2007-08

Early Payment Options

for wheat, durum and barley

PPO

Producer Payment Options

CWB

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Introduction

*The contingency fund can be in a surplus or deficit position in any given crop year. Financial details for the contingency fund are contained in the CWB Annual Report. Risk management practices must keep the contingency fund sustainable. The CWB manages the price risk associated with the programs using futures markets and CWB sales throughout the crop year.

Producer Payment Options

The Canadian Wheat Board (CWB) introduced Producer Payment Option (PPO) programs in the 2000-01 crop year, following extensive consultations with producers. PPOs provide pricing flexibility and alternative payment options to the CWB pool accounts while maintaining the integrity of the price pooling system. PPOs are pricing tools that can be incorporated into producers' marketing portfolios to manage returns on their crops. Combined with price pooling and single desk selling, they can be used to maintain a balanced marketing strategy.

PPOs can improve producers' ability to budget for crop rotations and returns and produce better cash flow by providing earlier payment on grain deliveries. PPOs also give producers the ability to react to market signals, allowing them to take advantage of market rallies during the crop year and potentially generate higher revenue than the CWB pool accounts. However, producers should be mindful that PPOs may also produce lower returns than the pool accounts, depending on market returns. Programs based on commodity markets can be particularly volatile.

The programs are specifically designed to have no adverse impact on the pool accounts, grain delivery or single desk sales. The cost of administering the programs is borne entirely by program participants. Gains or losses in hedging activities flow through a contingency fund* that backstops each program.

Early Payment Option overview

The EPO program was established to provide producers with increased cash flow following delivery. At the same time it provides a floor price with upside potential for future CWB payments.

The EPO allows producers to lock in 80, 90 or 100 per cent of the current reference grade PRO value. This value, referred to as the Early Payment Value (EPV), is locked in at the time of EPO sign-up. Producers locking in an EPV will be charged an EPO discount that covers the CWB's costs associated with market risk, time value of money and administration.

Producers receive the initial payment for the grade delivered at the elevator (less freight and elevation). Once the cash purchase ticket is submitted to the CWB, an additional payment for the balance of the contract price will be issued within 10 business days.

If the final pool return were to fall below producers' EPVs, they are still guaranteed their EPO contract price. Alternatively, if initial payments rise above the total payment producers received under EPOs, they would be eligible for future CWB adjustment, interim or final payments.

Separate EPO programs are offered for the seven classes of milling wheat, feed wheat, milling durum, feed durum, selected barley and feed barley. Feed grades cannot be delivered against milling or selected EPOs. For wheat, No. 4 CWRS, No. 4 CWHWS, No. 3 CWSWS and CW Feed are considered feed grades.

The CWB will withdraw the lower EPV percentages when the initial payment for the relevant reference grade is increased during the crop year and approaches or exceeds the EPV.

Reference grades are used to post contract sign-up values based on an in store Vancouver or St. Lawrence value.

Reference grades and relevant futures exchanges for EPO programs:

	Reference grade	Futures exchange
Wheat		
CWRS	No. 1 CWRS 13.5	Minneapolis Hard Red Spring
CWHWS	No. 1 CWHWS 13.5	Minneapolis Hard Red Spring
CWES	No. 1 CWES	Minneapolis Hard Red Spring
CPSR	No. 1 CPSR	Kansas Hard Red Winter
CPSW	No. 1 CPSW	Kansas Hard Red Winter
CWRW	No. 1 CWRW Select 11.5*	Kansas Hard Red Winter
CWSWS	No. 1 CWSWS	Chicago Soft Red Winter
Feed wheat	CW Feed	Winnipeg wheat
Selected barley		
Selected 2-Row	Standard Select	Winnipeg Western Barley
Selected 6-Row	Standard Select	Winnipeg Western Barley
Feed barley	No. 1 CW	Winnipeg Western Barley
Durum		
CWAD	No. 1 CWAD 13.0	No associated futures market

*For 2007-08, the reference grade has change. Previously it was No. 1 CWRW.

The reference grade posted by the CWB is used as the base grade for the pricing contract. However, other grades are eligible for delivery.

Reference grade	Deliverable grades
No. 1 CWRS 13.5 No. 1 CWHWS 13.5 No. 1 CWES No. 1 CPSR No. 1 CPSW No. 1 CWRW No. 1 CWSWS	All grades and protein except feed grades, sample grades and mixed grain
CW Feed	CW Feed, No. 4 CWRS, No. 4 CWHWS and No. 3 CWSWS
No. 1 CWAD 13.0	All grades and protein except feed grades, sample grades and mixed grain
No. 4 CWAD	No. 4 CWAD
No. 5 CWAD	No. 5 CWAD
Standard Select Standard Select	All select grades except sample grades
No. 1 CW	No. 1 and No. 2 CW

On delivery, the producer receives the initial payment for the actual grade delivered, so any premium or discount to the reference grade is accounted for at that time. An additional payment, equal to the contract price less the CWB's posted reference grade initial price, will be issued by the CWB within 10 business days of receipt of the cash purchase ticket. Producers who choose an EPO are eligible for adjustment, interim and final payments from the pool account if the initial payment exceeds the EPV.

EPOs are pricing, not delivery, contracts. All deliveries, whether to a pool account or a PPO, must have an associated CWB delivery contract. Producers must deliver 100 per cent of the tonnage committed to PPOs to offset hedges in the futures market, as opposed to 90 per cent required under delivery contracts.

Important dates

Sign-up periods

Program	Sign-up begins	Sign-up deadline*
Wheat, durum and selected barley	August 1, 2007	July 31, 2008
Feed barley Pool A	August 1, 2007	January 31, 2008
Feed barley Pool B	February 1, 2007	July 31, 2008

*Programs will be terminated before July 31, 2008 if the initial payment of the reference grade approaches or exceeds the respective EPV level.

PRO release dates

The Pool Return Outlook (PRO) is released on the fourth Thursday of the month. It is an estimate, based on the best available information at the time of release, of the value of CWB sales at export position (in store St. Lawrence or Vancouver) for the crop year. If market conditions warrant, the PRO can be released before the standard release dates. Release dates for the 2007-08 crop year are as follows:

PRO month	Release date	PRO month	Release date
August	August 23, 2007	March	March 27, 2008
September	September 27, 2007	April	April 24, 2008
October	October 25, 2007	May	May 22, 2008
November	November 22, 2007	June	June 26, 2008
December	December 20, 2007	July	July 24, 2008
January	January 24, 2008	August	August 28, 2008
February	February 28, 2008		

Where to find EPO program information

EPO program information can be found on the CWB Web site under 'Farmers-Producer Payment Options', by phoning the CWB Business Centre, through Fax on demand, or by contacting your local Farm Business Representative (FBR).

Web site

Program details, pricing information and forms can be found in the Producer Payment Options section of the CWB Web site, www.cwb.ca.

To sign up an EPO, download a form, fill it out and fax it to 1-204-983-8031.

Assignment and buyout forms are not posted on the Web site. Please call the CWB at 1-800-275-4292 for assignment and buyout information.

CWB Business Centre

EPO sign-up transactions can be executed by phoning the CWB and providing a producer identification (ID) number and personal identification number (PIN).

Business Centre Representatives (BCR) can be reached by phone between 7:00 a.m. and 6:00 p.m. CT by calling 1-800-275-4292. Voice mail is available during non-business hours. Transactions will be conducted from voice mail messages only if producer ID and PIN numbers are given.

