

# Contract Price Option

Over the years, producer groups have requested higher coverage for higher value niche crops such as specialty oil canola. Niche crops can demand a higher price from the market when sold under contract, which sometimes leaves higher value contracted crops underinsured.

The introduction of MASC's Contract Price Option (CPO) allows producers to blend the price from their contracted production with the base AgrilInsurance dollar value to better reflect expected market prices. The CPO will be available on canola (excluding pedigreed) and field peas (excluding pedigreed and organic).

Producers who choose the CPO must submit their contracted prices to MASC by **June 30, 2020**.

## CPO Calculation Examples

Formulae	
<b>Blended Price</b>	= (% commercial production * Dollar Value) + (% contract production * Contracted Price)
<b>New Premium</b>	= (standard Premium * Blended Price) / standard Dollar Value
<b>Total Expected Production</b>	= Probable Yield x Acres
<b>Coverage</b>	= Total Expected Production x Insured Price x Coverage Level

### Scenario 1 - Multiple Contracts

A producer is growing 800 acres of canola: 320 acres at MASC's Dollar Value of \$445 per tonne, and is filling three separate contracts: 160 acres at \$450 per tonne, 160 acres at \$470 per tonne, and 160 acres at \$500 per tonne. The producer selects 80 per cent coverage, which results in a premium of \$12.17 per acre and a Probable Yield of 1 tonne per acre.

<b>Total Expected Production</b>	= 800 acres x 1 tonne per acre = 800 tonnes of canola
<b>Production Ratio:</b>	
<b>Commercial</b>	= 320 of 800 acres = 40%
<b>Contract 1</b>	= 160 of 800 acres = 20%
<b>Contract 2</b>	= 160 of 800 acres = 20%
<b>Contract 3</b>	= 160 of 800 acres = 20%
<b>Blended Price</b>	= (0.40 x \$445) + (0.20 * \$450) + (0.20 * \$470) + (0.20 * \$500) = 178 + 90 + 94 + 100 = <b>\$462 per tonne</b>
<b>Impact on Coverage and Premium:</b>	
<b>All Conventional Coverage</b>	= 800 acres x \$445 per tonne x 0.80 = <b>\$284,800</b>
<b>CPO Coverage</b>	= 800 acres x 462 per tonne x 0.80 = <b>\$295,680</b>
<b>New Premium</b>	= (\$12.17 x \$462) / \$445 = <b>\$12.63 per acre</b>

### Scenario 2 - Price Premium (basis)

A producer is growing 800 acres of canola: 640 acres at MASC's Dollar Value of \$445 per tonne, and is filling a separate contract on 160 acres at \$495 per tonne (\$50 above the base price). The producer selects 80 per cent coverage, which results in a premium of \$12.17 per acre and a Probable Yield of 1 tonne per acre.

<b>Total Expected Production</b>	= 800 acres x 1 tonne per acre = 800 tonnes of canola
<b>Production Ratio:</b>	
<b>Commercial</b>	= 640 of 800 acres = 80%
<b>Contracted</b>	= 160 of 800 acres = 20%
<b>Blended Price</b>	= (0.80 x \$445) + (0.20 * \$495) = 356 + 99 = <b>\$455 per tonne</b>
<b>Impact on Coverage and Premium:</b>	
<b>All Conventional Coverage</b>	= 800 acres x \$445 per tonne x 0.80 = <b>\$284,800</b>
<b>CPO Coverage</b>	= 800 acres x 455 per tonne x 0.80 = <b>\$291,200</b>
<b>New Premium</b>	= (\$12.17 x \$455) / \$445 = <b>\$12.44 per acre</b>

### Scenario 3 - Different Soil Zones

A producer is growing 800 acres of canola: 640 acres at MASC's Dollar Value of \$445 per tonne on a soil zone that has a Probable Yield (PY) of 1.00. The producer is also filling two contracts: Contract 1 is for 160 acres at \$450 per acre on C32 soil (PY = 0.986), and Contract 2 is for 160 acres at \$470 per acre on E32 soil (PY = 0.956).

<b>Total Expected Production</b>	= (480 acres x 1 tonne per acre) + (160 x 0.986) + (160 x 0.956) = 480 + 157.76 + 152.96 = 790.72 tonnes of canola
<b>Production Ratio:</b>	
<b>Commercial</b>	= 480 of 790.72 acres = 61%
<b>Contract 1</b>	= 157.76 of 790.72 acres = 20%
<b>Contract 2</b>	= 152.96 of 790.72 acres = 19%
<b>Blended Price</b>	= (0.61 x \$445) + (0.20 x \$450) + (0.19 x \$470) = 271.45 + 90 + 89.3 = <b>\$450.75 per tonne</b>
<b>Impact on Coverage and Premium:</b>	
<b>All Conventional Coverage</b>	= 800 acres x \$445 per tonne x 0.80 = <b>\$284,800</b>
<b>CPO Coverage</b>	= 790.72 acres x 450.75 per tonne x 0.80 = <b>\$285,133</b>
<b>New Premium</b>	= (\$12.17 x \$450.75) / \$445 = <b>\$12.33 per acre</b>