Master Cattleman Quarterly

Oklahoma State University

Payne County Extension to Offer Electric Fencing Seminar

Dave Lalman, OSU Animal Science Department

Calling all serious graziers who want to learn about electric fencing techniques and livestock water resources, as Payne County Extension will host a seminar, "Electric Fencing for Serious Graziers and Livestock Water Availability and Distribution" on Thursday, December 19 at the Payne County Expo Center – Community Building and Arena.

Mark Green, District Conservationist, NRCS in Springfield, MO will be the featured speaker regarding "Livestock Water Availability and Distribution and Rotational Grazing Systems as well as Electric Fencing for the Serious Grazier." Green was also a featured speaker at the 2013 Master Cattleman Summit in October. Scott Clawson, Northeast District Area Economist, will provide a cost analysis of electric fences.

The registration begins at 9:30 am with coffee and doughnuts and the seminar ends at 5 pm. Lunch will also be provided. Registration is $5 and participants must register to attend by December 16 with the Payne County Extension Office at 405-747-8320. The event is hosted by: Payne County Extension, Payne County Cattle Producers, Payne County Conservation District and the Oklahoma Cooperative Extension-Master Cattleman Program.

Stocker Budgets – A Planning Tool You Can Use

Roger Sahs, OSU Extension Specialist

We are going into winter with near record calf prices which gives producers a number of marketing options. As opposed to last year, hay supplies are mostly adequate and wheat pasture prospects look good although the winter grazing season may be shorter than what we had hoped for. A stocker enterprise budget can help determine the profit margin possibilities of lighter weight 400 pound calves vs. heavier stockers at 550-600 pounds turned out on wheat pasture this fall. Given current conditions, the best value of gain appears to be with heavier steers given the prospects of a shorter grazing season. There is a rather substantial price rollback with the lighter weight calves and it's hard to make up the difference with even decent gains. However, a lighter weight calf may pencil out with retained ownership into longer graze-out program.

The stocker budget can be an integral part of a producer's business plan and can assist which side of the price break in the market you want to buy into and how long you wish to retain ownership of those calves. Since stocker purchases require considerable money up front, financial management is just as critical as production performance. Enterprise budgets can help you with the right things like managing costs, an important consideration even when the livestock markets are strong.

Additional information on OSU Enterprise Budget software is available through your local county extension office, at http://agecon.okstate.edu/budgets or by calling Roger Sahs at 405-744-7075.

