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Risk Management Agency's Proposed Rule Changes for "New Combo" APH and Revenue Crop Insurance [1]

Introduction. An Agency of USDA, the Risk Management Agency (RMA) has posted the agency's proposed rules for combining Actual Production History (APH), Income Protection (IP), Crop Revenue Coverage (CRC), and Revenue Assurance (RA) on the RMA WEB site. The direct link is: http://www.rma.usda.gov/regs/2006/combopr.pdf. Interested parties may send their written comments and opinions on these proposed rule changes until the close of business on September 12, 2006. Those comments will be "considered" when the rules are made final (Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40194).

Unit Structure. There are several proposed crop insurance rule changes that will affect growers and other interested parties. The unit structure is one of the proposed rule changes as stated in the following rule:

"*FCIC is also proposing that an enterprise unit may be available for certain crops, as designated in the actuarial documents. The revised policy provides a premium discount if the producer elects a basic or enterprise unit.*"

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Further more; *"The producer must include all insured crops for which revenue protection(s) available and in which the producer has a share, except winter barley and winter wheat, which may not be included in the whole-farm unit. Fall planted crops are excluded from the whole-farm unit because the different growing seasons make it impossible to establish the guarantee or premium that may be owed at the time of application because the information regarding the spring planted crops is not yet available. Further, producers with fall planted crops would have to wait until after harvest of all their spring planted crops before an indemnity could be paid. An additional premium discount is available when the producer elects the whole-farm unit" (Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40199)*

Whole Farm Unit. While there does not seem to be great interest in a whole farm unit, eliminating winter wheat from the whole farm unit does not seem justified. Growers do not know the exact premium at signup time when they have only spring crops. If corn-soybean growers decide to plant more acres of soybeans than corn than they intended to plant at sign up, their total premium will change. Also growers sign up a crop but plant no acres and turn in a zero acreage report will owe no premium. As for the need to wait until fall for indemnity payments that is still a shorter wait on payments that is currently in place for GRIP/GRP when winter wheat growers must wait for county yields to be published, normally about 10 months after harvest.

While none of these are good arguments for eliminating winter wheat from the whole farm guarantee, there are a lot of good reasons to include winter wheat. The major reason is that winter wheat and spring crops are growing at different times of the year causing less correlation between crop yields. If crops are perfectly correlated then there is no reason for creating a whole farm unit.

Enterprise Unit. There is interest in the enterprise unit. Currently CRC and RA have different definitions for an enterprise unit and under some conditions one definition is preferred to other definitions. The propose rules state only the following on enterprise units: *FCIC is also proposing that an enterprise unit may be available for certain crops, as designated in the actuarial documents* (*Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40199).*

Currently farmers can select the enterprise unit definition that best fits their farm by selecting IP, RA, or CRC. RMA is proposing to use the RA definition for an enterprise unit. It will depend on the location and size of farm to determine the preferred enterprise definition by individual farmers.

No Harvest Price Option Endorsement Only. *"FCIC proposes to use the commodity exchanges to establish a projected price and a harvest price (the harvest price will only be used for crops with revenue protection). FCIC also proposes that the revised policy provide coverage for both an increase and decrease in price, unless the producer selects the harvest price exclusion option"* (*Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40199).*

Growers are not allowed to select the Harvest Price Option (HPO) without first selecting the revenue insurance endorsement. Why only allow growers to exclude the harvest price option endorsement? Why not let the insured retain the HPO endorsement but exclude the downside revenue endorsement. This would provide growers with replace coverage that would replace lost bushels at their current market value and growers could then cover lower prices with forward contracts, futures, options and FSA commodity programs. If RMA is willing to allow the purchase of downside price revenue coverage only then they should also be willing to allow growers to purchase only the upside price replacement coverage endorsement on the basic Combo coverage.

RMA Estimated Base Price and Volatility. *"RMA proposes to add an informational tool to RMA's Web site that will accumulate revenue protection volatility factors and projected prices and harvest prices, as defined in the Commodity Exchange Price Provisions, during the price discovery period. While the values in the accumulator will only be estimates until the price discovery period expires, this informational tool will be useful for producers and agents to begin making informed decisions about the risk management alternatives as far in advance of sales closing dates as possible"* (*Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40200).*

Several private crop insurance companies and KSU have been providing this information on AgManager.Info for years! What possible rule could prevent RMA from publishing their estimate stating today? Why is it necessary to have a Federal rule? Growers would love to have the RMA forecasted CRC High/Low factors starting with the 2007 winter wheat crop.

If this is a valuable forecast then perhaps users would be willing to pay a fee. I doubt it because many insurance companies tract this information on their WEB site. If RMA is "protecting the tax payer" then this does not seem to be a good use of resources, especially since many insurance companies already provide it.

Eliminate Revenue Insurance in Some Years? FCIC is also proposing that *"if there is insufficient price information to set the projected price for a crop, the projected price will be determined by FCIC and no revenue protection will be available" (Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40200).*

This rule would eliminate revenue insurance for some crops in years when the appropriate futures do not trade. Because RMA is making greater use of the September winter wheat futures contract for price discovery the elimination of revenue insurance in selected years is more likely than one might think. There have been years when the September wheat contract has been lightly or not traded during the fall measurement period and would not met the definition in some of the new proposed futures price measurements. It would seem that RMA would at least want to refer the question to the Board rather than cancel the affected revenue insurance contract.

Crops to be Eliminated from Revenue Insurance. RMA proposes to eliminate revenue coverage on corn silage, rapeseed, sunflowers, and Canola. The bottom line is RMA will not forecast any basis in a revenue insurance contract. They will only consider crops that are traded on a futures market. This same principle also eliminates the settlement of wheat contracts based on the Portland cash wheat price in the Pacific Northwest. One would assume growers could purchase GRIP on their corn silage, but the document is silent on this issue.