FBRs

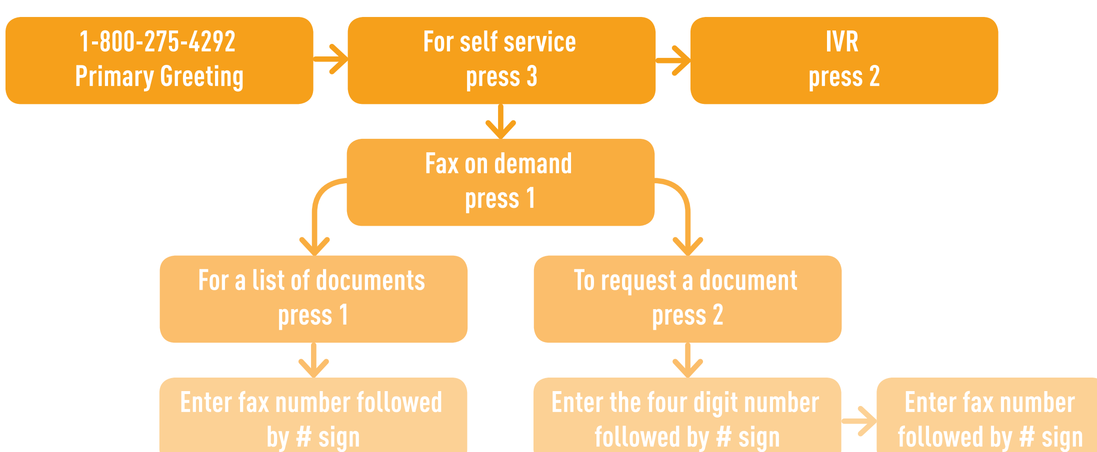
FBR contact information can be found on the CWB Web site under "About Us-Our People".

Fax on demand

Prices and forms can be obtained through the Fax on demand service which is available 24 hours a day. To access Fax on demand, call 1-800-275-4292 and follow the Interactive Voice Response (IVR) system.

A Fax on demand listing can also be found on the CWB Web site under "Library-Publications-Farmers".

IVR system



Early Payment Option contract details

EPO components

There are two components that comprise an EPO contract:

1. Early Payment Value (EPV)

2. Discount (time value of money, risk and administration)

EPV

The EPV is equivalent to 80, 90 or 100 per cent of the PRO for the corresponding reference grade and is quoted in Canadian dollars per tonne in store Vancouver or St. Lawrence. The EPV is based on the PRO value in effect on the day the EPO contract is signed.

80 per cent EPV = reference grade PRO x 0.80

90 per cent EPV = reference grade PRO x 0.90

100 per cent EPV = reference grade PRO x 1.00

Discount

A discount for risk, time value of money and program administration is deducted from the EPV that is locked in at sign-up. There are separate discounts for each EPV level. Discounts are posted on the daily pricing schedule. The discount is deducted from the EPO additional payment issued by the CWB following delivery.

1. Time value of money – represents the cost in lost interest of financing earlier payments to producers. However, producers recover this discount on a pro-rated basis according to the actual month of delivery in the form of an incremental payment, which is established at sign-up. (See incremental payment, page 15.)

2. Risk – this discount is taken to offset the risk the CWB is assuming and the cost of hedging this risk using various North American commodity futures and options markets.

3. Administration – covers the cost of administering the program.

Contractual obligations

Terms and conditions

The EPO is a legal contract and producers who commit grain are bound by the terms and conditions of the contract. Definitions, sign-up methods, obligations, pricing information and provisions of the contract are described in the terms and conditions. Before making a commitment, producers should be familiar with these obligations. Terms and conditions are available on the CWB Web site under "Farmers-Producer Payment Options" and through Fax on demand. They can also be obtained by calling the CWB.

Delivery requirement

A key requirement of the EPO terms and conditions is that producers deliver 100 per cent of the tonnage committed to the contract. Also, it is important to remember that the EPO does not have associated delivery terms. Producers are obligated to sign a CWB delivery contract and wait for contract calls so that they can designate deliveries to their EPO.

Changing contract commitments

The EPO program offers several options for reducing contract commitments if producers are unable to meet them. Producers may assign or buy out all or part of their contract. In cases of misgrades, there is a quality transfer clause that allows switching between milling and feed quality wheat and durum and selected and feed barley contracts. If a producer chooses not to exercise any of these options and there is shortfall tonnage on the contract, pricing damages will be assessed.

Assignments

If a producer wants to reduce their EPO obligation, they may transfer all or part of their tonnage commitment to one or more producers. The producer must complete an assignment form, available only by contacting the CWB, specifying the contract number and tonnage to be transferred. The CWB will provide the details of the contract and terms and conditions along with the assignment form. It is the assignor's (producer transferring the contract) responsibility to ensure the assignee (producer taking over the contract) receives the contract information. The form must be signed by both producers and returned to the CWB by fax or mail. A $15 administration fee per transaction is charged for assignments.

Buyouts

Producers can initiate a buyout at any time after making the initial commitment. The buyout cost on an EPO is established at sign-up. Market conditions do not impact the buyout cost on an EPO.

Buyout cost = Discount – time value of money, plus a $15 per transaction administration fee

Producers must call the CWB with their ID and PIN numbers to receive a buyout quote or to execute a buyout transaction.

Quality transfers

If producers are unable to fulfill their EPO contract commitment due to grading changes, they may want to consider a quality transfer, rather than an assignment or buyout. However, buyouts should be considered in conjunction with the quality transfer to determine the lowest cost alternative.

Producers can switch between milling or malting quality EPOs and feed EPOs for a transfer fee. The transfer fee is based on the EPO discount of both classes and measures the arbitrage cost of switching between feed and non-feed classes. Also, a risk premium (referred to as the "roll fee") is charged to cover the CWB's additional risk associated with transferring the contract. The roll fee is $1 per tonne for 100 per cent EPVs, $0.50 per tonne for 90 per cent EPVs and $0.25 per tonne for 80 per cent EPVs. A $15 per transaction administration fee will also be assessed.

EPO transfer fee = (original discount of existing EPO – current discount of existing EPO) + (current discount of transfer EPO – original discount of transfer EPO) If negative, then zero. Plus applicable roll fee and $15 per transaction administration fee.

Once the transfer is completed, the original EPO contract will be cancelled. The producer will receive an EPO contract for the transfer class based on the values on the original contract date. The transfer fee, risk premium and administration fee will be deducted from the producer's next CWB payment.

Example:

A producer signed up a selected barley EPO on August 15 with an EPV of 90 per cent. On October 1, the producer contacted the CWB to advise the barley had been downgraded and request a transfer to a feed barley EPO.

Date	Class	EPV ($ per tonne)	Discount ($ per tonne)
August 15	90 per cent two-row	$225	$7
	90 per cent feed	$135	$4
October 1	90 per cent two-row	$225	$5
	90 per cent feed	$135	$5

EPO transfer fee = (original discount of existing EPO – current discount of existing EPO) + (current discount of transfer EPO – original discount of transfer EPO) If negative, then zero.

Plus $0.50 per tonne roll fee
= ($7-$5) + ($5-$4) + $0.50
= $3.50 per tonne plus a $15 administration fee

The selected barley EPO would be cancelled and the producer would receive a 90 per cent feed barley EPV of $135 per tonne with a discount of $4 per tonne.

Producers may transfer less than the full contract amount, however transfers must be of the same tonnage and EPV level. For example, if a producer wants to transfer a 50 tonne feed barley EPO with a 90 per cent EPV, the selected barley EPO also must be 50 tonnes with a 90 per cent EPV. If the producer has more than 50 tonnes of barley selected and wants an EPO for the entire amount, a second EPO contract can be signed up at current market values to cover the additional tonnes.

If the EPV level of either the original contract or the transfer class has been terminated, a quality transfer cannot be executed. The original contract must be bought out.

Quality transfers can be completed by calling the CWB and providing the producer's ID number and PIN.

Feed and selected barley EPO transfers

If the transfer occurs after January 31, during feed barley Pool B, the producer is still eligible to receive a feed barley EPV and discount that were established during Pool A, but will receive the initial payment for feed barley Pool B. The producer is eligible for future CWB payments if the final pool value of Pool B exceeds the EPV.

The quality transfer only applies to the EPO commitment not the delivery commitment. Producers can complete a Rejected Selected Barley Form to transfer the delivery commitment. In the case of a feed barley Guaranteed Delivery Contract (GDC), the misgrade must be completed prior to expiration of the 30 day delivery period.