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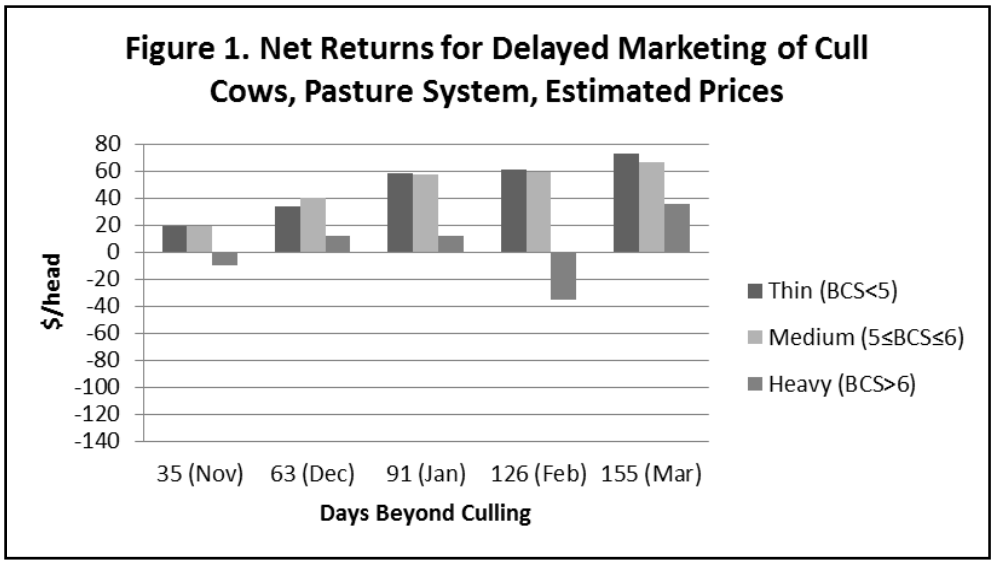
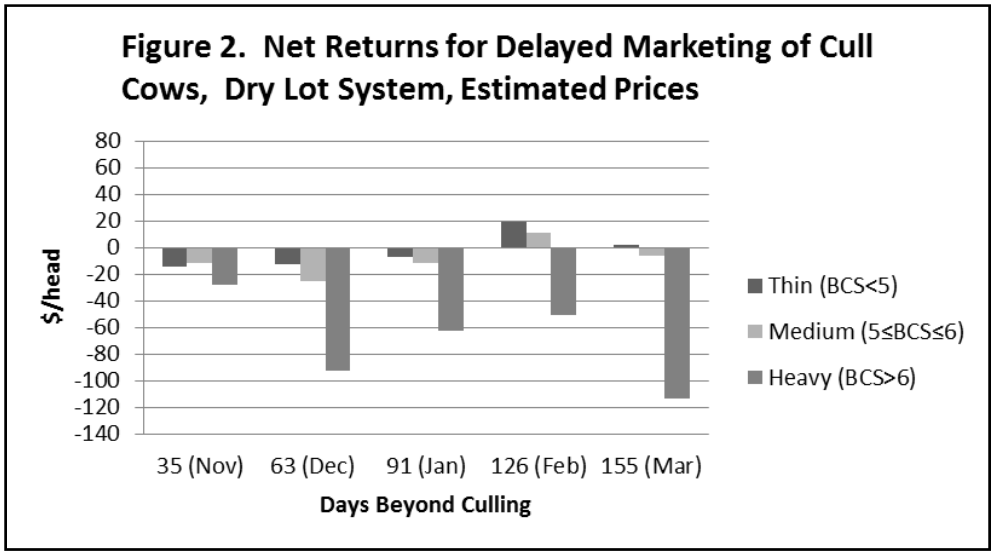
In this issue:

Marketing Cull Cows: Does Body Condition Score Matter?

Kellie Curry Raper, OSU Agricultural Economics and Jon T. Biermacher, The Samuel Roberts Noble Foundation

Cow-calf producers with spring calving herds typically wean calves from their mothers in late summer or early fall and subsequently make decisions about culling cows from the herd. Alongside that culling decision is a marketing decision – the decision to market cull cows at culling time or retain them on the farm for marketing at a later date. Many factors influence this decision, including individual cow health, cash flow needs, on-farm resources for retention and feeding, current market conditions versus market expectations, and time. We discussed the profitability of retaining cows on native pasture versus a low-input dry lot setting in a previous article. Research indicates that another factor should be considered when making the initial marketing decision – the cull cow's body condition score (BCS) at the time of culling.





BCS plays a role in determining value at marketing and can be useful in making culling decisions, but there is little information on the influence of initial BCS on net returns from feeding cull cows. Most cull cow marketing studies focus on BCS at marketing without fully accounting for costs (and potential benefits) of holding and feeding cull cows to obtain a higher BCS. Cows with relatively low BCS (i.e. leaner) at culling should be more feed efficient in a retention setting, since a greater percentage of feed should go to weight gain rather than to weight maintenance relative to cows with higher BCS at culling. Cost of gain will likely be less for cows with lower initial BCS, enhancing the opportunity for positive net returns from retaining cull cows for a period rather than marketing them immediately at culling.

A 3 year joint study by OSU and The Samuel Roberts Noble Foundation examined the impact of BCS at culling on net returns from marketing cull cows at fall culling versus retaining cull cows for delayed marketing. Net returns were examined across five marketing periods (at culling and monthly through March) and two retention systems (native pasture and low-input dry lot) relative to BCS at culling as a sorting trigger. Cull cows were classified as thin (initial BCS<5), medium ($5 \leq$ initial BCS ≤ 6), or heavy (initial BCS>6) based on research and discussions with ranch managers regarding how they sort cows when addressing nutrition and feeding regimens.

Marketing Cull Cows: Does Body Condition Score Matter? (cont.)

