

**SUMMARY OF CHANGES FOR THE
DAIRY REVENUE PROTECTION INSURANCE POLICY
COMMODITY EXCHANGE ENDORSEMENT
(25-DRP-CEE)
(Released April, 2024)**

The following is a brief description of the changes to the Dairy Revenue Protection Insurance Policy, Commodity Exchange Endorsement that are effective for the 2025 crop year.

- Preamble –
 - Clarified the relationship of the Dairy Revenue Protection Commodity Exchange Endorsement and the Dairy Revenue Protection Insurance Policy.



**UNITED STATES DEPARTMENT OF AGRICULTURE
Federal Crop Insurance Corporation
DAIRY REVENUE PROTECTION INSURANCE POLICY
COMMODITY EXCHANGE ENDORSEMENT (25-DRP-CEE)**

In return for your payment of premium, this Dairy Revenue Protection Commodity Exchange Endorsement will be attached to and made part of the Dairy Revenue Protection (DRP) Insurance Policy subject to the terms and conditions described therein.

This endorsement contains an explanation of the manner in which the data from CME, the Federal Reserve, AMS Announced Milk and Component prices, and NASS Milk Production information is used to set prices for Dairy Revenue Protection.

1. Abbreviations

AMS - Agricultural Marketing Service, an agency within USDA.

CME - The Chicago Mercantile Exchange.

NASS - National Agricultural Statistics Service, an agency within USDA.

RMA - Risk Management Agency, an agency within USDA that has authority to operate the crop insurance programs authorized under the Federal Crop Insurance Act (7 U.S.C. § 1501-1524).

USDA - United States Department of Agriculture.

2. Expected Prices

- (a) The daily CME futures prices for Class III Milk and Class IV Milk for the months within the Quarterly Insurance Period are used to calculate the Expected Class III Milk Price and Expected Class IV Milk Price.
- (b) The Expected Class III (and Class IV) Milk Price is the simple average of the corresponding futures prices for those months falling within a given Quarter of a Quarterly Coverage Endorsement, rounded to the nearest cent.
- (c) The daily CME futures prices for butter, cheese, nonfat dry milk, and dry whey for the months within the Quarterly Insurance Period are used in the Expected Butterfat Price, Expected Protein Price, Expected Nonfat Solids Price, and Expected Other Solids Price using USDA milk pricing calculations for the Sales Period during which you purchased coverage for the applicable Quarterly Coverage Endorsement. Expected butter, nonfat dry milk, cheese, and dry whey prices for a particular month are equal to their respective futures prices, converted to dollars per pound, and rounded to nearest one-hundredth cent. Monthly and quarterly expected component prices are also in dollars per pound, rounded to one-hundredth cent.
- (d) The AMS 2019 formulas for the monthly price calculations are as follows:
 - (i) **Expected Butterfat Price =**
$$\text{(Expected Butter Price - Butter Make Allowance)} \times \text{Butter Manufacturing Yield}$$
$$= \text{(Expected Butter Price - 0.1715)} \times 1.211$$
 - (ii) **Expected Protein Price =**

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$((\text{Expected Cheese Price} - \text{Cheese Make Allowance}) \times \text{Cheese Manufacturing Yield Casein}) + (((\text{Expected Cheese Price} - \text{Cheese Make Allowance}) \times \text{Cheese Manufacturing Yield Butterfat}) - \text{Expected Butterfat Price} \times \text{Butterfat Retention Rate}) \times \text{Butterfat-to-Protein Ratio}$

$= ((\text{Expected Cheese Price} - 0.2003) \times 1.383) + (((\text{Expected Cheese Price} - 0.2003) \times 1.572) - \text{Expected Butterfat price} \times 0.9) \times 1.17$

(iii) **Expected Other Solids Price =**

$(\text{Expected Dry Whey Price} - \text{Dry Whey Make Allowance}) \times \text{Dry Whey Manufacturing Yield}$

$= (\text{Expected Dry Whey Price} - 0.1991) \times 1.03$

(iv) **Expected Nonfat Solids Price =**

$(\text{Expected Nonfat Dry Milk Price} - \text{Nonfat Dry Milk Make Allowance}) \times \text{Nonfat Dry Milk Manufacturing Yield}$

- (d) These calculations are performed for the day corresponding to the sales period for every month with a published futures price.
- (e) The final calculated three-month average Expected Butterfat Price, Expected Protein Price, and Expected Other Solids Price, as defined in the Dairy Revenue Protection Insurance Policy and above, is the simple average of the calculation results for each month within the Quarterly Insurance Period to which the Quarterly Coverage Endorsement applies.
- (f) The daily futures settlement price is used to determine expected prices for each Sales Period (day) for which Dairy Revenue Protection is offered. The futures prices will be released by RMA daily following the CME release of preliminary settlement prices by no later than 4:30 P.M. CT. or no sales will occur for that Sales Period.