Pricing damages

Pricing damages are charged if a producer fails to apply all deliveries to an EPO by the end of the crop year. Pricing damages are equal to the buyout cost, which is established at the time of sign-up.

Pricing damages are charged to ensure the CWB recovers the hedging costs associated with the discount. The EPO pricing damages are fixed and will not change in value following contract commitment.

Program Administration

2007-08 EPO pricing schedules

A separate daily pricing schedule is posted for each class and type of grain. Pricing schedules are posted on the CWB Web site under the "Producer Payment Options" home page each business day at 2:30 p.m. CT and are effective until 7:30 a.m. the next business day.

The pricing schedules include the following details:

1. Effective and expiry dates for the current pricing schedule;
2. Reference grade for each class of grain;
3. Current reference grade PRO for each class;
4. EPVs for each class, posted in $Cdn per tonne and $Cdn per bushel;
5. EPV discount for each level; and
6. Incremental payments.

Farmers

Early payment options

2006-07 pricing schedule

Wheat (CWRS, CWES, CWHWS)

Effective: June 20, 2007 2:30 p.m. CT 1
Expires: June 21, 2007 7:30 a.m. CT
The next pricing schedule will be available at 2:30 p.m. CT on **June 21, 2007**. Winnipeg is located in the Central Time (CT) zone and all deadlines are quoted as CT.

Prices are offered based on the reference grades for CWRS, CWES and CWHWS, as per the "2006-07 Early Payment Option (for wheat): Terms and Conditions", in store Vancouver or St. Lawrence.

		$ Cdn/tonne	$ Cdn/bushel
2	No. 1 CWES, May 24, 2007 *(reference grade)* **PRO** 3	$206.00	$5.61
4	**Early Payment Value (EPV)**(100 per cent)	$206.00	$5.61
	Discount* 5	$1.25	$0.03
	No. 1 CW HWS 13.5, May 24, 2007 *(reference grade)* **PRO**	$219.00	$5.96
	Early Payment Value (EPV)(100 per cent)	$219.00	$5.96
	Discount*	$1.25	$0.03
	No. 1 CWRS 13.5, May 24, 2007 *(reference grade)* **PRO**	$219.00	$5.96
	Early Payment Value (EPV)(100 per cent)	$219.00	$5.96
	Discount*	$1.25	$0.03

*deducted from the EPV to determine the early payment made by the CWB

Incremental Payment 6
An incremental payment will be made to compensate farmers for wheat delivered in later months of the crop year.

The incremental payment reflects the time value of money in $/tonne. The payment summary for CWES, CWHWS and CWRS is as follows:

Settlement Month	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.
100 per cent	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.10

The CWB may withdraw this Offer at this price at any time and without prior notice. In order to be valid, any acceptance must be received at the CWB's Head Office in accordance with the approved methods of acceptance prior to the expiry or withdrawal of this Offer. The CWB will send written confirmation to the Producer.

For more information on this or other Producer Payment Options, please contact the CWB at 1-800-275-4292.

The "2006-07 Early Payment Option (for wheat): Terms and Conditions" apply to this Offer.

Price charts

Current crop year and historical price charts for the EPO program can be found below the listing of the current crop year pricing schedules in the Producer Payment Options section of the Web site. Price charts for 2007-08 are updated weekly.

Contract transactions

The most convenient method of conducting contract transactions is by phone at 1-800-275-4292. To commit to an EPO or to execute any other contract transaction over the phone, producers must provide their ID and PIN numbers.

Producers may also commit to an EPO by faxing in an application form. Forms can be obtained through the Producer Payment Options section of the CWB Web site, by phoning a BCR, through Fax on demand, or by contacting your FBR. For contact information, see page 5.

Forms

To ensure fast and accurate service, it is very important that all requested information is provided accurately.

The producer's name and ID number provided on the form must be the same as on the CWB delivery permit book for which the EPO will be used to price deliveries. For example, if the producer is completing an EPO for a corporation, the corporation's name and ID number must appear on the sign-up application.

It is important that the producer provides a telephone number and fax number (if available) to allow for verification of the information on the form. Sign-up applications must be received before 7:30 a.m. CT each business day to allow for processing tonnage prior to markets opening. The CWB will contact the producer if there is an error on the form. If the producer cannot be contacted before 8:30 a.m. CT, the contract will not be processed.

Please ensure all forms are signed and dated. All applications received by the CWB must be signed by the producer indicated on the form. Elevator staff cannot sign forms for the producer. Applications without a valid signature will not be processed until the CWB can contact the producer for verification. For company applications, the producer must indicate the position held within the company.

The price assigned to the contract will be based on the time printed on the fax when it arrives at the CWB office. Forms received after 7:30 a.m. CT will receive the next available value posted at 2:30 p.m. CT.

When an EPV is terminated, application forms will be updated on the CWB Web site and Fax on demand to reflect the change. Discard any expired forms as they are crop year specific and cannot be used in later years.

Sign-up application

Please refer to the "2007-08 Early Payment Option Sign-up/Lock-in Application" for wheat.

A) Mark the appropriate box for wheat class;

B) Enter the number of tonnes to commit. Commitments must be a minimum of 20 tonnes and reported in whole numbers (no decimals).

C) Mark the EPV of your choice.

CWB

Effective August 1, 2007 | **Wheat**

For office use only

2007-08 Early Payment Option Sign-up/Lock-in Application

Please Fax to: (204) 983-8031

This document forms part of the CWB 2007-08 Early Payment Option for Wheat: Terms and Conditions.

The sign-up deadline date is July 31, 2008, or such earlier date as the CWB designates when the Early Payment Value (EPV) approaches the initial payment value for the reference grade.

Please complete all information in this area.

Producer's Name ("the *Producer*") as shown on the Delivery Permit

Producer's Identification No. | Producer's Telephone No. ( ) | Producer's Fax No. ( )

Alternative Telephone No. (daytime/cell) ( )

SIGN-UP **When signing up an Early Payment Option (EPO), you are committing tonnes as well as locking in your EPV and Discount.**

A CLASS OF WHEAT - Please indicate the class of **wheat** you want to commit.
Choose only one class per application.

☐ Canada Western Red Spring (CWRS) ☐ Canada Prairie Spring White (CPSW) ☐ Canada Western Extra Strong (CWES)
☐ Canada Prairie Spring Red (CPSR) ☐ Canada Western Red Winter (CWRW) ☐ Canada Western Hard White Spring (CWHWS)
☐ Canada Western Soft White Spring (CWSWS)

B NET TONNES OF WHEAT Please indicate the **net tonnes of wheat** you want to commit.
In **Part C**, please indicate the **EPV and Discount** you wish to lock in.

__________.000
Minimum of 20 tonnes

C EARLY PAYMENT VALUE Please indicate the **EPV and Discount** you wish to lock in.
Choose only one option.

☐ **80%** ☐ **90%** ☐ **100%** **Based on the Pool Return Outlook (PRO).**

You will receive the EPV and Discount based on the time your FAX is received.

See important information on next page.

READ THE FOLLOWING PARAGRAPH CAREFULLY.

I (the *Producer*) have read the CWB 2007-08 Early Payment Option for Wheat: Terms and Conditions. By completing this document and sending it to the CWB, I agree that all of the said Terms and Conditions will apply to the contract I have selected herein.

Producer's Signature | Position in Company (If Applicable)

Date

FAX (204) 983-8031
Phone 1-800-275-4292
(7 a.m. to 6 p.m. Mon. - Fri. Central Time)

Important: Please keep the original for your records.

Statement of information

When producers make a pricing commitment or subsequent transaction on their contract, the CWB mails the producer a statement of information the next business day to confirm the transaction.