Rating Method. *"For the revised Basic Provisions and Crop Provisions, for revenue protection, premium rates are calculated by a rating model incorporating the variability and correlation of yield and price. For yield protection, premium rates are calculated the same as the APH policy" (Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40201).*

This provision simply says RMA will use the RA rating method rather than the CRC rating method. RMA will assume any historical price yield correlation will apply at the field or optional unit level (sub-farm level) and the correlation will remain unchanged in a world market versus a historical domestic dominated market. RMA will also continue to use options that are often thinly traded to set the volility measurement. Apparently there was no consideration in measuring the volility directly from the futures contract.

Does The Basic Combo Policy Provide Yield Protection? If market prices increase during the life of an APH contract, then in a loss situation APH will **NOT** provide enough indemnity dollars to replace lost bushes at current market value. However, growers that are feeding their production or have forward contracted their grain must purchase those bushels at the current higher market price, not at the forecasted price set by RMA at signup. Under the Combo policy with no endorsements, lost yield measurement triggers the payments based on the forecasted price set by RMA at signup, but if market prices increase then indemnity payment will not replace lost production at current market value.

The APH policy (and the prior name MPCI) do not guarantee yield. These products guarantee "yield" if and on if the RMA price forecast is correct. However all marketing plans including buying put options assume growers will have production to offset the forward pricing of the crop. If production is not assumed then one does not need to be a farmer, because anyone can sell futures or buy put options. Uninsured farmers with failed crops who have sold futures are in exactly the same financial position as Chicago speculative traders. Under the Combo policy growers will need to purchase the harvest price option endorsement (HPO) to guarantee production at replacement value not at a forecasted price set at harvest.

Limit on RA-HPO Coverage. *"For the revised Basic Provisions and Crop Provisions, FCIC proposes that the harvest price will not exceed 160 percent of the projected price" (Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40201).*

The current RA-HPO policy has no liability limit while CRC has a limit on the change in price (Limit for corn is $1.50 and similar limits on other crops). The new policy would set the limit on price increases at 160% of the base price and these limits would be similar to the CRC limits. Those CRC limits were set when the private Market Value Protection (MVP) product was developed in 1990. This was the first crop insurance contract that included price risk and because all of the coverage had to be reinsured privately, those limits were set very "tight". Those limits were simply carried over to CRC when it was approve in 1996. RA was approved with no limit in 2000 but had RMA reinsurance so that all of the risk was not reinsured privately as was the case for MVP.

CRC also had a downside price limit that was the same as the limit on price increases. The downside price limit was unnecessary because the price movement was limited to zero price, i.e. no negative prices. The new rules appear to eliminate any limit on downside price risk and that make sense.

One would have expected a compromise between the extreme of no price limit and the CRC dollar limit. The 160% limit simulates price limits that are similar to CRC but as the designer of CRC these limits were too low. The crop insurance contract often servers as the collateral for maintaining margins loans on a hedge account. While there is little chance that the harvest price will exceed the price limit, the markets can and do get wild in the summer time. A higher limit of 180% or more would be valuable to growers and ag lenders. The real value of CRC/RA-HPO is not the insurance indemnity payments but the fact that it allows growers to maintain a hedge position. These replacement insurance contracts effectively expand the marketing window up to 3 years before harvest to 9 months after harvest with on farm storage and FSA commodity loans. During the summer months the margin calls can exceed the price limits in CRC and effectively start to reduce the hedge position. By increasing the price limit from 160% to 180% that would lower the possibility of margin calls during the growing season exceeding the price limit but with little chance of paying those higher prices at harvest when indemnity payments are calculated. Growers would prefer the no limit in the RA-HPO contract but that probably is not a realistic alternative but higher limits would seem reasonable.

Minimum Market Trades Required. *" If there is not a minimum of 8 prices established on full active trading days for the applicable contract months specified for the insured crop in paragraph 3, additional daily settlement prices will be used to establish the average daily settlement price until there are 8 prices established on full active trading days."*
In addition: *"there are at least 25 open interest contracts on the relevant futures contract" (Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40202).*

RMA will require 25 open futures contract so that one has a "real" market test. This rule makes sense. However, it unclear why RMA wants to reduce the current measurement period for the base price from a month to two weeks (in most years this will average 10 prices are less). A couple of major price movements could greatly alter the average for such a short price measurement period. It is unclear what RMA thinks is “broke” with the current monthly measurement. It is also unclear how RMA will obtain the additional daily prices if the market does not provide the minimum of 8 approved prices to be averaged. For example if there are not 8 approved KCBOT September wheat prices for the period from September 1 to 15, will RMA include prices on September 16, 17, etc. until the minimum of 8 prices are observed? Or will RMA take the additional prices during the last week of August? Or will RMA take prices form other contract months, for example substitute new crop July prices for non-trading September prices? Or will RMA use prices from the CBOT to substitute for non-trading KCBOT prices? This pricing method is not defined and one would probably want to leave open the alternative for the Board to intervene as they did a few years ago. There was one year when the KCBOT options did not trade and there was no volatility measure for the RA contract. The Board made the decision before sales closing to use the volility measure from the CBOT options and that clearly made sense.

RMA reserves the right to omit any daily settlement price. *“RMA reserves the right to omit any daily settlement price RMA reserves the right to omit any daily settlement price or additional daily settlement price if market conditions are different than those used to rate or price revenue protection” (For example, the trading hits the limits imposed by the Commodity Exchange) (Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40202).*

Why would one delete limit moves in the market? We know the commodity is worth at least that amount and in a day or two the market will trade higher (lower if it was limit down move). This also increases the possibility that RMA will not meet the minimum of 8 approved prices and all of the above issues will apply. If RMA were to retain the monthly measurement then any limit move whether included or omitted will have less impact on the final price.

Current RMA Price Discovery vs. Proposed Price Discovery

RMA is proposing a number of changes in their price discovery procedure. Below are comparisons of the historical price discovery for the current RA/CRC contracts versus the historical prices using the new price discovery proposed under the Combo policy.

Kansas Corn (and many other states) *(Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40210)*

The new procedure will set the base corn price using the average closing prices for February 14-28 of the new crop CBOT December corn contract. The harvest price will be the October average closing prices of the nearby CBOT December corn contract. This is the same harvest price currently used by CRC and will allow loss adjusters to settle both corn and soybean claims on the same farm visit. There is little impact on the historical prices with the Combo price changes (table 1).

