The M–W price is currently computed by the National Agricultural Statistics Service (NASS). It is announced on or before the 5th day of every month and applies to Grade B milk delivered during the previous month. For example, the M–W price for February is announced on March 5 (in 1994 it was announced on March 4). The M-W price determination is a two-step process. It involves (1) determining the average of actual pay prices at a large number of plants purchasing Grade B milk for the base month (in the above example, January), and (2) based on a sample of these plants, determining what the expected change in pay prices will be from the base month (January) to the following month (February), the month for which the M-W price is being determined. The reason for the updating procedure is that actual pay prices for a month are not available until late in the following month. Thus, updating the base month M-W price results in an M-W price that better reflects current marketing conditions.

To calculate the base month M–W price, NASS collects actual data for the entire previous month from approximately 160–170 plants located in Minnesota and Wisconsin. The plants report the total pounds of Grade B milk received from producers and the total dollars paid to producers for the entire month. These plants represent approximately two-thirds of all Grade B milk sold in the two States.

NASS derives the estimated portion of the M–W price series based on reports of a sample of approximately 67 of the base-month plants. These plants account for about 35 percent of the total manufacturing grade milk sold in the two States. These plants provide actual pay price data for the first half of the month and estimate prices for the second half of the month to which the M–W price relates. NASS then calculates the estimated change in price between the base month and the current month and applies this estimated change to the base month M–W price to determine the M-W price. According to the NASS witness who testified at the hearing, some plants in the estimate survey are unable to provide actual price data and can only estimate purchases for the first half of the month. Thus, the plants in the estimate survey that report actual price information account for about 25 percent of the Grade B milk in the two States.

When the price series was first adopted in 1961, Grade B milk production accounted for 68 percent, or 18 billion pounds, of the total milk production in the two States. This production was purchased by about 1,200 plants. By 1992, Grade B production had declined to five billion pounds or 14 percent of the total milk production in the two States, with 272 plants purchasing the milk. Due to the decline in Grade B production and the number of plants purchasing the milk, along with the number of plants which can provide actual pay price data for the first half of the month, the statistical reliability of the M–W price has been questioned.

Several proposals considered during this proceeding were based on competitive pay prices. There was support by a large majority of the witnesses who testified during the hearing and in post-hearing briefs for the adoption of a competitive pay price series. Most witnesses testified in opposition to the use of product price formulas, the support price, and cost-ofproduction formulas as replacements for the M-W price. Three main competitive pay price series were considered during the hearing: the A/B price series, the base month M-W (which is currently used to calculate the M-W price), and the Agricultural Prices M-W. These competitive pay price series were proposed in combination with a product price formula to be used to update the previous month's price to the current month with one exception which will be addressed later.

An A/B manufacturing price series (A/B price) was developed based on industry proposals and comments submitted in connection with the Department's study. NASS developed this new competitive pay price series that represents prices paid for milk used in the manufacturing of dairy products, regardless of grade. NASS collects data from 150 plants in Minnesota and Wisconsin that receive Grade B and/or Grade A milk used primarily to manufacture cheese, butter, and nonfat dry milk. The sample represents 78 percent of Minnesota's total milk production, of which approximately 75 percent is Grade A, and 65 percent of Wisconsin's total milk production, of which about 84 percent is Grade A.

The calculation of the A/B price requires the deduction of the "pool draw," which is money that the Grade A plants receive from the Federal order pool as part of their share of the Class I market. This information is obtained by NASS from the Chicago Regional and Upper Midwest market administrators. The A/B prices are reported routinely in "Dairy Market News." As currently calculated, the A/B price that is available on or before the 5th day of the month is the price for the second preceding month. Proponents of proposals one and two, as listed in the hearing notice, were the main supporters of the adoption of an A/B price to replace the current M–W price. The National Farmers Organization (NFO), a cooperative association that proposed proposal one, advocated the usage of an A/B price updated by 50 percent of a product price formula. In connection with the A/B price, NFO recommended the adoption of a floor price for the basic formula price equal to the cost of production.

Two witnesses testified on behalf of NFO. The first witness primarily focused on the cost-of-production floor price. He stated that a fundamental purpose of NFO is to seek the cost of production plus a reasonable profit for dairy farmers. To meet this organizational purpose, NFO proposed using the national average economic (full ownership) costs, as calculated by the Economic Research Service for the most recently reported calendar year, as the floor price. The floor price would be utilized as the basic formula price whenever the competitive A/B price fell below the cost of production. The witness contended that establishing a floor price for the basic formula price would provide dairy farmers with stability in their milk price. The witness further stated that NFO did not believe that establishing a floor price at the costof-production level would have any impact on stimulating production. The second witness for NFO testified

regarding the need to adopt an A/B price with a product price updater as a replacement for the M-W price. This witness asserted that a competitive pay price based solely on Grade B milk does not represent the true farm value of milk because of the decline in competition among plants purchasing Grade B milk. He contended that this lack of competition allows plants to shift money from Grade B milk producers and use this extra money to attract Grade A producers. Accordingly the witness stated that the A/B price series needed to be adopted to better reflect the true value of milk used in manufacturing.

The witness addressed the concern of regulated prices being reported within the A/B price calculation that may create an upward price bias. NFO recognizes that this is a major factor; however, they do not propose to deregulate any plants in the A/B survey since a majority of the reporting plants are cooperative plants. The witness stated that the "blend down" of the Grade A price by the Grade B price and the non-inclusion of hauling subsidies would provide room above federal order

7292