

when computing the updated base month M-W price. The recommended decision fully discussed the basis for using 100 percent of the product price formula adjuster to update the base month survey. This conclusion has not changed after full consideration of NFO's exception.

All hearing participants promoted the use of a butter/powder/cheese formula with minor differences expressed regarding the inclusion of specific by-products. After reviewing the various formulas, it is concluded the best updater would include the following products and representative price series: Grade AA butter, Chicago Mercantile Exchange (AAB); nonfat dry milk, Central States production area (NFD); dry buttermilk, Central States production area (DBM); Cheddar cheese, 40-pound block, National Cheese Exchange (NCE); and Grade A butter, Chicago Mercantile Exchange (AB). Dry whey is not included in the formula because not all cheese manufacturers process whey, and the disposal of it is a cost to many manufacturers. Furthermore, dry whey is no longer included in calculating the cheese purchase price under the dairy price support program.

The Coffee, Sugar and Cocoa Exchange, Inc. (CSCE), filed an exception supporting the use in the recommended decision of an updated base month M-W price to replace the current M-W price. However, CSCE did offer a modification of the updating formula. CSCE proposed replacing the average monthly NCE 40-pound block Cheddar cheese price used in the formula with an average of the NCE monthly cheese price and an average price for the spot CSCE Cheddar cheese futures contract for the month. Since this modification is beyond the evidentiary record of this proceeding, it cannot be considered at this time.

After further review of the production and market for the products included in the product price updating formula, the Department is revising this formula. The Western Nonfat Dry Milk price and Dry Buttermilk price will be used in the updating formula. The use of these product prices will be more representative in determining the price change in the overall market for these products because a larger proportion of actual movements of these products will be considered.

The updating formula in the recommended decision utilized both the Central States Dry Buttermilk price and Nonfat Dry Milk price as reported by the Department, typically in Dairy Market News (DMN). Both of these price series report the "spot" market for carlot/

trucklot quantities of dry buttermilk and nonfat dry milk, FOB Central States production area manufacturing plants. "Spot" transactions are sales of product that have no regular or committed outlet and are sold on the open market for immediate delivery or delivery within a few days, also referred to as the "cash market." To the extent possible, both sellers and buyers are interviewed. The price carried each week in DMN is a range consisting of the low and high prices that are considered representative of the market for the entire week. Monthly averages are based on weekly prices and are time-weighted according to the number of workdays in the month. When market activity is very limited, the market may be reported "too few to report" (TFEWR) and no price information is provided. No monthly average is computed if one or more weekly prices is missing.

A review of the dry buttermilk values used in the updating formula revealed that for two months of 1992 and three months of 1993, a Central States Dry Buttermilk average price was not published by the Department. Consequently, the dry buttermilk prices used in the updating formula in the recommended decision for these months were equivalent prices determined by the Department. The use of an equivalent price for Central States Nonfat Dry Milk also occurred once during 1992 when DMN was unable to report a price.

Reviewing dry buttermilk production data as published in the "Dairy Products 1993 Summary" shows that the production and the number of manufacturers is declining in the Central States region. During 1993, seven plants were located in the Central States region manufacturing 7.1 million pounds of dry buttermilk, or 14 percent of the U.S. total production. In 1990, 14 plants reported 13 million pounds of production representing 23 percent of the U.S. total. This data represents the total market for dry buttermilk in the Central States region; thus, the potential spot market is significantly smaller. Due to the small market, there were six weeks during 1993 when the dry buttermilk powder price was TFEWR.

The Western dry buttermilk market statistics represent a greater amount of production. During 1993, dry buttermilk production in California alone accounted for 26.8 million pounds, or 53 percent of the U.S. total. Monthly production ranged from a high of 3.1 million pounds in January to a low of 1.6 million pounds in August. During the same period, the Central States production of dry buttermilk powder ranged from a high of 1.4 million

pounds in January to a low of 193,000 pounds in August and September. Western dry buttermilk production is over 275 percent greater than the Central States production. Due to the large volumes of dry buttermilk powder sold in the Western Region, the spot market is considered to be active since there has not been a period of time from 1990 through 1993 when there has been TFEWR compared with six weeks during 1993 for the Central States Dry Buttermilk price.

Reviewing the nonfat dry milk production data for the Central States region also reveals a decline in production and manufacturers. In 1990, 19 plants in the Central region reported 101.5 million pounds of production, representing 12 percent of the U.S. total. By 1993, the same comparison of Central region states shows 13 plants producing 42.4 million pounds of nonfat dry milk, or 4 percent of the U.S. total. The "Dairy Products 1993 Summary" does report data for the East North Central and West North Central regions in total. When combined, 23 plants in these two regions are producing 128.8 million pounds of nonfat dry milk, or 14 percent of the U.S. total.

Analysis of the Western nonfat dry milk production statistics also reveals an increasingly stronger market. During 1993, nonfat dry milk production by 11 plants in California accounted for 415.5 million pounds or 44 percent of the U.S. total. The total Western region production represented 20 plants producing 575.1 million pounds or 61 percent of the U.S. total. In 1990, 12 plants in California manufactured 321.6 million pounds.

As is evident from these statistics, the Western dry buttermilk and nonfat dry milk production represent a significantly larger volume of milk than does the Central States production. In cross examination, the Department's witness from the Agricultural Marketing Service agreed that in the Department's study, the focus was on the M-W replacement and since Minnesota and Wisconsin are in the Central States region, the Central States powder prices were used. The witness further stated that arguments could be made to use other prices. Specifically, the witness stated that "if the M-W price is considered as representing a national price series an argument can be made to use a nonfat dry milk price series that represents a larger proportion of nonfat dry milk." The witness went on to state that the Western Nonfat Dry Milk price series represented a larger amount of production than the Central States price.