

What is it?

The Feed Grade Early Payment Option (EPO) for wheat is a pricing alternative that offers increased cash flow following delivery and a floor price for your feed grade wheat; CW Feed, No. 4 CWRs, No. 4 CWHWS and No. 3 CWSWS. The Feed Grade Wheat EPO provides greater price certainty, based on an Early Payment Value (EPV) determined as a percentage of the CW Feed 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 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The EPV is gradually withdrawn when CWB initial payments increase, approach or exceed 80, 90 and 100 per cent of the PRO. As initial payments increase, the EPO becomes a less valuable cash flow tool.

What alternatives does it provide?

- A tool used for increasing cash flow and managing returns on your feed wheat.
- Provides quick access to cash flow, 10 days after receiving your initial payment.
- Allows you to set a floor price for your feed wheat.
- Returns that are comparable to CWB pool returns, less the cost of the “EPV discount”.

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 CW Feed 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 feed wheat – 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 - CW Feed

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 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 for the Feed Grade Wheat EPO is CW Feed.**



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 24, 2007 the CWB publishes the CW Feed PRO at \$3.21 per bushel in store. The previous fall, John Smith harvested 10,000 bushels of No. 4 CWRS. In March 2007, he decides he requires cash flow earlier than an adjustment payment could provide.

He commits 2,500 bushels to a Feed Grade Wheat 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 \$2.89 per bushel and discount of \$0.09, giving him a net EPV of \$2.80 per bushel.

In March 2007, John delivers the 2,500 bushels of No. 4 CWRS. He 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 sends John an additional payment for \$0.52 per bushel, representing the difference between the initial payment for the reference grade (CW Feed) and his net EPV. An incremental payment is not included, since John's delivery is immediately after he signed the EPO.

The initial payment for the reference grade, CW Feed, is \$2.29 per bushel, and his net EPV is \$2.88 per bushel. John therefore receives an EPO additional payment of \$0.52 per bushel ($\$2.80 - 2.29 + 0.01 = \0.52).

The EPO at work on your farm

	John's numbers		Your numbers
	Per bushel	Per tonne	
CWB February PRO	\$3.21	\$118.00	
Early payment value (90% of PRO)	\$2.89	\$106.19	
Less discount	\$0.09	\$ 3.31	
Net EPV price	\$2.80	\$102.88	
CWB initial payment for the grade delivered	\$2.61	\$ 95.90	
Freight and handling deductions at the elevator*	\$1.28	\$ 47.03	
Net initial payment	\$1.33	\$ 48.87	
Net EPV price	\$2.80	\$102.88	
Less initial payment for the reference grade	\$2.29	\$ 84.14	
Plus incremental payment	\$0.01	\$ 0.37	
CWB additional payment	\$0.52	\$ 19.11	
Farmgate price or floor price (net of freight & elevation)	\$1.85	\$ 67.98	

* 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 CWB pool payments for No. 4 CWRS increase above \$3.21 per bushel ($\$2.61 + \$0.52 + \$0.09 - \0.01), in store.

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 the Feed Wheat 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 Feed Wheat EPO. The buyout rate equals the discount at time of sign-up, less the time value of money, plus an administration fee of \$15.00.
- You can transfer your feed wheat EPO to a wheat EPO contract. This transfer option gives producers flexibility to meet their EPO commitments when their feed quality wheat is upgraded to a milling quality (No. 1, 2 or 3). You will receive the EPV for wheat that was in effect at the time you locked in your EPV for feed wheat. (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.