The proponents contend that the proposal does not change current price levels. However, the proponents are comparing their proposal to the A/B price series, which increases price levels from the current M–W price, as previously discussed. The calculated basic formula price advanced by the Cheese Makers results in a moderate price increase over the M–W price. In 1989 the calculated basic formula price averaged $0.29 above the M–W price and in 1990 averaged $0.33 greater than the M–W price. A substantial increase in the M–W price is evident when the final adjustor is included in the comparison. This computation resulted in a 1989 price $0.54 greater than the M–W price and $0.62 greater in 1990. The use of the final adjustor, which adjusts the price after wholesale prices for fluid milk products have been determined, would effectively eliminate the advance Class I pricing feature that currently exists under the orders. The proposal also does not specify a clear procedure for the computation of minimum Class II prices. As a result of all the changes that would need to be adopted to make this a workable replacement, the Cheese Makers proposal goes beyond the scope of the hearing to consider a replacement for the M–W price as the basic formula price under all Federal milk orders.

Exceptions filed by the Wisconsin Cheese Makers Association (WCMA) object to the continued use of a competitive pay price and support the adoption of the Cheese Makers proposal. WCMA reiterated the positions stated on behalf of the Cheese Makers during the hearing in support of this proposal. WCMA's exception also contended that a number of statements in the recommended decision about the Cheese Makers proposal were misleading. The arguments presented by WCMA have not provided the Department with any substantial basis for changing the conclusion reached in the recommended decision regarding the deficiencies of the Cheese Makers proposal.

As demonstrated throughout the hearing record, the obvious problem with the current M–W price survey is the declining amount of Grade B milk and the declining number of plants that purchase such milk. These trends have resulted in concern about the validity of the M–W price as a measure of the competitive value of milk for manufacturing purposes. However, this was not an immediate concern of a large number of the parties that participated in this proceeding. The immediate concern expressed was the reliability of the procedure to update the base month M–W price to compute the current month's M–W price. The NASS witness testified that the number of plants available for updating the base month has been declining as fewer plants pay twice a month. However, the NASS witness did not express any reservations about the reliability of the base month M–W price.

When the M–W price was first adopted in 1961 as the basic formula price in the Chicago order, the Secretary determined that a competitive pay price was superior to product formulas or the support price in establishing the basic formula price. That decision states:

> The use of the competitive pay price method of pricing milk is based upon the premise that in a highly competitive economy dairy concerns will tend to purchase milk at prices commensurate with the more efficient concerns' ability to pay for the product. As shifts occur in the relationship between finished products prices, one group of processors may be able to pay higher prices. The other processors must meet or approximate these prices or lose their supplies. If a dairy concern fails to make the necessary adjustments, it will in time be forced out of business. Increasing labor and other costs will tend to reduce prices paid for milk. On the other hand, the use of new assembling, processing, packaging and marketing techniques which reduce costs or increase product returns will tend to increase prices paid for milk. These upward or downward adjustments in costs would be automatically reflected in reserve prices by using the competitive pay prices method of pricing.

The economic rationale stated when the M–W price was first adopted remains sound today. Consequently, the basic formula price replacement should continue to be based on a competitive pay price series.

Of the three competitive pay price series considered at the hearing, the evidence on the record supports the adoption of either the base month M–W price or the Ag Prices M–W, both updated by a product price formula. Each price series has tracked the M–W price in the past, thus reflecting the same supply and demand conditions. The majority of participants in this proceeding indicated that either price series would be acceptable, leaving the determination of the amount of milk and number of plants included in the sample size to the discretion of the Secretary. In cross examination, the NASS witness stated that the base month M–W price is expected to outlive the Ag Prices M–W in terms of statistical reliability because it relies on a larger sample size of actual pay prices compared to the Ag Prices M–W. Thus, this decision recommends adopting the base month M–W price updated with a butter/powder/cheese formula, because this price is based on actual pay prices from a larger Grade B sample size and is projected to have greater statistical longevity than the Ag Prices M–W.

The price levels that would have resulted under the three alternative competitive pay price series, as compared to the M–W price, support the above recommendation. The degree of coordination between the current M–W price and the alternative replacements is a substantial indicator of the ability of the pricing alternatives to echo the supply and demand conditions reflected by the current M–W price. An accurate comparison of these prices without updaters could not be made on a monthly basis because each of these prices lags the M–W price by a month. However, a three-year comparison essentially eliminates this problem.

During both 1990 and 1991, the average A/B price per hundredweight exceeded the M–W price per hundredweight by 63 cents, and by 85 cents in 1992. The average Ag Prices M–W per hundredweight exceeded the M–W price per hundredweight by nine cents in 1990, equalled the M–W price per hundredweight in 1991, and was two cents greater in 1992. The base month M–W price per hundredweight yielded an average of six cents more in 1990 and resulted in the same price differences as the Ag Prices M–W per hundredweight in 1991 and 1992. Over the three-year period, the base month M–W price per hundredweight and Ag Prices M–W per hundredweight averaged nearly the same as the current M–W price per hundredweight while the A/B price per hundredweight averaged about 70 cents higher. The most recently published information indicates that this trend is continuing. Official notice is taken of ''Dairy Market News,'' Jan. 3–7, 1994, Volume 61, Report 1, Agricultural Marketing Service; ''Agricultural Prices, 1992 Summary,'' July 1993, National Agricultural Statistics Service; ''Minnesota-Wisconsin Manufacturing Grade Milk Price,'' monthly release, June 1992–February 1994, Wisconsin Agricultural Statistics Service; ''Prices Received—Minnesota-Wisconsin Manufacturing Grade Milk, 1992 Summary,'' June 1993, National Agricultural Statistics Service.

The evidence on the record indicates that a large amount of Grade A milk is being manufactured into dairy products. However, the record does not validate the argument that this Grade A milk should be factored into the basic formula price. Additionally, there was no substantial evidence submitted regarding current supply and demand