Generally, retaining cull cows in the native grass pasture system was more profitable than retaining them in the low-input dry lot system. When BCS scores at culling are considered, thin and medium cows were typically more profitable than cows with higher initial BCS, regardless of the feeding system (Figures 1 and 2). Initial BCS appears to be an important influence on net returns from retaining and feeding cull cows beyond the culling date. As such, initial BCS should play an important role in the decision of whether to sell cull cows at the time of culling or to retain them for sale later when the typical seasonal price upswing occurs. Cows classified as heavy at culling generally yielded net returns that were statistically zero or negative, relative to revenue at culling, regardless of retention system or pricing method. Cows with lower initial BCS scores generally yielded positive net returns above revenue at culling in a native grass pasture retention system, though net returns were typically negative in the dry lot system. Average daily gain (ADG) decreased over time for each BCS category in each management system, but thin and medium cows tended to have higher ADGs than heavy cows in each system.

From a practical management perspective, study results suggest that heavy cows should be sold immediately after culling. For those cull cows with lower BCS, the seasonality of cull cow prices provides opportunity for increasing the cow's salvage value. Producers should make a retention decision annually for cull cows in the lower BCS categories considering the operation's available and potentially underutilized forage resources, cash flow needs, input prices, and expectations of price movements. For more information on how to assign body condition scores to beef cows, see Selk 2004.

Selk, Glenn. "Body Condition Scoring of Beef Cows." Oklahoma Cooperative Extension Service Fact Sheet ANSI-3283, 2004. Available online at http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-1965/ANSI-3283web.pdf

High Priced Cow-Herd Replacements

Rodney Jones, OSU Associate Professor, Ag Finance Specialist

Many Oklahoma cow-calf producers have been blessed with improving forage resources, encouraging thoughts of cowherd rebuilding following the extended period of drought. Those considering purchasing replacements are facing unprecedented high prices. Several factors are contributing to the current high replacement market. First and foremost, the most basic market economic forces are at work. Producers in a widespread geographic area have been blessed with improving forage conditions, stimulating a strong demand for replacement females at the same time that supplies have been drawn down by herd liquidation. In addition, the maximum price that can be paid for a replacement is based on an today's assessment value of the profit potential associated with that replacement over her expected life. That profit potential is a function of expected revenues and costs in future years. Calf prices are projected to be at historically high levels as far into the future as one can project. In addition, feed prices are expected to moderate some from the record highs of recent years, suggesting that there may be some significant positive economic margins in the cow-calf business for the foreseeable future. Finally, at historical interest (discount) rates, future profits had to be discounted significantly to be put in current dollars, or net present value. The lower the interest rate environment, the less dramatically future profits have to be discounted to reflect what can be paid for the replacement female. While there is certainly interest rate risk in the foreseeable future, it appears that we are in an extended period of overall historically low interest rates. All of these factors help explain why replacement females are so high priced in today's environment. The real question is how much is too much?

Note: A spreadsheet, Cow Bid Price Estimate Calculator, is available on beef extension.com to assist in evaluating repurchase decisions. Click on Cow/calf and Calculators.

Annual Forage Rainfall Index Insurance Deadline

Jody Campiche, Assistant Professor and Extension Economist

The deadline to enroll spring planted crops in the Annual Forage Rainfall Index (AF) program is December 15, 2013. This includes crops planted between December 15, 2013 and July 15, 2014. The AF program is a new rainfall index pilot program similar to the Pasture, Rangeland, and Forage Insurance (PRF) program which covers perennial forage produced for grazing or harvested for hay. Coverage includes, but is not limited to: small grains (wheat, oats, barley, rye, triticale) intended for grazing or forage, corn for silage, sorghum forage for grazing or forage, annually planted grasses (sudan, ryegrass, etc.) for grazing or forage, and annually planted mixed forages for grazing or forage.

The AF Insurance Plan is currently available in Texas, Oklahoma, Kansas, Nebraska, South Dakota, and North Dakota. The program covers crops annually planted for forage or fodder intended for, but not limited to, grazing, haying, grazing/haying, grain/grazing, green chop, grazing/green chop, or silage. The plan offers Catastrophic Risk Protection (CAT) and buy-up coverage. The program is administered by the USDA Risk Management Agency (RMA) and sold through private crop insurance companies. This product is similar to group risk insurance and provides area-wide coverage. The program is based on a rainfall index and insures producers based on the average rainfall in their geographic area instead of the producer's individual farm. The program does not use actual crop production on the individual farm or in the geographic area. Producers receive an indemnity payment when rainfall in their area falls below the normal historical level.