3. Actual Prices

- (a) The Actual Class III Milk Price and Actual Class IV Milk Price will be the simple average of their respective monthly price data collected from the AMS, Market Information Branch, *Announcement of Class and Component Prices* for the months in the Quarter applying to the Quarterly Coverage Endorsement.
- (b) Actual Butterfat Price, Actual Protein Price, Actual Nonfat Solids Price, and Actual Other Solids Price will be the simple average of their respective monthly price data collected from the AMS, Market Information Branch, *Announcement of Class and Component Prices* for the months in the Quarter applying to the Quarterly Coverage Endorsement; unless the formulas used in the current version of the *Marketing Order Statistics Price Formulas* report, found at (<https://www.ams.usda.gov/resources/price-formulas>, change after the Sales Period. If report formulas change, Actual Butterfat Price, Actual Protein Price, Actual Nonfat Solids Price, and Actual Other Solids Price will be recalculated by us according to the associated AMS actual prices formulas that were in effect for the Sales Period during which you purchased coverage for the applicable Quarterly Coverage Endorsement.
- (c) The factors for Butter Manufacturing Yield, Nonfat Dry Milk Manufacturing Yield, Dry Whey Manufacturing Yield, Cheese Manufacturing Yield Casein, Cheese Manufacturing Yield Butterfat, Butterfat Retention Rate, Butterfat To Protein Ratio, Butter Make Allowance, Nonfat Dry Milk Make Allowance, Dry Whey Make Allowance, and Cheese Make Allowance are published in the *Marketing Order Statistics Price Formulas* report.
- (d) These components' current values, are defined below in the formulas.

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(e) These factors change infrequently, but in the event they are changed, all policies currently in force will be recalculated based on the factor values on the day for the Sales Period during which you purchased coverage for the applicable Quarterly Coverage Endorsement.

(f) The Actual Butterfat Price, Actual Protein Price, Actual Other Solids Price, Actual and Nonfat Solids Price monthly price calculation formulas for each month are below, using the current formulas:

(i) **Actual Butterfat Price =**

$$(\text{Butter Price} - \text{Butter Make Allowance}) \times \text{Butter Manufacturing Yield}$$

$$= (\text{Butter Price} - 0.1715) \times 1.211$$

(ii) **Actual Protein Price =**

$$= ((\text{Cheese Price} - \text{Cheese Make Allowance}) \times \text{Cheese Manufacturing Yield Casein} + (((\text{Cheese Price} - \text{Cheese Make Allowance}) \times \text{Cheese Manufacturing Yield Butterfat}) - \text{Butterfat Price} \times \text{Butterfat Retention Rate}) \times \text{Butterfat-to-Protein Ratio}$$

$$= ((\text{Cheese Price} - 0.2003) \times 1.383) + (((\text{Cheese Price} - 0.2003) \times 1.572) - \text{Butterfat Price} \times 0.9) \times 1.17$$

(iii) **Actual Other Solids Price =**

$$(\text{Dry Whey Price} - \text{Dry Whey Make Allowance}) \times \text{Dry Whey Manufacturing Yield}$$

$$= (\text{Dry Whey Price} - 0.1991) \times 1.03$$

(iv) **Actual Nonfat Solids Price =**

$$(\text{Actual Nonfat Dry Milk Price} - \text{Nonfat Dry Milk Make Allowance}) \times \text{Nonfat Dry Milk Manufacturing Yield}$$

$$= (\text{Nonfat Dry Milk Price} - 0.1678) \times 0.99$$

(g) These calculations are performed for every month applying to the Quarter of the Quarterly Coverage Endorsement.

(h) The final calculated three-month average Actual Butterfat Price, Actual Protein Price, Actual Other Solids Price and Actual Nonfat Solids Price, as defined in the Dairy Revenue Protection Insurance Policy and above, will be the simple average of the calculation results for each month within the Quarterly Insurance Period to which the Quarterly Coverage Endorsement applies.

(i) Actual prices will generally be released at the same time as the Actual Milk Production per Cow, three to four weeks after the end of the Insurance Period.

4. Futures Options Prices and Volatilities

(a) CME dairy related futures-options are used to infer implied volatilities to calibrate premium rates.

(b) Interest rates from the Federal Reserve H.15 publication are used to establish the implied volatilities.