Table 1. Historical RA/CRC Corn Market Prices vs. Combo Prices

	Year	CBOT Dec Corn RA/C RC Plant Price Price	Combo Plant Price	Oct Harv. Price	CRC Oct Avg. Change	CRC % Price Change	Combo Oct Avg. Change	Combo % Price Change	Price Limit	Difference in CRC Plant vs. Combo Plant Price
1	2006	2.59	2.61						1.57	0.02
2	2005	2.32	2.343	2.02	(0.30)	-12.9%	(0.32)	-13.8%	1.41	0.02
3	2004	2.83	2.88278	2.05	(0.78)	-27.6%	(0.83)	-28.9%	1.73	0.05
4	2003	2.42	2.39775	2.26	(0.16)	-6.6%	(0.14)	-5.7%	1.44	(0.02)
5	2002	2.32	2.3195	2.52	0.20	8.6%	0.20	8.6%	1.39	(0.00)
6	2001	2.46	2.45975	2.08	(0.38)	-15.3%	(0.38)	-15.3%	1.48	(0.00)
7	2000	2.51	2.5035	2.04	(0.47)	-18.7%	(0.46)	-18.4%	1.50	(0.01)
8	1999	2.40	2.38333	2.01	(0.39)	-16.1%	(0.37)	-15.6%	1.43	(0.02)
9	1998	2.84	2.81	2.19	(0.65)	-23.0%	(0.62)	-22.2%	1.69	(0.03)
10	1997	2.73	2.78375	2.81	0.08	3.1%	0.03	1.1%	1.67	0.05
11	1996	3.08	3.13925	2.84	(0.25)	-7.9%	(0.30)	-9.6%	1.88	0.06
12	1995	2.57	2.579	3.23	0.66	25.7%	0.65	25.2%	1.55	0.01
13	1994	2.68	2.6905	2.16	(0.52)	-19.5%	(0.53)	-19.7%	1.61	0.01
14	1993	2.40	2.39083	2.49	0.09	3.7%	0.10	4.0%	1.43	(0.01)
15	1992	2.70	2.70425	2.09	(0.62)	-22.7%	(0.62)	-22.8%	1.62	0.00
16	1991	2.59	2.599	2.51	(0.08)	-3.1%	(0.09)	-3.5%	1.56	0.01
17	1990	2.47	2.50925	2.30	(0.18)	-7.1%	(0.21)	-8.4%	1.51	0.04
18	1989	2.71	2.704	2.39	(0.32)	-11.7%	(0.31)	-11.5%	1.62	(0.01)
19	1988	2.17	2.1825	2.89	0.72	33.3%	0.70	32.3%	1.31	0.02
20	1987	1.69	1.67111	1.83	0.14	8.3%	0.16	9.6%	1.00	(0.02)
21	1986	2.11	2.07725	1.69	(0.41)	-19.5%	(0.38)	-18.5%	1.25	(0.03)
22	1985	2.66	2.6465	2.23	(0.43)	-16.1%	(0.41)	-15.6%	1.59	(0.02)
23	1984	2.86	2.839	2.78	(0.07)	-2.6%	(0.06)	-1.9%	1.70	(0.02)
24	1983	2.88	2.897	3.48	0.59	20.6%	0.58	20.0%	1.74	0.01
25	1982	3.00	2.95944	2.20	(0.80)	-26.8%	(0.76)	-25.7%	1.78	(0.04)
26	1981	3.77	3.78167	2.91	(0.86)	-22.8%	(0.87)	-23.1%	2.27	0.02
27	1980	3.12	3.12375	3.61	0.49	15.6%	0.49	15.5%	1.87	0.00
28	1979	2.59	2.6185	2.78	0.19	7.4%	0.16	6.2%	1.57	0.03
29	1978	2.27	2.27075	2.31	0.04	1.6%	0.04	1.6%	1.36	0.00
30	1977	2.73	2.7515	2.09	(0.65)	-23.7%	(0.67)	-24.2%	1.65	0.02
31	1976	2.72	2.7425	2.65	(0.07)	-2.4%	(0.09)	-3.3%	1.65	0.03
32	1975	2.72	2.6235	2.91	0.19	7.0%	0.28	10.7%	1.57	(0.09)
33	1974	2.89	3.01475	3.80	0.91	31.5%	0.79	26.1%	1.81	0.12
34	1973	1.38	1.41487	2.46	1.08	77.7%	1.04	73.8%	0.85	0.03
Average Price		2.59	2.60	2.50	(0.091)		(0.098)		1.56	
Sd. Deviation		0.42	0.42	0.51	0.503		0.493		0.25	
Max Price Increase					1.076		1.045		2.27	
Max Price Decrease					(0.858)		(0.875)		0.85	

Kansas Soybeans (and many other states) *(Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40212)*

The new procedure will set the base soybean price using the average closing prices for February 14-28 of the new crop CBOT November soybean contract and is a change from the current February average closing prices. The harvest price will be the October average closing prices of the nearby CBOT November soybean contract. This is the same harvest price as used by CRC/RA/IP and will allow loss adjusters to settle both corn and soybean claims on the same farm visit. There is little impact on the historical prices with the Combo price changes (table 2).