Additional information can be obtained from the following website: http://www.rma.usda.gov/policies/ri-vi/annualforage.html. Producers should visit a crop insurance agent to purchase an AF policy.

Disciplining Employees: The Hot Stove Rule

With permission of Steve Isaacs, University of Kentucky Extension

Few farms function without hired employees. However, many farms function without much thought towards productive, disciplinary procedures for employees. Often, situations fester until they reach a boiling point, and the resulting explosion releases more than a little steam. The first goal of discipline should be to prevent a bad situation from occurring. The second goal should be to prevent it from ever occurring again. Discipline should be constructive, not destructive.

Disciplinary procedures should be based on a set of standards or rules that are stated in advance and well communicated. An employee who says, "I didn't know I wasn't supposed to do that." is likely reflecting a problem with management, not labor. Establish the rules or standards in advance and write them down, if necessary, but be certain to make sure everyone knows what is expected. The key – communication.

Furthermore, few infractions are worthy of dismissal on the first occurrence. Violence or theft may be the exceptions. Being tardy or careless may be worth a verbal warning, followed by a written or more formal reprimand, and may ultimately result in dismissal. In other words, progressive discipline.

Progressive discipline doesn't mean it should be delayed. Disciplinary action should follow the infraction immediately. It shouldn't be triggered by anger or administered emotionally, but it should be closely linked to the event. Letting it go and addressing it later may send a message that it wasn't a big deal. Deal with it – soon.

Finally, discipline has to be consistent. Employees will always be aware if some workers get away with an infraction that others are disciplined for. Fair treatment will trump favoritism – always.

Bernie Erven, a retired professor from Ohio State University and a national leader in human resource management in agriculture, captured these notions in the very effective analogy of a hot stove. Good discipline is like a hot stove:

- The stove gives a **WARNING**. It's hot. You can feel the heat. Rules are the heat that provides the warning. Violators will be burned.

Disciplining Employees: The Hot Stove Rule (cont.)

- The stove is **CONSISTENT**. It will burn every time. Rules should be enforced every time they are broken. Hot stoves burn. Broken rules lead to discipline.
- The stove burns **IMMEDIATELY**. There is no delay between touching and burning. Rule violations should be dealt with as soon as possible.
- The stove is **IMPERSONAL.** It burns everyone who touches it. All violators should be dealt with in the same way. The stove doesn't play favorites. Neither should the employer.

Finally, and this was not part of Dr. Erven's analogy, the stove is **USEFUL**. It provides heat for a cold room. Discipline should be viewed as a way to warm up a difficult situation, not a way to make it boil over.

Record Cattle Prices Ahead in 2014

Derrell S. Peel, Breedlove Professor of Agribusiness and Extension Livestock Marketing Specialist

The year 2013 is ending with cattle and beef prices at or near record levels. The second half of 2013 has been a dramatically different cattle market situation compared to the first, mostly on improved feed conditions. The record 2013 corn crop has resulted in dramatically lower feed grains and by-product feeds prices. Increased hay production in 2013 has increased hay supplies and is pushing hay prices lower. Though marginal drought conditions remain across a wide swath of the country, forage conditions have improved significantly in recent months and are at the best level since 2010. Assuming forage conditions continue to look promising in the spring, 2014 is expected to be an unprecedented year for cattle and beef markets.

Beef production is falling in late 2013 and is expected to be sharply lower in 2014. With cattle slaughter expected to drop seven percent in 2014, total beef production will likely decrease roughly 6.5 percent year over year. Feeder cattle supplies in 2014 are expected to be the tightest so far, though they may continue to tighten beyond 2014. Heifer retention appears to be increasing in late 2013 and will increase more in the coming year, with good forage conditions. Increased heifer retention, combined with reduced beef cow slaughter are the ingredients for herd expansion to begin in 2014. Breeding female prices have strengthened this fall and are expected to move higher next spring. In many feeder auctions this fall, unbred heifers have sold at very strong prices as replacements; in several instances at prices significantly higher than steers of the same weight and quality.