5. Actual and Expected Milk Production per Cow

(a) The Actual Milk Production per Cow for each base state is calculated as the ratio of quarterly milk production to quarterly milk cows as published in the NASS *Milk Production* report for the

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Insurance Period. The Actual Milk Production per Cow will generally be available three to four weeks after the end of the Insurance Period.

- (b) Unless otherwise specified, your Actual Milk Production per Cow in your Pooled Production Region will be equal to the Actual Milk Production per Cow as shown in the RMA-published Actuarial Documents in your State.
- (c) For States grouped into a Pooled Production Region, the sum of the values for the states in the pool is used in those respective grouped States calculations.
- (d) Expected Milk Production per Cow for each Pooled Production Region is determined by RMA and published quarterly, by state, in the Dairy Revenue Protection Actuarial Documents.

6. Pooled Production Regions

- (a) The 24 milk production states listed below will use the NASS-published production and milk yields for the state.
- (b) In the table below, these are identified by the word “State” in the Region Group column.
- (c) States not in the 24 milk producing states listed below are pooled into regions for the purposes of determining state level production and milk yields.
- (d) The following table lists each state and whether or not a state is pooled with other states in a production region.

| State | Region Group | Pooled Region | Pooled Region # |
|---------------|--------------|-----------------|-----------------|
| Alabama | Group | Southeast | 3 |
| Alaska | Group | Pacific | 8 |
| Arizona | State | Mountain | 5 |
| Arkansas | Group | Southeast | 3 |
| California | State | Pacific | 8 |
| Colorado | State | Mountain | 5 |
| Connecticut | Group | Northeast | 6 |
| Delaware | Group | Northeast | 6 |
| Florida | State | Southeast | 3 |
| Georgia | State | Southeast | 3 |
| Hawaii | Group | Pacific | 8 |
| Idaho | State | Mountain | 5 |
| Illinois | State | Corn Belt | 2 |
| Indiana | State | Corn Belt | 2 |
| Iowa | State | Corn Belt | 2 |
| Kansas | State | Northern Plains | 7 |
| Kentucky | Group | Appalachian | 1 |
| Louisiana | Group | Southeast | 3 |
| Maine | Group | Northeast | 6 |
| Maryland | Group | Northeast | 6 |
| Massachusetts | Group | Northeast | 6 |
| Michigan | State | Lake States | 4 |
| Minnesota | State | Lake States | 4 |
| Mississippi | Group | Southeast | 3 |
| Missouri | Group | Corn Belt | 2 |
| Montana | Group | Mountain | 5 |
| Nebraska | Group | Northern Plains | 7 |
| Nevada | Group | Mountain | 5 |
| New Hampshire | Group | Northeast | 6 |
| New Jersey | Group | Northeast | 6 |

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| State | Region Group | Pooled Region | Pooled Region # |
|----------------|--------------|-----------------|-----------------|
| New Mexico | State | Mountain | 5 |
| New York | State | Northeast | 6 |
| North Carolina | Group | Appalachian | 1 |
| North Dakota | Group | Northern Plains | 7 |
| Ohio | State | Corn Belt | 2 |
| Oklahoma | Group | Southern Plains | 9 |
| Oregon | State | Pacific | 8 |
| Pennsylvania | State | Northeast | 6 |
| Rhode Island | Group | Northeast | 6 |
| South Carolina | Group | Southeast | 3 |
| South Dakota | State | Northern Plains | 7 |
| Tennessee | Group | Appalachian | 1 |
| Texas | State | Southern Plains | 9 |
| Utah | State | Mountain | 5 |
| Vermont | State | Northeast | 6 |
| Virginia | State | Appalachian | 1 |
| Washington | State | Pacific | 8 |
| West Virginia | Group | Appalachian | 1 |
| Wisconsin | State | Lake States | 4 |
| Wyoming | Group | Mountain | 5 |

Starting with January-March 2025, NASS plans to reduce the number of published states for quarterly Milk Production from 50 states to 33 states. The 17 non-published states will be Alabama, Alaska, Arkansas, Connecticut, Delaware, Hawaii, Louisiana, Massachusetts, Mississippi, Montana, New Hampshire, New Jersey, North Dakota, Rhode Island, South Carolina, West Virginia, and Wyoming.¹

Actual milk per cow for each pooled production region will continue to be based only on data published by NASS. For example, starting with January-March 2025, actual milk per cow for the Northeast region will be based on milk production and milk cows in Maine, Maryland, New York, Pennsylvania, and Vermont, and thus calculated Northeast milk per cow would then be published for all Northeast states pooled into a production region, including states for which data is no longer published, i.e., Massachusetts, New Hampshire, New Jersey, and Rhode Island.

¹ https://www.nass.usda.gov/Surveys/Program_Review/2024/Livestock-Program-2024.pdf