Table 2. Historical RA/CRC Soybean Market Prices vs. Combo Prices

	Year	CBOT Nov Soybeans: RA/CRC Plant Price	CBOT Nov Soybeans: Combo Plant Price	Oct Harv. Price	CRC: Oct Avg. Change	CRC: % Price Change	Combo: Oct Avg. Change	Combo: % Price Change	Price Limit	Difference in CRC Plant vs. Combo Plant Price
1	2006	6.18	5.61						3.37	(0.57)
2	2005	5.53	5.77	5.75	0.21	3.9%	(0.03)	-0.5%	3.46	0.24
3	2004	6.72	6.99	5.26	(1.45)	-21.6%	(1.73)	-24.7%	4.20	0.28
4	2003	5.26	5.25	7.32	2.06	39.2%	2.07	39.4%	3.15	(0.01)
5	2002	4.50	4.54	5.45	0.95	21.1%	0.90	19.9%	2.72	0.05
6	2001	4.67	4.61	4.37	(0.29)	-6.3%	(0.24)	-5.2%	2.77	(0.06)
7	2000	5.32	5.31	4.72	(0.60)	-11.2%	(0.59)	-11.1%	3.19	(0.01)
8	1999	5.11	4.97	4.85	(0.26)	-5.1%	(0.12)	-2.4%	2.98	(0.14)
9	1998	6.64	6.53	5.46	(1.18)	-17.7%	(1.07)	-16.3%	3.92	(0.11)
10	1997	6.97	7.04	6.82	(0.15)	-2.1%	(0.21)	-3.0%	4.22	0.07
11	1996	7.23	7.31	7.07	(0.16)	-2.2%	(0.24)	-3.2%	4.38	0.08
12	1995	5.85	5.89	6.56	0.71	12.2%	0.67	11.4%	3.53	0.04
13	1994	6.48	6.53	5.41	(1.07)	-16.5%	(1.12)	-17.1%	3.92	0.05
14	1993	5.86	5.87	6.15	0.29	4.9%	0.29	4.9%	3.52	0.00
15	1992	6.06	6.10	5.38	(0.68)	-11.3%	(0.72)	-11.9%	3.66	0.04
16	1991	6.15	6.17	5.60	(0.55)	-9.0%	(0.57)	-9.3%	3.70	0.02
17	1990	5.95	5.97	6.12	0.16	2.7%	0.15	2.5%	3.58	0.02
18	1989	7.24	7.25	5.62	(1.62)	-22.4%	(1.63)	-22.5%	4.35	0.00
19	1988	6.43	6.50	7.93	1.50	23.3%	1.42	21.9%	3.90	0.07
20	1987	4.71	4.65	5.38	0.67	14.2%	0.73	15.7%	2.79	(0.06)
21	1986	5.15	5.10	4.82	(0.34)	-6.5%	(0.28)	-5.5%	3.06	(0.06)
22	1985	6.06	6.00	5.05	(1.01)	-16.7%	(0.95)	-15.8%	3.60	(0.07)
23	1984	7.11	7.08	6.14	(0.97)	-13.6%	(0.94)	-13.3%	4.25	(0.03)
24	1983	6.33	6.32	8.43	2.09	33.1%	2.11	33.4%	3.79	(0.02)
25	1982	6.76	6.63	5.32	(1.43)	-21.2%	(1.31)	-19.7%	3.98	(0.13)
26	1981	8.26	8.30	6.56	(1.70)	-20.6%	(1.73)	-20.9%	4.98	0.04
27	1980	7.29	7.19	8.57	1.28	17.6%	1.38	19.2%	4.31	(0.10)
28	1979	6.97	7.05	6.72	(0.25)	-3.6%	(0.33)	-4.7%	4.23	0.08
29	1978	5.76	5.80	6.84	1.08	18.7%	1.04	17.9%	3.48	0.04
30	1977	6.97	7.02	5.31	(1.65)	-23.7%	(1.71)	-24.3%	4.21	0.05
31	1976	5.09	5.10	6.41	1.33	26.1%	1.31	25.6%	3.06	0.02
32	1975	5.76	5.54	5.25	(0.51)	-8.9%	(0.30)	-5.3%	3.33	(0.22)
33	1974	6.30	6.34	8.59	2.29	36.4%	2.25	35.4%	3.81	0.04
34	1973	3.95	4.11	5.84	1.90	48.1%	1.74	42.3%	2.46	0.16
Average Price		6.07	6.09	6.09	0.020		0.007		3.65	
Sd. Deviation		0.96	0.97	1.12	1.186		1.179		0.58	
Max Price Increase					2.292		2.248		4.98	
Max Price Decrease					(1.699)		(1.735)		2.46	

Kansas Wheat (and many other states) *(Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40213)*

The new procedure will set the base Kansas wheat price using the average closing prices for September 1-15 of the new crop KCBOT July Wheat contract. The harvest price will be the June average closing prices of the nearby KCBOT July Wheat contract. This is the same harvest price as used by CRC. There is little impact on the historical prices with the Combo price changes (table 3).

Table3. Historical RA/CRC Wheat Market Prices vs. Combo Prices for Kansas Wheat and many other States