Both domestic and international demand will be a key for cattle and beef prices in 2014. Prices will be higher, but how much higher and how fast they will increase depends on demand. Choice boxed beef prices moved above $200/cwt. for the first time in May of 2013 and again late in the year. With a sharp reduction in beef supplies in 2014, Choice boxed beef may average above $200/cwt. for the entire year in 2014. Beef retail margins will be squeezed and retail beef prices will be under pressure to move higher even faster than recently. Beef exports have been higher than expected in 2013 and beef imports lower than expected, both contributing to a stronger trade picture this year. Beef exports are likely to drop and imports to increase in 2014 with smaller U.S. supplies and high prices. Still, beef trade is expected to provide strong support for cattle and beef markets in 2014. Mexican feeder cattle imports are down 40 percent in 2013 and will remain low in 2014, contributing to reduced feeder cattle supplies.

In Oklahoma, 400-500 pound steer prices may average above $200/cwt. for the year in 2014. Cow-calf producers are being strongly encouraged by the market to expand cattle production and will likely enjoy record profitability as a result. While feed prices have moderated, other input costs, especially breeding female costs will be a challenge for those producers expanding production or rebuilding from drought liquidation. Stocker producers will continue to enjoy good margins for adding weight to feeder cattle. Feedlots and beef packers, however, will continue to face poor profit prospects as high input costs and limited supplies squeeze margins in those sectors.

Wind Energy Leasing: Five Questions for Every Landowner

Shannon L. Ferrell, Associate Professor, Agricultural Law

Oklahoma's utility-scale wind energy industry has exploded in the past decade, from zero installed capacity as recently as 2002 to 3,134 megawatts of installed capacity by the end of 2012. Oklahoma's exceptional wind resource, an Oklahoma utility sector uniquely positioned to utilize wind energy, concerns over carbon dioxide emissions limits, and federal tax incentives all aided in this growth. While there are questions as to whether the federal Production Tax Credit (PTC) will be extended for another year, other factors continue to drive wind energy developers to lease Oklahoma land, and this trend will likely continue.

Entering a wind energy lease can be a daunting prospect for an Oklahoma landowner. The lease may be able to provide significant returns if turbines are installed on the landowner's property with landowners often receiving four - and sometimes five-figure royalty payments per year per turbine. However, wind energy leases are often extremely long and dense with "legalese." The leases can also call for extremely long terms (often of 50 years or longer). As a result of these factors, landowners should carefully consider the impacts of the wind energy lease on their property before signing the agreement.

First and foremost, landowners should engage legal counsel with experience in wind energy leasing to review the document. Though this may involve some cost, it may also provide significant benefits to the landowner whether in the form of enhanced revenues or avoided costs triggered by misunderstandings or disputes. Many wind energy developers will also reimburse landowners for reasonable costs of attorney reviews. Additionally, landowners should strongly consider the formation of landowner associations that enable them to negotiate collectively with the wind energy developer. This can significantly increase the landowners' bargaining position and, in some cases, may be the only way to negotiate significant changes to the lease.

As the landowner and his or her team of professionals review the potential wind energy lease, they should bear in mind five critical questions:

1) **How will your current uses of the property be affected by the proposed project?** Wind energy projects occupy a relatively small portion of the land leased. The American Wind Energy Association (AWEA) estimates that three acres of land will be occupied per megawatt of wind energy capacity installed, although preliminary research by OSU indicates that the actual number is smaller. While this often leaves a significant portion of land available for crop or livestock operations, the landowner must be careful to preserve the right to conduct such operations in the lease. Landowners and wind developers must also negotiate how to manage other activities on the property, such as hunting. Landowners should work with the developer as much as possible to manage the impact of roads and changes to soil grades on the property as well.
2) **How long will the agreement last?** Wind energy leases frequently last longer than 30 years, and many exceed 50 years. It is important to understand the duration of the lease and the impact it can have on farm succession; will the successors to the farm be willing to co-exist with the wind project? Also, many leases contain renewal clauses, stating that the lease may be renewed, frequently at the sole option of the wind energy developer. If there have been significant changes in the circumstances surrounding the project, will the lease permit its terms to be renegotiated at these renewals?
3) **What are the landowner's obligations under the agreement?** Wind energy leases may require the landowner to take on several tasks, including notification to the wind energy development of property tax payments, indemnifying the developer against any damages caused by the landowner's employees or guests (which, in turn, may require the landowner to secure additional liability insurance coverage for the property), "mediating" between the wind energy developer and oil and gas operators to ensure that all interests can develop their respective resources, and securing "subordination" agreements from mortgage holders or other parties with an interest in the property.
4) **How will the landowner be compensated?** Landowners may be paid an initial lease fee (or "bonus") for signing the lease, an "evaluation period" or