1. The statement details the program (EPO) and class of grain, the contract number, the sign-up date, the net EPV and the net contract amount (tonnes and bushels) of the original contract commitment.
2. Below the original commitment information, a listing of activity against the contract is detailed by date. If a producer transfers or buys out all or a portion of the contract, a new line will be added to the statement and sent to the producer.
3. In the comments section, there will be information on the pricing status of the contract, deadlines and administration fees charged.
4. At the bottom of the statement are the incremental values associated with the contract. Incremental payment values start at zero for August delivery and increase in value for each month later into the crop year.

CWB agents administering contracts for a producer can look under the 'PPO contracts' tab in E-services to confirm contract numbers.

The CWB also issues a contract to the producer for insertion into the permit book. It indicates the type of contract, contract number and provides an area to record deliveries.

CWB
The Canadian Wheat Board

Statement Date: September 15, 2007
Crop Year: 2007-08

Producer Payment Options Program
Statement of Information

Identification Number: 00-00000000
Contract Program: Early Payment Option Contract
Futures Month: Not Applicable
Contract Number 475102
Contract Signup Date: Saturday, September 15, 2006
Net Contract Amount: 90.000t / 4,134 bu
Early Payment Value based on: 90% of PRO

Date	Activity	Tonnes	Bushels	Price
Sep-15-2007	Signup	90.000	4,134	

Comments
Contract is fully priced.

Incremental Value
Compensation for deliveries made later in the crop year against Producer Payment Options contracts representing the time value of money. Values are in dollars per tonne.

August	$0.00	November	$0.40	February	$0.70	May	$1.00
September	$0.20	December	$0.50	March	$0.80	June	$1.10
October	$0.30	January	$0.60	April	$0.90	July	$1.20

Please notify the CWB immediately of any errors or omissions.
Phone: 1-800-275-4292
Fax: (204) 983-8031

Transaction corrections and program termination

Correction procedures

Transactions for PPO programs must be received before 7:30 a.m. CT each business day. All required information on the fax form must be completed accurately in order for the CWB to process it.

If a fax transaction is incomplete, the CWB will contact the producer to obtain the missing information. The producer will receive the contract price that is in effect at the time of confirmation.

If the fax form is complete, the CWB will process the transaction based on that information. When producers receive their statement of information, they should carefully review the transactions. If incorrect information was provided and the CWB acted on this information, producers will be responsible for any costs to correct the transaction.

Fax transmission failures

If a transaction is faxed to the CWB but not received, a copy of the sender's fax log confirming the transaction was successfully sent and a copy of the transaction should be sent to the CWB.

The CWB fax machine maintains a log of all incoming faxes received. The log indicates, the time, originating fax number, number of pages received and status of the transmission. This log will be used to verify if a fax was transmitted to the CWB. If the sender's fax number does not appear on their fax log, the CWB may be unable to verify the transmission.

It is the sender's responsibility to ensure their fax transmits successfully. If there is any doubt, look under the 'PPO contracts' tab in E-services to see if the transaction has been processed or call the CWB to confirm receipt.

If the fax appeared to transmit successfully but a contract and statement of information has not been received within a week to 10 days, look under the 'PPO contracts' tab in E-services of contact the CWB for confirmation.

Program termination

EPO programs will be terminated when the initial payments are increased and begin to approach or exceed the respective EPV levels. Terminations will occur following confirmation of an increase to the initial payments. This is done so that producers do not commit themselves to a contract that does not provide additional cash flow beyond the increased initial payment values.

The CWB will issue a Country Elevator News (CEN) bulletin advising the industry of the termination a week ahead of time. Although producers will have until the end of that week to sign up under the affected EPV, they may want to consider signing a higher level EPV that will provided additional cash flow above the new initial payment values.

Any contract commitments received after 7:30 a.m. CT on the day that program sign-up is terminated will be rejected. The CWB will contact producers to advise them that their offers were received after the cut-off date.

Reminder: Feed grade wheat and durum can only be applied to a Feed Grade wheat, No. 4 CWAD or No. 5 CWAD EPO contract.

EPO delivery and settlement

EPOs are pricing contracts only, separate from delivery contracts. Producers must still sign a Series A, B or C delivery contract, a GDC or a Selected Barley Storage and Delivery Contract (SBSDC) and wait for delivery calls.

Producers must advise grain company staff to assign their deliveries to their EPO contract prior to settlement.

Payment on an EPO is made in two parts: the initial payment on delivery at the elevator and the additional payment from the CWB. Producers remain eligible for pool payments if the initial price rises above the producers' EPV.

Reporting deliveries for wheat, durum and feed barley

For 2007-08, there are two methods of applying deliveries to an EPO contract:

- By entering the six-digit contract number in the authorization field of the cash purchase ticket.
- By entering an 'E' in the payment designation field of the cash ticket.

The two methods can also be used simultaneously. If both methods are used and the contract number is incorrect, the delivery will be applied to the producer's earliest EPO.

Note: Only the payment type method will be in use for the 2008-09 crop year. Both methods are available for 2007-08 to assist grain companies through the transition period.

If the EPO contract number is entered in the authorization field, the delivery will be applied to the contract indicated. Check the contract confirmation in the permit book for the correct contract number or under the 'PPO contracts' tab in E-services.

If an 'E' is entered in the payment designation field without a contract number, the delivery will be applied to the oldest EPO of the same grain and class on a first in, first applied basis.

One or both of these methods must be used in order to generate the producer's additional CWB payment.

Landlord (interested party) deliveries for wheat, durum and feed barley

Landlords are eligible for payment against an EPO signed under the actual producer's CWB identification number, or they can sign their own EPO contract. In either case, deliveries can be applied by entering the six-digit contract number in the authorization field or by entering an 'E' in the payment designation field.

However, if only the payment designation field is used and both the landlord and producer have EPOs, the deliveries will be applied to the landlord's EPOs first. Once the landlord's EPOs have been fully delivered against, the landlord's deliveries will be applied to the actual producer's contract.

The elevator must ensure deliveries are applied using the correct landlord prefix. If the wrong prefix is used, the deliveries will not be applied to the producer's EPO and an additional payment will not be generated until the cash purchase ticket is corrected.

Reporting deliveries for selected barley

Producers are not required to have an SBSDC already in place when they sign an EPO. However, deliveries cannot be applied to the contract and no additional payment will be generated until an SBSDC has been obtained.

For selected barley, the SBSDC number, not the EPO number, must be reported in the authorization field of the cash purchase ticket in order for deliveries to be applied even if an 'E' is entered in the payment designation field. Payment will be automatically generated on a first in, first applied basis, i.e. the first delivery reported against an SBSDC will be applied to the producer's earliest EPO.

Producers who want a delivery applied to an EPO other than the earliest contract can contact the CWB at the time of settlement to advise which EPO the delivery should be settled against. Producers must have their producer ID and PIN available to conduct contract transactions.

Landlord (interested party) deliveries for selected barley

The SBSDC number must be entered in the authorization field, whether or not an 'E' is entered in the payment designation field.

If the payment designation field is not used, landlords must have their own EPO contract and their own SBSDC.

If the payment designation field is used, landlords no longer have to have their own EPO contract and SBSDC. Deliveries can be applied to the actual producer's EPO using the actual producer's SBSDC as long as an 'E' is entered in the payment designation field.

Multiple contracts/splitting cash purchase tickets

When the final delivery is applied against an EPO, any tonnage over the contracted amount will automatically be credited as a pool account delivery. If the producer has multiple PPO contracts, the elevator must split the cash purchase ticket, so that the first contract is completely filled and the remaining tonnage can be applied to another contract. The CWB cannot split cash purchase tickets that have been issued by the elevator.

Payment

Initial payment settlement

Producers receive the initial payment at the elevator for the grade and protein of the actual grain delivered, less freight and handling. Once the cash purchase ticket has been correctly reported to the CWB, an additional payment will be issued within 10 business days. When making a delivery, producers must advise the elevator agent to assign the delivery to their EPO contract.

CWB additional EPO payment settlement

The CWB additional payment is the difference between the contracted EPV and the current initial payment for the reference grade of the grain committed, plus an incremental payment (see below).

