

What is it?

The Early Payment Option (EPO) for No. 4 CWAD is a pricing alternative that offers increased cash flow after delivery and a floor price for your durum. The EPO provides greater price certainty, based on an Early Payment Value (EPV) determined as a percentage of the No. 4 CWAD Pool Return Outlook (PRO). EPV levels of 80, 90 and 100 per cent are available, each with a corresponding discount. The discount represents the cost of the CWB risk management, administration and time value of money.

The sign-up period is from August 1, 2006 to July 31, 2007. The EPV is gradually withdrawn when CWB initial payments increase, approach or exceed 80, 90 and 100 per cent of the PRO. When the initial payment increases, the EPV becomes a less valuable cash flow tool.



What alternatives does it provide?

- A tool for increasing cash flow and managing returns for your No. 4 CWAD.
- Provides quick access to cash flow, 10 days after receiving your initial payment.
- Allows you to set a floor price for your No. 4 CWAD.
- Returns that are comparable to CWB pool returns, less the cost of the “EPV discount”.

You can commit to an EPO over the phone with your **Producer Identification Number (ID)** and **Personal Identification Number (PIN)**

Prices, forms & sign-up

CWB Web site	www.cwb.ca	
Fax on Demand	1-800-275-4292	*Menu option 3
Telephone	1-800-275-4292	*PIN required for sign up
Fax	1-204-983-8031	
Contact	CWB Farm Business Representatives	
Visit	CWB handling agents/Grain companies	

How does it work?

At sign-up, you select an Early Payment Value (EPV) equal to 80, 90 or 100 per cent of the No. 4 CWAD PRO. Upon settlement, you receive the EPV in two parts. You immediately receive the initial payment for the grade you delivered to the elevator and within 10 business days of receiving settlement information, the CWB sends you an additional payment for the remainder of the EPV.

Sign-up & pricing

Lock in an EPV and discount (for risk, administration and time value of money) on a minimum of 20 tonnes, by phone or fax.

Delivery

Deliver No. 4 CWAD – equal to 100 per cent of your EPO tonnes **and** at least 90 per cent of the **accepted amount** of tonnes on your CWB delivery contract.

Provide your six-digit EPO contract number to your elevator agent, who will report it on the initial payment settlement.

Payment

Receive an EPV additional payment, plus incremental payments (to compensate for deliveries later in the year) and adjustment, interim and final payments if they exceed your EPV.

Reference Grade - No.4 CWAD

The reference grade is used to post pricing information based on in store Vancouver or St. Lawrence PRO values for the EPO program, and is used as the base grade for the pricing contract. You will receive a premium or discount between the reference grade and the delivered grade based on the initial payment spreads at the time of delivery. **The reference grade is No. 4 CWAD.**



Delivery guarantee

Producers signing an EPO for No. 4 CWAD are guaranteed 60 per cent acceptance of production offered under A and B Series delivery contracts (up to your EPO contract tonnes). To qualify for this delivery guarantee, you must sign an A Series delivery contract. The 60 per cent guaranteed acceptance level should be used to determine how many tonnes you commit to a No. 4 CWAD EPO.

The CWB may offer Guaranteed Delivery Contracts (GDCs) from time to time during the crop year. The GDC is a delivery contract that guarantees 100 per cent acceptance upon sign-up; therefore the minimum delivery guarantee under the EPO contract does not apply. Producers with GDC commitments can match their EPO tonnage due to the 100 per cent GDC delivery guarantee.

Incremental payment

Incremental payment values are listed on the daily pricing schedule and represent your time value of money. The value of this payment is set at the time of contract sign-up and is based on the month of delivery. The incremental payment offsets a portion of the time value of money in the EPV discount. Incremental payment rates progressively increase each month of the crop year.

Example

On February 22, 2007 the CWB publishes the No. 4 CWAD PRO at \$3.67 per bushel in store Vancouver or St. Lawrence. The previous fall, John Smith harvested 10,000 bushels of No. 4 CWAD. In March 2007, he decides he requires cash flow earlier than an adjustment payment could provide.

He commits 2,500 bushels to a No. 4 CWAD EPO contract, selecting the 90 per cent option to generate cash flow when he delivers against the last 25 per cent delivery call. He locks in a 90 per cent EPV of \$3.30 and discount of \$0.09, giving him a net EPV of \$3.21 per bushel. In March 2007, John delivers 2,500 bushels of No. 4 CWAD and receives the initial payment net of freight and handling costs for his location (\$2.61 - \$1.28 = \$1.33 per bushel).

Within 10 business days, the CWB issues an additional payment for \$0.61 per bushel representing the difference between the initial payment for the reference grade (No. 4 CWAD) and his net EPV (\$3.21 - \$2.61 + \$0.01).

The EPO at work on your farm

	John's numbers		Your numbers
	Per bushel	Per tonne	
CWB February PRO	\$3.67	\$135.00	
Early payment value (90 per cent of PRO)	\$3.30	\$121.50	
Less discount	\$0.09	\$ 3.31	
Net EPV price	\$3.21	\$118.19	
CWB initial payment for the grade delivered	\$2.61	\$ 96.00	
Freight and handling deductions at the elevator*	\$1.28	\$ 47.03	
Net initial payment	\$1.33	\$ 48.97	
Net EPV price	\$3.21	\$118.19	
Less initial payment for the reference grade	\$2.61	\$ 96.00	
Plus incremental payment	\$0.01	\$ 0.37	
CWB additional payment	\$0.61	\$ 22.56	
Farmgate price or floor price (net of freight and elevation)	\$1.94	\$ 71.53	

* Estimated deductions. Cost will vary by location.

The farmgate price represents John's net floor price. John will receive future CWB payments if the initial payment for the grade delivered increases above his total gross payments to date. In this example, he will receive future payments if the initial payment for No. 4 CWAD is greater than \$3.30 per bushel in store (\$2.61 + \$0.61 + \$0.09 - \$0.01).

Assignment, buyout or transfer

If you cannot fulfill your EPO contract, contact the CWB at 1-800-275-4292 about the following options:

- Assigning the outstanding tonnes of your No. 4 CWAD EPO to another producer, willing to assume the terms and conditions of the contract. The administration fee for assigning a contract is \$15.00.
- Buying out of the outstanding tonnes on your No. 4 CWAD EPO. The buyout rate equals the discount per tonne at time of sign-up, less the time value of money, plus an administration fee of \$15.00
- You can transfer your No. 4 CWAD EPO to a durum EPO or a No. 5 CWAD EPO contract. This transfer option gives producers flexibility to meet their EPO commitments when their No. 4 CWAD is upgraded to a milling quality (No. 1, No. 2 or No. 3) or downgraded (No. 5 CWAD). You will receive the EPV for durum that was in effect at the time you locked in your EPV for No. 4 CWAD. (The CWB will charge the cost of opportunity to transfer as determined by the current market spread.)

EPO transfer fee formula

{(original discount of the existing EPO - current discount of the existing EPO) + (current discount of the transfer class - original discount of the transfer class)}. If negative, then \$0. Plus applicable roll fee and \$15 per transaction administration fee. The roll fee is \$1.00 per tonne for 100 per cent, \$0.50 per tonne for 90 per cent, and \$0.25 per tonne for 80 per cent EPV transfers.

