conditions that warrants price increases of the magnitude generated by the A/B price.

The A/B proponents may be correct to state that this option represents an average value for a large proportion of milk used for manufacturing purposes in the Midwest. However, it does not represent a market-clearing price for supplies of milk in excess of fluid demand. This is evident by the amount of milk that is currently sold at prices below the A/B price, that is, at the current M–W price. The hearing record indicates that adopting this price series would tend to be revenue-enhancing.

To be considered in the future as a viable alternative, the A/B price series needs to address two inherent problems. First the A/B price is based in part on a regulated price. Regulated plants included in the survey that use Grade A milk for manufacturing are subject to minimum order pricing. This factor results in an upward bias in the A/B price. The price for this milk cannot be directly reduced to pay price levels warranted by supply and demand conditions for such milk. After the first month of implementation, survey plants would be reporting a pay price which could not be less than the minimum price required to be paid for Grade A milk under the Federal order program. Consequently, after the first month of implementation, supply and demand conditions would have a limited influence on the price.

The proponents of this series maintained that the ''blend down'' of the Grade A price with the Grade B price will eliminate this problem. However, a review of the amount of milk included in this survey, approximately 70 percent of the total milk production in the States of Minnesota and Wisconsin, of which almost 80 percent is Grade A, indicates that it is unlikely the Grade B price would have a ''blending down'' impact or effect on the Grade A price.

Secondly, Grade A premiums are built into the A/B price unless specifically deducted. This, too, results in an upward bias as premiums are added one month into the reported price and the same premium is then added in the second month to the already existing premium.

As a result of lack of justification for price enhancement in the evidentiary record, as well as the problems associated with the upward price bias, the proposals to replace the M–W price with an A/B price are denied. Potential solutions addressing the upward bias were not considered during this proceeding.

An exception filed by NFO supports the adoption of a competitive pay price to replace the current M–W price. This exception, as well as one filed by TAPP and FUMMC, strongly argue against the adoption of a competitive pay price based solely on Grade B milk marketings. The exceptions reiterated many of the points supporting the adoption of a competitive pay price based on both Grade A and Grade B pay prices. They contend that a Grade B only pay price series establishes too low of a price and does not reflect the true competitive national value for milk used for manufacturing purposes. NFO, TAPP and FUMMC take further exception to the conclusions in the recommended decision that the A/B price series does not represent a market clearing price and has an inherent ''upward bias'' due to the inclusion of premiums and the use of regulated plants reporting regulated pay prices for the Grade A portion of the milk included in the survey. They also object to the Department's discussion of the ''revenue neutrality'' or ''revenue enhancing'' effects of various proposals.

In addition to the above arguments, NFO requested that non-pooled Grade A milk be included in the base month survey and TAPP and FUMMC argued that all class prices should be considered simultaneously in order to obtain price levels that actually reflect supply and demand conditions. The TAPP and FUMMC exception contended that Class I differentials should be changed to offset an increase in the basic formula price.

The basic reasons for denial of the A/B price series stated in the recommended decision remain valid. NFO, TAPP and FUMMC reiterated the arguments advanced in the hearing and in post-hearing briefs and did not provide any new information supporting their positions. Furthermore, the NFO request that unregulated Grade A milk be included in the base month survey is denied. The evidentiary record of this proceeding did not address this issue; therefore, there is no basis at this time to allow the use of unregulated Grade A milk in the base month survey. With regards to the TAPP and FUMMC request to consider all class prices, the scope of this hearing was specifically limited to a replacement of the current M–W price; thus, the Department has no further opinion or conclusion regarding this issue.

A comparison of the survey size for May 1991 data demonstrates that the Ag Prices M–W survey included 131.6 million pounds of milk reported by 71 plants. The base month M–W price survey included 316.5 million pounds of milk reported by 168 plants. Simply waiting a few additional days results in a sample size of milk which is 140 percent greater than the Ag Prices M–W. The base month M–W price sample size of milk is over four and one-half times greater than the current M–W price estimate survey, which included actual pay price reports on only 56.8 million pounds of milk reported by 69 plants. Thus, the base month M–W price best reflects the competitive pay prices of a much larger volume of milk and sample of plants and should be the primary component in the basic formula price.

The hearing record also supports the use of a product price formula to update the base month M–W price to the current month. The base month M–W price available on the 5th day of a month would represent milk prices for the second preceding month. For example the price announced March 5th would be based on January prices. A product price formula updater would enable the base month M–W price to reflect more accurately current supply and demand conditions taking into account price changes for wholesale manufactured products during the preceding month, in this example February. Although product prices do not translate directly into milk prices, the record indicates that the industry views these as a good indicator of changes in milk prices for updating purposes.

The price delay that would be created by adopting this proposal without an updating method would result in the minimum price required to be paid by regulated plants varying significantly from what unregulated plants were actually paying for milk for manufacturing uses in the same month. Because of this inequity, adoption of the base month M–W price without a product price updater cannot be justified as a replacement for the M–W price.

An analysis of the effects of various updating formulas on the competitive pay prices resulted in minor differences. Most hearing participants advocated the use of the change in gross values yielded by a product price formula between the preceding month and the current month. Only NFO advocated using 50 percent of this change, stating that producer prices and product markets do not change at the same rate. NFO claimed that using 50 percent would not reflect the volatility of product markets on a penny-for-penny basis and further lends a degree of stability to producer prices.

The NFO exception reiterated their argument that only 50 percent of the product price formula updater be used