EPO additional payment = EPV - discount - reference grade initial payment at time of delivery + incremental payment

Incremental payment

The incremental payment represents the producer's time value of money for later delivery. It can be thought of as a rebate of the time value of money portion of the discount, to reflect the actual month of delivery. Payment rates progressively increase each month from August to July. The value of this payment is established at the time the contract is signed up. Payment rates are listed on the daily pricing schedule. Incremental payment rates can also be found on the statement of information for the contract.

Example:

A producer signs a 90 per cent EPO on 200 tonnes of CWRS wheat when the PRO for the reference grade No. 1 CWRS 13.5 is $202 per tonne. The discount for the 90 per cent EPV is $3 per tonne.

Net EPO contract price = EPV – discount
= ($202 x 0.90) - $3
= $181.80 - $3
= $178.80

The producer delivers 200 tonnes of 1 CWRS 14.5 to the elevator and advises the agent to apply the deliveries against the EPO. The producer receives the initial payment of $150 per tonne for the grade delivered, less freight and elevation of $47 per tonne.

The initial payment for the reference grade is $140 per tonne and the incremental payment for the month of delivery is $0.30. The CWB issues an additional payment in the amount of $39.10 per tonne.

EPO additional payment = EPV – reference grade initial – discount + incremental payment
= $181.80 - $140 - $3 + $0.30
= $39.10 per tonne

Total EPO payment (in store Vancouver or St. Lawrence)
= initial payment of grade delivered + EPO additional payment
= $150 + $39.10
= $189.10

Farmgate payment = Total EPO payment – freight and elevation
= $189.10 - $47
= $142.10

Future CWB payments

If the grade delivered is the same as the reference grade (e.g. No. 1 CWRS 13.5), producers will receive future CWB payments when the initial payment exceeds the EPV.

If the grade delivered is not the reference grade, producers are eligible for futures CWB payments when the initial payment for the grade delivered exceeds the total gross payment they have received.

Total gross payment = initial payment of grade delivered, in store value + EPO additional payment + EPO discount – incremental payment

When final pool returns are determined and final payments are issued, EPO participants will have at least received the same value as pool participants less the EPO discount.

Example:

The producer in the previous example would become eligible for future CWB payments when the initial payment for 1 CWRS 14.5 (the grade delivered) exceeded $191.80 in store Vancouver or St. Lawrence:

Total gross payment = $150 + $39.10 + $3 - $0.30
= $191.80

If the final pool return was $200, total payments the producer received would be the same value as pool participants less the net EPO discount (discount – incremental payment).

Total payments to producer = Total EPO payment + CWB interim, adjustment or final payments
= $189.10 + ($200 - $191.80)
= $189.10 + $8.20
= $197.30

Total payments to the producer are $2.30 less than the pool payment ($3 - $0.30).

EPO back-off

When an adjustment, interim or final payment is issued after a producer has been paid an additional payment on an EPO, the additional payment must be deducted before the producer is eligible for pool payments. This is called the EPO back-off. The gross value of the EPO additional payment is used to calculate the EPO back-off, not the net value, in order to account for the discount. So if a producer received an additional payment of $21.85 and the EPO discount was $6.00, no pool payments would be issued until the initial payment rises more than $27.85 ($21.85 + $6) above the initial payment the producer received.

Example:

A producer has an EPO with an EPV of $204 per tonne. The additional payment was $21.85 and the discount is $6 per tonne.

In February, an adjustment payment of $14.90 is issued:

The producer has already received the $14.90 per tonne as part of the $27.85 per tonne gross value of the additional payment. The CWB would send a statement showing the adjustment payment of $14.90 on the delivered tonnes, with an EPO back-off of $14.90 for a net value of zero.

In May, an adjustment payment of $15 per tonne is issued:

The producer has already received $12.95 per tonne (($21.85 + $6) - $14.90) as part of the additional payment. The CWB would send a cheque for $2.05 per tonne. The cheque would show the adjustment payment of $15 on the delivered tonnes, with an EPO back-off of $12.95 per tonne.

Total EPO back-off = additional payment + discount
($12.95 + $14.90) = ($21.85 + $6)
$27.85 = $27.85

Payment deductions

The additional payment issued by the CWB is subject to deductions for wheat, durum and barley research. Producers who choose not to participate can mail or fax a written note to the Western Grains Research Foundation (WGRF) before settlement or no later than August 31, each year. Notice must include full name, CWB producer identification number, crop year and full address.

Western Grains Research Foundation
214-111 Research Drive
Saskatoon, SK S7N 3R2
Phone: 1-306-975-0060
Fax: 1-306-975-0316

In Alberta, the check-off is administered by the Alberta Barley Commission.

The additional payment is also subject to any other deductions that may be appropriate. These include, but are not limited to, outstanding defaulted cash advance accounts, liquidated damages, pricing damages or transaction fees related to the PPO programs.

Cancellation and replacement of cash purchase tickets

The additional payment issued to producers on the PPO programs is dependent on accurate delivery reporting. Cash purchase tickets are monitored for reporting errors. The CWB will contact producers or elevator agents to confirm reporting errors and will correct PPO contract numbers and delivery call years upon confirmation. Changes to identification number, grain, grade and protein must be done by the grain company by cancelling the original cash purchase ticket and issuing a replacement for the correction.

Overpayments

An overpayment of an EPO can occur when:

1. The initial payment rate for the reference grade is increased above the EPV before application of deliveries.

2. The EPO additional payment is not sufficient to repay the EPO discount.

If either of these situations occur, an EPO additional payment will not be issued by the CWB following delivery and some or all of the discount remains uncollected. Technically, the producer is in an overpayment situation requiring the discount to be collected from future CWB storage, adjustment, interim, final or other PPO payments. The notation on the cheque will indicate that the deduction is the result of an EPO overpayment.

When an EPO no longer generates a cash flow benefit, producers may want to consider buying out the balance of the contract as a lower-cost alternative. See page 26.

Example:

A producer signs a 100 tonne 80 per cent EPO contract locking in the EPV at $156 per tonne. The discount is $2.50 per tonne.

On August 10, the producer delivers 50 tonnes of No. 1 CWRS 13.5 and receives the initial payment of $136.20 per tonne in store. The delivery is applied to the EPO contract and reported to the CWB. Because the delivery is made in August, there is no incremental payment.

EPO additional payment = EPV – initial of reference grade – discount + incremental payment
= $156 - $136.20 - $2.50 + $0.00
= $17.30 per tonne

On November 10, the producer delivers the remaining 50 tonnes and applies the delivery to the EPO contract. The initial payment has been increased and the producer receives $160 per tonne in store for the No. 1 CWRS 13.5 delivery. The incremental payment for November delivery is $0.40 per tonne.

EPO additional payment = $156 - $160 -$2.50 + $0.40
= - $6.10 per tonne

The delivery does not generate an EPO additional payment because the reference grade initial is higher than the EPV. The producer is in an overpayment situation for the amount of the discount less the incremental payment rate ($2.50 - $0.40 = $2.10 per tonne). This amount will be deducted from the next CWB payment. Since the producer is eligible for future adjustment, interim and final payments once the reference grade initial exceeds the EPV, the remaining $4 per tonne is not deducted.

Settling 2006-07 deliveries against 2007-08 contracts

Producers have the option to settle storage tickets for 2006-07 deliveries against a 2007-08 Early Payment Option (EPO).

EPO additional program details

Minimum delivery guarantee for durum

The CWB offers a minimum delivery guarantee for the durum EPO because durum acceptance levels can be less than 100 per cent. To help producers determine how much of their crop to commit to a durum EPO, the CWB announces a minimum delivery guarantee before the program starts. For 2007-08, the guarantee is 80 per cent of the production offered under the Series A delivery contract, to a maximum of a producer's EPO tonnage. Unaccepted tonnes must be rolled to the Series B contract for consideration under the guarantee.