		KCBOT July Wheat				CRC		Combo		RA			Difference in CRC Plant vs. Combo Plant Price	Difference in RA Harv. vs. Combo Harv. Price
	Year	RA/CRC Plant Price	Combo	RA Harv. Price	CRC/ Combo Harv. Price	Jun Avg. Change	% Price Change	Jun Avg. Change	% Price Change	Jul 1-14 Avg Change	% Price Change	Price Limit		
1	2006	3.52	3.50	5.02	4.81	1.29	36.6%	1.31	37.4%	1.50	42.6%	2.10	(0.02)	(0.21)
2	2005	3.56	3.60	3.35	3.28	(0.28)	-7.9%	(0.32)	-8.9%	(0.21)	-6.0%	2.16	0.04	(0.07)
3	2004	3.40	3.35	3.64	3.77	0.37	10.9%	0.42	12.6%	0.24	6.9%	2.01	(0.05)	0.13
4	2003	3.73	3.83	3.00	3.14	(0.59)	-15.8%	(0.69)	-17.9%	(0.74)	-19.7%	2.30	0.10	0.15
5	2002	3.34	3.29	3.40	3.09	(0.25)	-7.5%	(0.20)	-6.2%	0.06	1.8%	1.98	(0.05)	(0.31)
6	2001	3.31	3.34	3.00	3.07	(0.24)	-7.3%	(0.27)	-8.2%	(0.31)	-9.2%	2.01	0.03	0.07
7	2000	3.34	3.35	2.87	3.02	(0.32)	-9.6%	(0.33)	-9.8%	(0.48)	-14.2%	2.01	0.01	0.15
8	1999	3.16	3.14	2.62	2.84	(0.32)	-10.1%	(0.31)	-9.7%	(0.53)	-16.9%	1.89	(0.01)	0.21
9	1998	3.95	3.95	2.94	3.04	(0.91)	-23.1%	(0.91)	-23.0%	(1.01)	-25.5%	2.37	(0.00)	0.10
10	1997	4.13	4.03	3.30	3.64	(0.48)	-11.7%	(0.39)	-9.6%	(0.83)	-20.1%	2.42	(0.09)	0.35
11	1996	3.91	3.99	5.35	5.76	1.85	47.4%	1.77	44.5%	1.45	37.0%	2.39	0.08	0.41
12	1995	3.52	3.58	4.67	4.24	0.72	20.4%	0.66	18.5%	1.14	32.5%	2.15	0.06	(0.42)
13	1994	3.00	3.00	3.30	3.37	0.36	12.0%	0.36	12.0%	0.30	9.9%	1.80	(0.00)	0.06
14	1993	3.20	3.22	3.04	2.87	(0.33)	-10.3%	(0.35)	-10.9%	(0.16)	-5.1%	1.93	0.02	(0.17)
15	1992	3.05	3.09	3.38	3.59	0.54	17.9%	0.51	16.4%	0.33	10.8%	1.85	0.04	0.22
16	1991	3.07	3.02	2.69	2.86	(0.21)	-6.9%	(0.16)	-5.5%	(0.38)	-12.5%	1.81	(0.05)	0.17
17	1990	3.69	3.61	3.08	3.29	(0.40)	-10.9%	(0.32)	-8.8%	(0.61)	-16.5%	2.16	(0.08)	0.21
18	1989	3.65	3.75	4.17	4.14	0.49	13.5%	0.39	10.3%	0.52	14.3%	2.25	0.11	(0.03)
19	1988	2.78	2.77	3.83	3.79	1.01	36.4%	1.02	37.0%	1.05	37.9%	1.66	(0.01)	(0.04)
20	1987	2.39	2.38	2.59	2.64	0.25	10.5%	0.26	10.7%	0.20	8.2%	1.43	(0.01)	0.05
21	1986	2.74	2.76	2.39	2.44	(0.31)	-11.2%	(0.33)	-11.9%	(0.35)	-12.8%	1.66	0.02	0.04
22	1985	3.54	3.50	3.12	3.20	(0.33)	-9.4%	(0.30)	-8.6%	(0.42)	-11.8%	2.10	(0.03)	0.08
23	1984	4.05	4.04	3.60	3.65	(0.40)	-9.9%	(0.39)	-9.6%	(0.45)	-11.1%	2.42	(0.01)	0.05
24	1983	3.92	3.92	3.59	3.58	(0.34)	-8.7%	(0.34)	-8.6%	(0.33)	-8.5%	2.35	(0.01)	(0.01)
25	1982	4.56	4.48	3.57	3.64	(0.92)	-20.1%	(0.84)	-18.8%	(0.99)	-21.7%	2.69	(0.07)	0.07
26	1981	4.88	4.99	4.20	4.22	(0.66)	-13.5%	(0.77)	-15.4%	(0.68)	-14.0%	2.99	0.11	0.02
27	1980	4.25	4.22	4.23	4.09	(0.17)	-3.9%	(0.13)	-3.2%	(0.03)	-0.6%	2.53	(0.03)	(0.14)
28	1979	3.06	3.10	4.32	4.09	1.03	33.7%	0.99	31.9%	1.26	41.1%	1.86	0.04	(0.23)
29	1978	2.50	2.56	3.11	3.05	0.56	22.2%	0.49	19.3%	0.62	24.7%	1.53	0.06	(0.06)
30	1977	3.56	3.52	2.38	2.36	(1.20)	-33.8%	(1.17)	-33.1%	(1.18)	-33.2%	2.11	(0.04)	(0.02)
31	1976	4.28	4.19	3.80	3.76	(0.52)	-12.2%	(0.43)	-10.3%	(0.48)	-11.3%	2.51	(0.09)	(0.04)
32	1975	4.38	4.33	3.32	3.15	(1.23)	-28.0%	(1.18)	-27.2%	(1.06)	-24.3%	2.60	(0.05)	(0.16)
33	1974	3.75	3.98	4.34	4.05	0.30	8.1%	0.07	1.8%	0.59	15.6%	2.39	0.23	(0.28)
34	1973	1.88	1.89	2.60	2.59	0.72	38.1%	0.71	37.5%	0.72	38.2%	1.13	0.01	(0.00)
Average Price		3.50	3.51	3.46	3.47	(0.027)		(0.034)		(0.037)		2.10		
Sd. Deviation		0.64	0.64	0.73	0.70	0.709		0.689		0.745		0.38		
Max Price Increase						1.852		1.773		1.500		2.99		
Max Price Decrease						(1.227)		(1.178)		(1.180)		1.13		

Nebraska Wheat (and many other states) *(Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40213)*

The new procedure will set the base Nebraska wheat price using the average closing prices for September 1-15 of the new crop KCBOT **September** Wheat contract. The harvest price will be the July average closing prices of the nearby KCBOT **September** Wheat contract. This does not match the base or harvest price used by either CRC or RA. There is little impact on the long run average historical prices with the Combo price changes (table 4). However September new crop wheat is often lightly traded or not traded in the fall and there maybe years when the KCBOT does not meet the minimum of 8 approved traded prices. It is unclear how RMA will adjust if there are not sufficient trades to meet the minimum of 8 approved trades. RMA does state if the base prices conditions are not met then there would be no revenue insurance offer that year.