Wind Energy Leasing: Five Questions for Every Landowner (cont.)

"initial term" lease while the property is being evaluated for wind energy development, a "construction period" fee while the project is assembled, and various other easement payments; lease terms may vary on how all these elements are handled. Once the project is operational, though, virtually all leases will provide a "base payment" or a guaranteed minimum payment per turbine, combined with a "royalty" calculated as a percentage of the revenues generated by the project. This royalty is frequently 4% in the initial years of the lease, and is frequently increased in later years. Landowners that control a significant proportion of the project's acreage (either through sole ownership of the property or through landowner associations) can sometimes negotiate an increase in this royalty percentage. The landowner should carefully review the payment terms and clearly understand both the amounts payable and what specific events trigger those payments.

5) **What happens when the project ends?** The problem of abandoned oil and gas well sites has taught Oklahomans some skepticism about the cleanup of energy projects after they are completed. Fortunately, the Oklahoma Wind Energy Development Act requires wind energy developers to file a bond for the cleanup of the project once it reaches a certain age. Although the Act provides some specifics on what must be done for a cleanup, landowners should still negotiate the cleanup terms of their specific agreement to make sure the land's condition is as good (or better) at the project's end as when it began.

A well-negotiated agreement can provide for a long and profitable partnership between developer and landowner. Asking these questions and seeking experienced legal support can go a long way to creating such an agreement.

Clem Ward Endowed Scholarship

The *Clem Ward Endowed Scholarship* at Oklahoma State University was initiated in 2010 to honor the long and highly productive career of Dr. Clement Ward in the OSU Department of Agricultural Economics. Dr. Ward contributed significant research in the areas of cattle marketing and industry structure, much of which is still widely applicable today. His extension and teaching efforts included development and delivery of the Packer Feeder game. Clem was also instrumental in developing the Oklahoma Quality Beef Network. Dr. Ward's scholarship has the goal of perpetuating excellence in the area of livestock economics and is awarded to graduate students with interests in pursuing similar endeavors. To date, the scholarship has been awarded to six different students, four of whom are now employed in university faculty positions and are actively involved in the area of livestock economics. However, the scholarship endowment is not yet fully funded.

If you have benefitted from Dr. Ward's work and would like to contribute to the Clem Ward Endowed Scholarship Fund, please visit www.agecon.okstate.edu/donation.asp for information and a link to the OSU Foundation for direct giving. Please follow the "give now" link and select "Grad: Clem Ward Scholarship Fund", which is the last fund listed in the Designation drop down box.

If your employer has a contribution matching program, the impact of your contribution can effectively be doubled. Donations can be a one-time gift or you can choose to pay your pledge over a period of time up to five years. All contributions are fully tax deductible to the extent allowed by legislation. Any donation you are able to make is important to Clem's scholarship and helps move us closer to our goal of fully funding the endowment.

Updated Publications and Various Information

AGEC-572 - Stocker Lease Agreements

OSU facts sheets are available at http://osufacts.okstate.edu. Enter the publication number or topic in the Search field at the top right of the screen on the webpage.

If you don't receive our Farm Management Quick Tips newsletter, take a look at it online at agecon.okstate.edu/quicken/index.asp?type=newsletters

Check out OSU Farm Management on Facebook. https://www.facebook.com/OSUFarmManagement . Find us and like us! We'll be posting timely news and information to support farm and ranch decision-makers.

Damona Doye
515 Ag Hall
damona.doye@okstate.edu

David Lalman
201 Animal Science
david.lalman@okstate.edu

MASTER CATTLEMAN
OKLAHOMA STATE UNIVERSITY EXTENSION

USDA
United States Department of Agriculture
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