The CWB may offer GDCs for specific quantities of durum during the crop year to meet customer demand. Because GDCs offer 100 per cent acceptance, the minimum delivery guarantee does not apply.

Example

A producer signs a 1 200 tonne EPO for durum on August 25, 2007 based on the expectation of producing 1 500 tonnes in the upcoming crop year (1 500 x 80%= 1 200). In the fall, the producer signs a 1 500 tonne Series A delivery contract. Tonnes offered under Series A are automatically rolled over to Series B. Below are the acceptance levels.

Series	Sign-up tonnage	Acceptance level	Tonnes accepted
A	1 500	70%	1 050
B	450 rollover	0%	0

After the Series B acceptance announcement, the overall acceptance level for the crop year is 70 per cent for both series combined. Because the overall acceptance has not reached the minimum guaranteed level of 80 per cent, a special delivery provision will be made for the producer to deliver an additional 150 tonnes. The producer will receive notification to deliver the 150 tonnes through a special delivery provision letter. This will bring the total accepted tonnage to 80 per cent (1 200 tonnes) of the total durum tonnage that was committed to delivery contracts. The 150 tonnes must be settled against the EPO for durum.

Strategies

This section of the EPO guide provides some insight into the various EPO programs offered and how producers can use the programs to accomplish different goals. Expectations regarding CWB delivery calls and adjustment payments are based on previous crop years and may not necessarily be repeated in futures crop years.

Factors to consider when making an EPO commitment

The EPO program provides producers with two distinct benefits: 1) increased cash flow and 2) ability to lock in a floor price. There are different factors to consider, depending on the producer's objective.

Increased cash flow

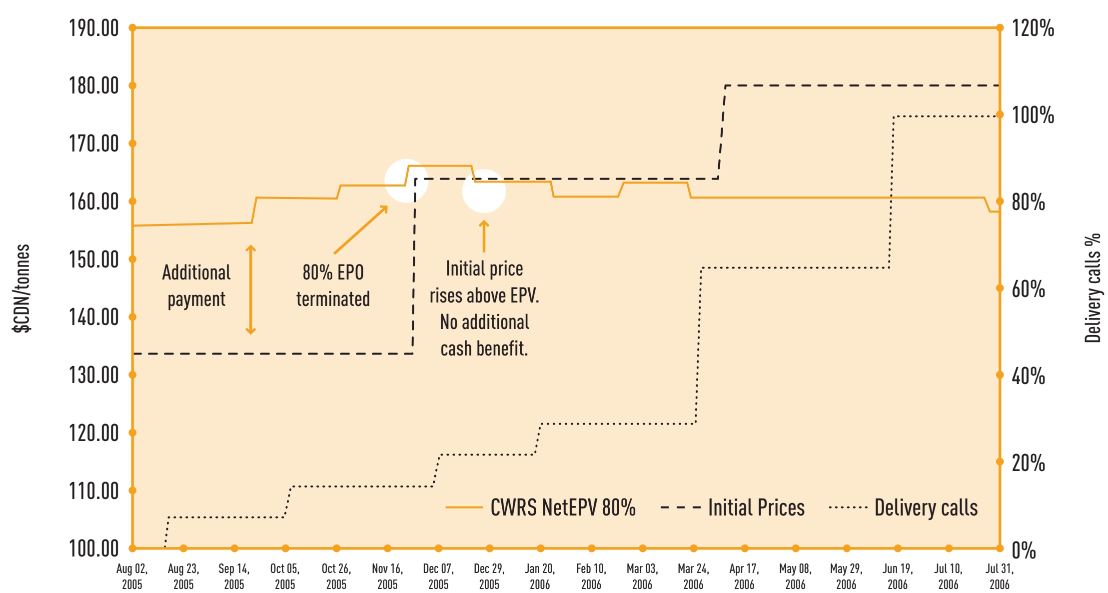
Delivery calls

Producers looking for a cash flow benefit should consider contracting only the amount of production that the CWB has called to date. If the tonnes committed to an EPO are greater than the amount called for delivery, producers will have to wait for the next delivery call before applying more deliveries towards the EPO. If the initial payment is increased above the EPV before the next delivery call is issued, the producer will have paid for the EPO discount without receiving any additional cash flow benefit.

It can generally be expected that initial payments will increase in November or December, bringing the initial payment of the reference grade within the range of 80 per cent of the current PRO value. If a producer contracted all of his or her Series A delivery contract to an 80 per cent EPO following harvest, only the first 25 per cent delivery call may generate an EPO additional payment. When the CWB calls the next 25 per cent in November or December, the initial payment may have already exceeded the 80 per cent EPV.

The graph below depicts the 2005-06 CWRS 80 per cent EPV, initial payment and delivery calls. It demonstrates how an increasing initial payment reduces the value of the EPO additional payment. By late December, the initial payment had climbed above the initial EPV. Producers with outstanding 80 per cent EPOs would receive no additional payment but would still be responsible for the discount.

2005-06 CWRS 80% Net EPV Initial and Delivery calls



EPV vs. initial payment

Before signing an EPO, producers should also consider:

1. What percentage of the PRO is already being issued in the form of the current initial payment?

   If the initial payments are beginning to approach the current EPVs, producers should consider if it is worthwhile to lock in an EPO contract or consider locking in a higher EPV.

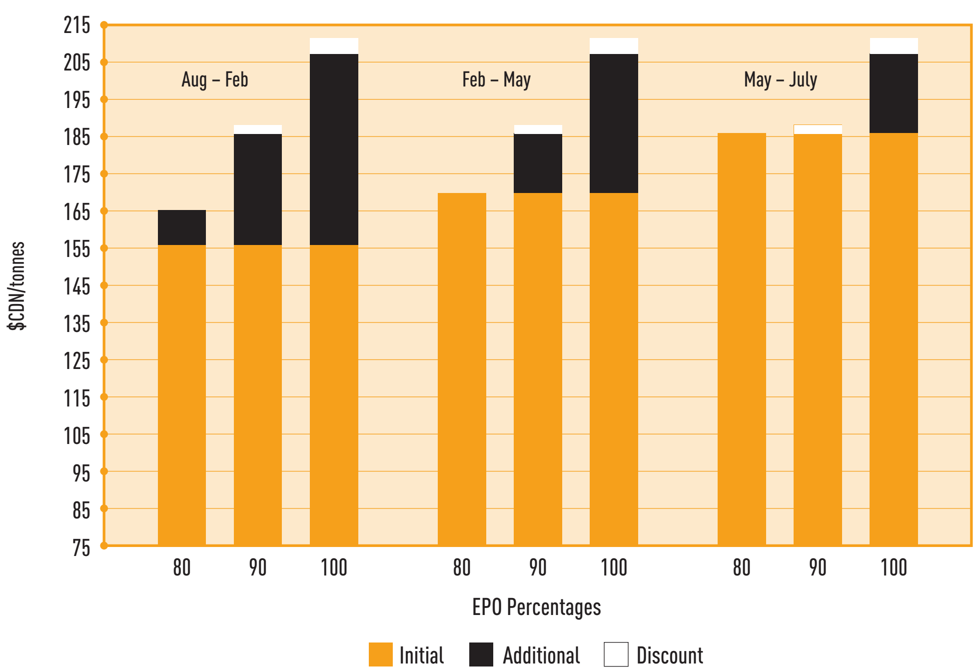
   For example, if the current initial payment is $149 per tonne and the current PRO is $200 per tonne, producers are already receiving 75 per cent of the PRO from the initial payment. The 80 per cent EPO would only provide an additional payment of $11 per tonne. It may be better to lock in a 90 per cent EPO that would provide an additional payment of $31 per tonne, depending on the cash flow required and the current EPO discount cost for each EPV.

2. Is another adjustment payment about to be announced?

   If another adjustment payment is about to be announced, the $11 per tonne payment on the 80 per cent EPO will be eroded further and possibly eliminated. Producers should consider whether waiting for the adjustment payment would provide the required cash flow soon enough, rather than paying a discount for an earlier payment.