Table 4. Historical KCBOT Wheat Market Prices for Nebraska and other Northern States with Sep 30 Sales Closing

		KCBOT July Wheat		CRC			Combo					
	Year	CRC Plant Price	Combo Plant	CRC Harv. Price	CRC Avg. Change	% Price Change	Combo Harv. Price	July Avg. Change	% Price Change	Price Limit	Difference in CRC Plant vs. Combo Plant Price	Difference in RA Harv. vs. Combo Harv. Price
1	2006	3.52	3.55	3.85						2.13	0.03	
2	2005	3.56	3.64	3.40	(0.16)	-4.5%	3.41	(0.23)	-6.3%	2.19	0.08	0.01
3	2004	3.40	3.38	3.44	0.04	1.2%	3.61	0.22	6.6%	2.03	(0.02)	0.17
4	2003	3.73	3.85	3.40	(0.33)	-8.8%	3.19	(0.65)	-17.0%	2.31	0.12	(0.21)
5	2002	3.34	3.34	3.72	0.38	11.4%	3.53	0.19	5.7%	2.00	0.00	(0.19)
6	2001	3.31	3.41	3.07	(0.24)	-7.3%	3.11	(0.30)	-8.7%	2.04	0.10	0.04
7	2000	3.34	3.40	2.79	(0.55)	-16.5%	2.88	(0.52)	-15.3%	2.04	0.06	0.09
8	1999	3.16	3.20	2.84	(0.32)	-10.0%	2.73	(0.47)	-14.7%	1.92	0.05	(0.11)
9	1998	3.95	3.98	2.82	(1.13)	-28.6%	2.93	(1.05)	-26.4%	2.39	0.03	0.11
10	1997	4.13	4.06	3.64	(0.48)	-11.7%	3.50	(0.56)	-13.9%	2.44	(0.07)	(0.15)
11	1996	3.91	4.02	4.87	0.96	24.7%	5.04	1.02	25.3%	2.41	0.11	0.17
12	1995	3.52	3.60	4.70	1.17	33.3%	4.67	1.07	29.7%	2.16	0.07	(0.03)
13	1994	3.00	3.03	3.41	0.40	13.5%	3.33	0.29	9.7%	1.82	0.03	(0.08)
14	1993	3.20	3.25	3.09	(0.11)	-3.4%	3.06	(0.20)	-6.0%	1.95	0.05	(0.03)
15	1992	3.05	3.19 *	3.17	0.12	4.1%	3.33	0.14	4.5%	1.91	0.14	0.16
16	1991	3.07	2.93 *	2.89	(0.18)	-5.9%	2.78	(0.15)	-5.1%	1.76	(0.14)	(0.11)
17	1990	3.69	3.49 *	2.89	(0.80)	-21.6%	3.05	(0.44)	-12.7%	2.10	(0.20)	0.16
18	1989	3.65	3.78	4.01	0.36	10.0%	4.07	0.29	7.7%	2.27	0.13	0.06
19	1988	2.78	2.79	3.79	1.01	36.3%	3.86	1.07	38.3%	1.67	0.01	0.07
20	1987	2.39	2.40 *	2.58	0.19	7.9%	2.58	0.19	7.8%	1.44	0.01	0.01
21	1986	2.74	2.81	2.50	(0.24)	-8.7%	2.45	(0.36)	-12.8%	1.68	0.07	(0.05)
22	1985	3.54	3.55	2.99	(0.55)	-15.5%	3.09	(0.46)	-12.9%	2.13	0.01	0.10
23	1984	4.05	4.10	3.62	(0.43)	-10.6%	3.61	(0.49)	-11.9%	2.46	0.05	(0.01)
24	1983	3.92	3.75 *	3.73	(0.20)	-5.1%	3.61	(0.14)	-3.7%	2.25	(0.18)	(0.11)
25	1982	4.56	4.57	3.63	(0.92)	-20.3%	3.66	(0.91)	-20.0%	2.74	0.01	0.03
26	1981	4.88	5.09	4.31	(0.57)	-11.8%	4.33	(0.76)	-14.9%	3.05	0.21	0.02
27	1980	4.25	4.53 *	4.39	0.14	3.3%	4.34	(0.19)	-4.1%	2.72	0.28	(0.05)
28	1979	3.06	3.06 **	4.11	1.05	34.3%	4.28	1.22	39.8%	1.84	0.00	0.17
29	1978	2.50	2.80 *	3.00	0.51	20.4%	3.06	0.25	9.0%	1.68	0.31	0.05
30	1977	3.56	3.24 *	2.33	(1.23)	-34.4%	2.38	(0.85)	-26.4%	1.94	(0.32)	0.05
31	1976	4.28	4.28 **	3.50	(0.78)	-18.3%	3.73	(0.55)	-12.9%	2.57	0.00	0.23
32	1975	4.38	4.38 **	3.83	(0.55)	-12.6%	3.58	(0.80)	-18.3%	2.63	0.00	(0.25)
33	1974	3.75	3.96 *	4.42	0.67	17.8%	4.43	0.47	11.9%	2.38	0.21	0.01
34	1973	1.88	1.98 *	3.45	1.57	83.6%	3.53	1.55	78.2%	1.19	0.10	0.08
Average Price		3.50	3.54	3.48	(0.036)		3.48	(0.064)		2.12		
Sd. Deviation		0.64	0.65	0.63	0.685		0.64	0.664		0.39		
Max Price Increase					1.569			1.548		3.05		
Max Price Decrease					(1.226)			(1.050)		1.19		

*If the market did not trade during the period used to set the base price, the KSU estimate then used the first 10 days after September 16 with trades. This is the best estimate of the wheat price but would not work for the combo policy because these trades occurred between September 16 and October 30.

**If no trades occurred until after October, the best estimate was the current base price

Pacific Northwest Wheat *(Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40213)*

The new procedure will set the base Oregon, Washington, and Idaho wheat price using the average closing prices for September 1-15 of the new crop KCBOT **September** Wheat contract. The harvest price will be the August average closing prices of the nearby KCBOT **September** Wheat contract (table 5). The KCBOT September new crop wheat contract is lightly traded or not traded in the fall and there maybe years the KCBOT does not meet the minimum of 8 approved traded prices. It is unclear how RMA will adjust if there are not sufficient trades to meet the minimum of 8 approved traded prices. RMA does state if the base prices conditions are not met then there would be no revenue insurance offer that year.

