ash.

Until a component pricing plan is developed that does not tie the total value of the components to the M-W price, there will be a need to adjust the price of at least one of the components from a product-based value. As explained in this decision, and in the comments and exceptions filed by various parties, the M-W price consists not only of the base value of milk, but also various premiums, different pricing systems, and probably most importantly, competition for milk supplies in Minnesota and Wisconsin. Even though good arguments can be made for using a fluid carrier to represent this residual value, the record of this proceeding supports the use of other nonfat solids to represent the residual value.

Although the other nonfat solids do not have as much market value as either butterfat or protein, they are an important component of milk. If a multiple component pricing system is to be effective it should price as many of the components in milk as possible, preferably based on the value of those components in the marketplace. There is, however, no readily available measure of the market value of the other nonfat solids. Since there was no testimony or any justification in the record for departing from the Minnesota-Wisconsin price as a basic price for milk, at least one of the components in the payment plan must represent the difference between a competitively-set pay price (the M–W) and the product-derived component prices. This residual value therefore represents not only the value of the lactose and ash, but also equates the