   The following chart illustrates how the EPO additional payment will decrease in value for deliveries made later in the year as initial payments are increased.

No. 1 CWRS 13.5% – Initial vs. additional payment



The above shows three EPO contracts signed in August at different EPV levels, based on a PRO of $207 per tonne.

- The 80 per cent EPO has an EPV of $165.60 and a discount of $1.50 per tonne.
- The 90 per cent EPO has an EPV of $186.30 and a discount cost of $4.50 per tonne.
- The 100 per cent EPO has an EPV of $207 per tonne and a discount cost of $12 per tonne.

Initial payments are raised twice during the crop year, reducing the EPO additional payment for deliveries made later in the year. The chart shows the impact of the increased initial payments on additional payments by EPV level:

EPO lock-in level	Period	EPV	Initial payment	Discount cost	Additional payment
80%		$165.60		$ 1.50	$ 7.95
90%	**Aug-Feb**	$186.30	**$156.15**	$ 4.50	$25.65
100%		$207.00		$12.00	$38.85
80%		$165.60		$ 1.50	$ 0.00
90%	**Feb-May**	$186.30	**$171.05**	$ 4.50	$10.75
100%		$207.00		$12.00	$23.95
80%		$165.60		$ 1.50	$ 0.00
90%	**May-Jul**	$186.30	**$186.05**	$ 4.50	$ 0.00
100%		$207.00		$12.00	$20.95

Note: These numbers are for illustration purposes only. The incremental payment for later deliveries has been omitted.
Also, actual PROs, initial payments, adjustment payments and EPO discount values will vary from crop year to crop year.

From August to February, all three producers will receive an EPO additional payment.

Following the increase to the initial payments in February, deliveries against the 80 per cent EPO will not generate an additional payment because the initial payment is higher than the EPV. Producers are eligible for pool payments once the initial payment exceeds the EPV, but they are still responsible for the discount.

When the initial payments are increased again in May, only the 100 per cent EPO would generate an additional payment.

Floor price protection

Producers who want to set a floor price for their grain should consider only the 90 or 100 per cent EPV as the 80 per cent level likely will not provide a sufficient EPV for this purpose. If the objective is to lock in a price that will be higher than the final pool return, the 100 per cent EPV is the most likely to achieve this goal.

Producers should closely monitor the monthly PRO updates. When they feel a PRO is at a level that gives them an acceptable floor price, they should consider locking in the value.

In order to achieve the highest possible floor price, producers will attempt to lock in a combination of the highest possible PRO value along with the least expensive EPO discount to provide the highest possible net EPV.

Net EPV = EPV – discount

Once producers determine the PRO value to lock in, they may want to try to time sign-up to achieve the lowest possible discount.

Factors that influence the daily EPO discount

The daily discount cost for the 100 per cent EPV will be substantially more expensive than the lower EPV levels because the CWB is exposed to greater price risk. The cost of hedging this position is higher because the CWB must take a more aggressive market position to protect the price guarantee.

There are a number of factors other than the EPV that can affect the EPO discount. The impact on the discount of these factors increasing is discussed below. It should be noted that more than one of these factors could be influencing the discount at any one time.

PRO – if the PRO is increased, there is also increased risk and hedging cost to the CWB to guarantee the higher EPVs. The time value of money for earlier payment also increases. As a result, the EPO discount cost will be higher.

North American futures – A significant portion of the overall EPO discount (especially early in the crop year when only a fraction of the pool accounts are sold) is the cost to the CWB to purchase put options on various North American commodity exchanges. If futures markets increase in value (quoted in Canadian dollars per tonne), the EPO discount cost will likely decrease due to the lower cost to hedge in the futures markets.

Foreign exchange – Most hedging for the EPO program is conducted at U.S. exchanges in U.S. dollars. As the Canadian dollar strengthens in value relative to the U.S. dollar, the foreign exchange will result in a lower futures value when converted to Canadian funds. A lower futures price in Canadian dollars will cause the EPO discount to increase in cost.

Initial payments – When the initial payments are increased later in the year, producers receive a greater percentage of their total EPV at the elevator, reducing the additional payment issued by the CWB. Assuming PRO values are stable throughout the crop year, the risk and financing cost to the CWB decreases, resulting in a lower discount cost.

Percentage of pool sold – Assuming the PRO remains stable from month to month, the EPO discount typically decreases in cost later in the crop year because the risk to the CWB decreases as more of the pool is sold. However, volatile market conditions can make the PRO less predictable, which can cause the discount cost to increase.

Initial payment spreads

When producers deliver against an EPO, they receive the initial payment for the actual grade delivered. This effectively reduces or raises their contract price by the spread between the initial price of the reference grade and the initial price of the delivered grain on the date of settlement.

If producers have a range of grades and/or proteins available to deliver against an EPO, they should watch initial payment spreads to determine which will provide them with the best return. Changes to the PRO spreads during the crop year should also be watched to determine trends. If there is an adjustment payment recommendation, the PRO spreads reflected at the time of the recommendation are used to set the new initial payment rate. Knowing the trends in the PRO spreads will help producers decide which grade and/or protein to deliver and the best timing of settlement.

Example

On May 30, a producer commits 50 tonnes of CWRS to an EPO with an EPV of $200 per tonne. The producer has 50 tonnes of No. 1 CWRS 14.0 per cent protein and 50 tonnes of No. 3 CWRS 13.8 per cent protein available for delivery and must decide which grade to apply to the EPO contract and which to apply to the pool.

In late October, the CWB recommends an increase to the initial payments. An adjustment payment is expected in the middle of November. Since deliveries against the EPO are subject to the initial price spreads on the date of delivery, the producer reviews the CWB PROs and initial prices to determine which grade to apply to the EPO. Remember, the adjusted initial prices will reflect the changes in the PRO spreads.

	Reference Grade No. 1 CWRS 13.5	No. 1 CWRS 14.0	Spread
Initial Price	$135	$140	$ 5
July PRO	$195	$200	$ 5
October PRO	$205	$220	$15

The PRO spread between 1 CWRS 13.5 per cent protein and 1 CWRS 14.0 per cent protein has improved by $10 per tonne ($15 - $5) from July to October.

	Reference Grade No. 1 CWRS 13.5	No. 3 CWRS 13.8	Spread
Initial Price	$135	$120	($15)
July PRO	$195	$180	($15)
October PRO	$205	$172	($33)

The PRO spread between No. 1 CWRS 13.5 per cent protein and No. 3 CWRS 13.8 per cent protein has deteriorated by $18 per tonne ($33 - $15) from July to October.

Fundamentals suggest this trend will continue and that it will be reflected in the upcoming adjustment payments. The following table illustrates the consequences of delivering before and after the adjustment payment:

	No. 1 CWRS 14.0%	No. 3 CWRS 13.8%
EPV	$200	$200
- Initial price of reference grade	$135	$135
= Additional payment	$ 65	$ 65
+ Initial price of delivered grade	$140	$120
= Net EPV before adjustment payment	$205	$185
+ Change in PRO spread	$ 10	(-$ 18)
= Estimated net EPO price after adjustment payment	$215	$167

Based on the change in PRO spreads, the producer’s net EPO price would increase by $10 per tonne for No. 1 CWRS 14.0 per cent protein following the adjustment payment and decline by $18 per tonne for the No. 3 CWRS 13.8 per cent protein. Therefore, the producer would be better off to deliver the No. 3 CWRS 13.8 per cent protein against the EPO prior to the adjustment payment and leave the No. 1 CWRS 14.0 per cent protein in the pool.

Buyouts

When initial payments have surpassed the EPV, it may be more effective to buy out the EPO rather than to continue to apply deliveries.

As deliveries are applied to an EPO contract, producers are charged the EPO discount but are partially reimbursed for the time value of money portion in the form of an incremental payment.