A major change is the Combo policy will settle crop losses based on the KCBOT August average closing prices of the nearby September futures contract. Currently CRC and IP settle on the cash price for Portland as reported by the USDA. On average this change will lower coverage by about 25 cents per bushels but in some years the KCBOT prices were more than 50 cents below the Portland prices and are highlighted in red Table 5).

Table 5. Historical Portland and KCBOT Wheat Market Prices for Pacific Northwest with Sep 30 Sales Closing

		KCBOT July Wheat			CRC			Combo					
	Year	CRC* Plant Price	Combo Plant		CRC Harv. Price	CRC Avg. Change	% Price Change	Combo Harv. Price	Sep Avg. Change	% Price Change	Price Limit	Difference in KC vs. Portland Plant Price	Difference in KC vs. Portland Harvest Price
1	2006	4.13	3.55								2.13		
2	2005	4.01	3.64		3.54	(0.47)	-11.7%	3.43	(0.21)	-5.8%	2.19	(0.37)	0.11
3	2004	3.84	3.38		3.90	0.06	1.6%	3.29	(0.10)	-2.8%	2.03	(0.46)	0.61
4	2003	3.99	3.85		3.91	(0.08)	-2.0%	3.62	(0.23)	-5.9%	2.31	(0.14)	0.29
5	2002	3.48	3.34		4.07	0.59	17.1%	3.90	0.56	16.8%	2.00	(0.13)	0.17
6	2001	3.41	3.41		3.52	0.11	3.3%	2.98	(0.42)	-12.4%	2.04	0.00	0.53
7	2000	3.61	3.40		2.65	(0.96)	-26.6%	2.80	(0.60)	-17.8%	2.04	(0.21)	-0.15
8	1999	3.40	3.20		3.14	(0.26)	-7.5%	2.92	(0.28)	-8.7%	1.92	(0.19)	0.22
9	1998	4.38	3.98		2.66	(1.72)	-39.3%	2.75	(1.23)	-30.9%	2.39	(0.40)	-0.09
10	1997	4.32	4.06		4.09	(0.23)	-5.3%	3.74	(0.32)	-7.8%	2.44	(0.26)	0.35
11	1996	4.05	4.02		5.02	0.97	24.0%	4.79	0.77	19.2%	2.41	(0.03)	0.23
12	1995	3.53	3.60		4.65	1.12	31.6%	4.57	0.97	27.1%	2.16	0.06	0.08
13	1994	3.78	3.03		3.71	(0.07)	-1.8%	3.57	0.53	17.6%	1.82	(0.74)	0.14
14	1993	3.65	3.25		3.44	(0.21)	-5.7%	3.10	(0.15)	-4.7%	1.95	(0.40)	0.34
15	1992	3.51	3.19	**	3.99	0.48	13.8%	3.08	(0.11)	-3.5%	1.91	(0.32)	0.91
16	1991	3.97	2.93	**	3.48	(0.49)	-12.3%	3.00	0.07	2.4%	1.76	(1.04)	0.48
17	1990	4.02	3.49	**	3.21	(0.81)	-20.1%	2.77	(0.72)	-20.7%	2.10	(0.52)	0.44
18	1989	3.08	3.78		4.50	1.42	46.0%	4.02	0.24	6.4%	2.27	0.70	0.48
19	1988	2.64	2.79		4.15	1.51	57.4%	3.82	1.03	36.9%	1.67	0.15	0.33
20	1987	3.16	2.40	**	2.73	(0.43)	-13.6%	2.66	0.27	11.1%	1.44	(0.76)	0.07
21	1986	3.96	2.81		2.68	(1.28)	-32.3%	2.49	(0.31)	-11.2%	1.68	(1.15)	0.19
22	1985	4.41	3.55		3.45	(0.96)	-21.7%	2.95	(0.60)	-17.0%	2.13	(0.86)	0.50
23	1984	4.10	4.10		3.74	(0.36)	-8.8%	3.69	(0.41)	-10.1%	2.46	0.00	0.05
24	1983	4.91	3.75	**	4.06	(0.85)	-17.4%	3.87	0.12	3.1%	2.25	(1.16)	0.19
25	1982	5.30	4.57		4.16	(1.14)	-21.5%	3.62	(0.94)	-20.7%	2.74	(0.73)	0.54
26	1981	4.62	5.09		4.25	(0.37)	-8.0%	4.19	(0.89)	-17.6%	3.05	0.47	0.06
27	1980	3.47	4.53	**	4.06	0.59	16.9%	4.41	(0.12)	-2.7%	2.72	1.06	-0.35
28	1979	2.89	2.89	***	4.45	1.56	53.9%	4.10	1.20	41.7%	1.74	0.00	0.35
29	1978	2.82	2.80	**	3.71	0.89	31.5%	3.04	0.24	8.6%	1.68	(0.02)	0.67
30	1977	3.32	3.24	**	2.88	(0.44)	-13.3%	2.30	(0.93)	-28.8%	1.94	(0.09)	0.58
31	1976	4.36	4.36	***	3.35	(1.01)	-23.2%	3.26	(1.10)	-25.2%	2.62	0.00	0.09
32	1975	5.06	5.06	***	4.27	(0.79)	-15.6%	4.12	(0.94)	-18.5%	3.04	0.00	0.15
33	1974	3.90	3.96	**	4.57	0.67	17.2%	4.36	0.39	9.9%	2.38	0.06	0.21
34	1973	2.02	1.98	**	4.88	2.86	141.6%	4.47	2.49	125.9%	1.19	(0.04)	0.41
Average Price		3.80	3.56		3.78	(0.002)	4.5%	3.51	(0.053)	1.6%	2.13		
Sd. Deviation		0.69	0.69		0.644	0.989		0.66	0.777		0.41		
Max Price Increase						2.860			2.491		3.05		
Max Price Decrease						(1.720)			(1.228)		1.19		

*The CRC Portland base price is current set on the average closing prices for CBOT new crop September futures plus a 5 year average Portland basis.

**If the market did not trade during the period used to set the base price, the KSU estimate then used the first 10 days after September 16 with trades. This is the best estimate of the wheat price but would not work for the combo policy because these trades occurred between September 16 and October 30.