Net EPO cost = EPO discount – incremental payment for the month of delivery

The incremental payment increases in value for each month, effectively reducing the producer's net cost for deliveries made later in the crop year.

However, if a producer buys out the tonnes remaining on the contract, the entire time value of money portion is credited.

Buyout cost = EPO discount – time value of money

The time value of money portion of the discount is typically equal to or very close to the maximum July incremental payment that was locked in when the contract was signed up. This means that applying deliveries made earlier than that will cost the producer more than buying out of the contract, without generating an additional payment.

Example

A producer locked in a 90 per cent EPO on August 15 for 200 tonnes, locking in an EPV of $180 per tonne and a $3 per tonne discount. The incremental payment rates for deliveries later in the crop year, which are also locked in at sign-up, are listed below.

Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.
$0.00	$0.15	$0.35	$0.50	$0.60	$0.70	$0.75	$0.85	$0.90	$0.95	$1.00	$1.05

In September, the producer delivers 100 tonnes. The initial payment is $160.

CWB additional payment = EPV – reference grade initial – discount + incremental payment
= $180 - $160 - $3 + $0.15
= $17.15

For the September delivery, the producer receives an additional payment of $17.15 per tonne. The net cost to the producer is $2.85 per tonne (discount – incremental payment).

In January, the producer plans to deliver the remaining 100 tonnes. However, the initial payment has been raised to $185 per tonne. If the producer delivered against the contract, no additional payment would be generated but the producer would still be responsible for paying the net discount cost.

Net cost to producer = discount – incremental payment
= $3 -$0.70
= $2.30 per tonne

If the producer chose instead to buy out the contract the entire time value of money portion of the discount, in this case the July incremental value, would be credited.

Buyout cost to producer = discount – time value of money
= $3 - $1.05
= $1.95 per tonne plus $15 administration fee

In this situation the producer would save $2.30 - $1.95 = $0.35 per tonne (less the $15 administration fee) by buying out the contract instead of delivering against it.

Glossary

Actual grade
The grade and protein of grain delivered as reported on a cash purchase ticket.

Additional payment
A payment made by the CWB to producers after grain is delivered against a PPO contract. Additional payments equal the contracted price less the initial price for the relevant reference grade at time of delivery plus the incremental payment.

Administration
Represents the cost to operate the PPO programs. PPOs must be self-financed so there will be no costs incurred to the pool accounts. General administration costs include computer resources, staffing, office expenses, etc.

Arbitrage
Simultaneous purchase and sale of the same or equivalent security in order to profit from price discrepancies. Also known as riskless profit.

Assignments
In the event producers want to reduce their EPO commitment, they can assign (transfer) their contract to another producer. Transfers involve completing an assignment form, available from the CWB, and assigning all or a portion of their contracted tonnage to another producer.

Basis Payment Contract (BPC)
A pricing option available for all classes of wheat, feed barley and selected barley that offers the choice of locking in the basis and futures components separately.

Basis risk
A measurement of the uncertainty whether the CWB will be able to perfectly hedge the PPO prices offered.

Buyout
The cost farmers pay to reverse their PPO contract obligations. A calculation is performed to charge farmers pricing damages for non-delivery of the contract based on market values.

Call option
An option that gives the buyer the right, but not the obligation, to buy the underlying futures contract at the strike price on or before the option's expiration date.

Cash purchase ticket
Certificate manually or electronically issued to the producer at time of settlement for a delivery. Also includes value-only tickets for advance issuance or refunds against cash advance accounts.

Contingency fund
A fund established for the PPOs to operate without any impact to the CWB pool accounts. Included in the fund is the annual surplus or deficit arising from the operation of the PPOs.

Daily Price Contract (DPC)
A pricing option available for all classes of wheat with the choice of locking in a daily cash price derived from U.S. elevator prices.

Default
Failure to comply with the terms and conditions of a PPO contract. Producers in default on their PPO contract are subject to pricing damages.

Discount
Time value of money, risk and administration cost. This is the cost to the producer of signing a PPO contract.

Early Payment Option (EPO)
A pricing option available on all grains, which provides early cash flow on delivery and a floor price based on a percentage of the CWB's Pool Return Outlook (PRO), less a discount.

Early payment value (EPV)
The published value representing the percentage of the PRO before the discount.

Farmgate price
The net price the farmer receives after relevant deductions are subtracted from the in store price.

Feed grade wheat
For the purpose of the EPO program, wheat grading No. 4 CWRS, No. 4 CWHWS, No. 3 CWSWS and CW Feed.

Fixed Price Contract (FPC)
A pricing option available on all grains, which provides a set value that a producer can lock in on a quantity of grain.

Floor price
A guaranteed minimum price which cannot be further reduced due to declining PROs or futures markets.

Foreign exchange
Rate at which one currency may be converted into another. The PPO prices are determined by converting the relevant U.S. futures prices into their Canadian dollar equivalents.

Foreign exchange risk
The exposure to changes in foreign exchange rates that may adversely affect Canadian dollar returns to the CWB.

Incremental payment
A payment to compensate farmers for wheat, durum and barley delivered later in the crop year. The payment represents the time value of money to the farmer. The value of this payment is set at the time of contract sign up and based on the month of delivery.

Long
One who has bought futures contracts or owns a cash commodity.

Minimum delivery guarantee
Before the start of the EPO and FPC programs for durum, the CWB announces a percentage of offered durum volume that producers can deliver against the programs even if acceptance levels on Series A and B delivery contracts are lower. The guarantee can be used to guide producers when they are determining how much durum to commit to a PPO.

Nearby (delivery) month
The futures contract month closest to expiration. Also referred to as the spot month.

Pool Return Outlook (PRO)
The CWB's forecast of the total market return for grain delivered during the crop year. PROs are not price guarantees. They are estimates based on price behaviour, sales volumes and handling costs, both actual and projected.

Pricing damages
Monetary damages assessed if producers fail to meet the performance clause of their PPO, which requires 100 per cent delivery of contracted tonnage.

Producer Payment Options (PPOs)
Contract programs that allow producers more flexibility in pricing their grain by choosing to be in or out of the CWB pool accounts and to improve cash flow by paying out or advancing money earlier in the crop year. This includes various CWB pricing alternatives such as the FPC, BPC, EPO and the DPC.

Reference grades
The grade within a class of grain used to establish the posted price. For example: the reference grade for the CWRS class is No. 1 CWRS 13.5 per cent protein.

Relevant futures price
The daily closing price for one of the following contracts: Chicago Soft Red Winter, Kansas Hard Red Winter, Minneapolis Hard Red Spring or Winnipeg Western Barley.

Risk
Part of the cost associated with offering the PPO programs, specifically price protection and hedging activities on various North American commodity futures and options markets to protect against declines in the market price.

Risk premium
The cost to transfer an EPO contract to a feed grade or milling grade class.

Settlement date
The date on which a cash purchase ticket is issued by a grain company.

Settlement price
The last price paid for a commodity on any trading day. If there is a closing range of prices, the settlement price is determined by averaging those prices. Also referred to as the settle or closing price.

Short
One who has sold futures contracts or plans to purchase a cash commodity. Selling futures contracts or initiating a cash forward contract sale without offsetting a particular market position.

Spread
The difference between the reference grade initial price and the initial price for the delivered grade. Spread may also refer to the price difference between two futures contracts trading at the same time. For example if the Minneapolis Hard Red Spring December 2007 contract closed at $4.04 per bushel and the corresponding March 2008 contract closed at $4.06 per bushel on the same day, the spread would be $0.02 per bushel.

Time value of money
A concept stating that a dollar paid now is worth more than a dollar paid in the future. PPO prices include a discount for the time value of money because farmers who deliver their grain early in the crop year have their full payment earlier than farmers who wait for pool account payments.

Transfer
The process to switch a wheat, durum or selected barley EPO to a feed grade EPO of the same EPV level.

Transfer fee
The cost to transfer an EPO contract between milling or selected and feed grades. The fee is equal to: {(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 zero.

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