***If no trades occurred until after October, the best estimate was the current base price based on July futures

Kansas Cotton (and many other states) *(Federal Register / Vol. 71, No. 135 / Friday, July 14, 2006 / Proposed Rules, p. 40208)*

The new procedure will set the base Kansas cotton price using the average closing prices for February 14-28 of the new crop NYBOT December cotton contract. The harvest price will be the November average closing prices of the nearby NYBOT December cotton contract. RMA plans to change the base price but this is the same harvest price as used by CRC. There is little impact on the historical prices with the Combo price changes (table 6).

Table 6. Historical NYBOT Cotton Market Prices for Kansas and other States

		NYBOT Dec Cotton		CRC			Combo				
	Year	CRC* Plant Price	Combo Plant	CRC Harv. Price	CRC Avg. Change	% Price Change	Combo Harv. Price	Sep Avg. Change	% Price Change	Price Limit	Difference in CRC vs. Combo Plant Price
1	2006	0.60	0.60							0.36	
2	2005	0.50	0.53	0.50	0.00	0.0%	0.50	(0.02)	-4.4%	0.32	0.03
3	2004	0.68	0.67	0.46	(0.22)	-32.4%	0.46	(0.21)	-31.4%	0.40	(0.01)
4	2003	0.59	0.60	0.73	0.14	23.7%	0.73	0.13	20.8%	0.36	0.01
5	2002	0.43	0.41	0.48	0.05	11.6%	0.48	0.07	16.7%	0.25	(0.02)
6	2001	0.61	0.58	0.34	(0.27)	-44.3%	0.34	(0.24)	-41.9%	0.35	(0.03)
7	2000	0.61	0.62	0.65	0.04	6.6%	0.65	0.03	4.4%	0.37	0.01
8	1999	0.62	0.59	0.50	(0.12)	-18.7%	0.50	(0.09)	-14.5%	0.35	(0.03)
9	1998	0.72	0.71	0.66	(0.06)	-8.6%	0.66	(0.06)	-8.1%	0.43	(0.01)
10	1997	0.77	0.77	0.71	(0.06)	-7.5%	0.71	(0.06)	-7.4%	0.46	(0.00)
11	1996	0.78	0.79	0.72	(0.05)	-7.0%	0.72	(0.07)	-8.5%	0.47	0.01
12	1995	0.74	0.76	0.86	0.12	15.5%	0.86	0.10	12.6%	0.46	0.02
13	1994	0.69	0.72	0.74	0.04	6.5%	0.74	0.02	3.1%	0.43	0.02
14	1993	0.61	0.63	0.59	(0.02)	-3.3%	0.59	(0.04)	-6.3%	0.38	0.02
15	1992	0.61	0.60	0.56	(0.05)	-8.1%	0.56	(0.04)	-6.7%	0.36	(0.01)
16	1991	0.66	0.68	0.58	(0.08)	-11.4%	0.58	(0.10)	-14.3%	0.41	0.02
17	1990	0.65	0.65	0.74	0.10	14.8%	0.74	0.09	13.5%	0.39	0.01
18	1989	0.58	0.59	0.72	0.14	23.5%	0.72	0.13	22.0%	0.35	0.01
19	1988	0.61	0.58	0.55	(0.06)	-10.1%	0.55	(0.03)	-5.6%	0.35	(0.03)
20	1987	0.55	0.53	0.69	0.14	24.6%	0.69	0.16	30.5%	0.32	(0.02)
21	1986	0.49	0.45	0.48	(0.00)	-0.4%	0.48	0.03	6.9%	0.27	(0.03)
22	1985	0.67	0.66	0.61	(0.06)	-9.3%	0.61	(0.05)	-6.9%	0.39	(0.02)
23	1984	0.72	0.73	0.65	(0.06)	-8.9%	0.65	(0.08)	-10.5%	0.44	0.01
24	1983	0.68	0.68	0.79	0.11	16.6%	0.79	0.10	15.2%	0.41	0.01
25	1982	0.72	0.72	0.63	(0.09)	-12.8%	0.63	(0.09)	-12.3%	0.43	(0.00)
26	1981	0.84	0.83	0.63	(0.21)	-25.0%	0.63	(0.20)	-23.9%	0.50	(0.01)
27	1980	0.76	0.77	0.89	0.13	16.4%	0.89	0.12	15.5%	0.46	0.01
28	1979	0.64	0.66	0.68	0.04	6.4%	0.68	0.02	3.6%	0.39	0.02
29	1978	0.59	0.59	0.68	0.09	15.0%	0.68	0.09	15.1%	0.35	(0.00)
30	1977	0.66	0.69	0.51	(0.15)	-22.9%	0.51	(0.18)	-26.5%	0.42	0.03
31	1976	0.58	0.59	0.80	0.22	38.2%	0.80	0.21	35.8%	0.35	0.01
32	1975	0.44	0.44	0.54	0.10	22.4%	0.54	0.10	22.5%	0.26	(0.00)
33	1974	0.66	0.62	0.42	(0.24)	-36.8%	0.42	(0.20)	-32.7%	0.37	(0.04)
34	1973	0.33	0.35	0.73	0.40	121.6%	0.73	0.39	111.1%	0.21	0.02
Average Price		0.63	0.63	0.63	0.001	2.9%	0.63	0.001	2.6%	0.38	
Sd. Deviation		0.11	0.11	0.128	0.142		0.13	0.135		0.07	
Max Price Increase					0.403			0.386		0.50	
Max Price Decrease					(0.270)			(0.242)		0.21	

Summary. RMA has proposed a number of rule changes. Many of those changes provide similar results as the current underwriting rules for revenue insurance. However, it is really unclear what the expected advantage is for shorting the base price measurement period from a month to two weeks. This increases the possibility that a limit move will have a large impact on the base price or even prevent the minimum of 8 traded prices.

The other major changes included the elimination of no price increase limit on RA and the elimination of Portland cash prices to settle wheat contracts in the Pacific Northwest.