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Minimize risk by monitoring farm energy costs

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How is farmland leasing for 2014 shaping up?, continued from page 2

Conclusions

The recent dramatic grain price drop will result in many producers facing challenges to make a profit at some of the current rental rates. Looking forward, it is likely that some of the rental rates that are on the high side for the level of productivity will need to be reviewed. We may still see others that are on the very low side that will continue to increase.

More information on leasing can be found at the Ag Decision Maker website, <http://www.extension.iastate.edu/agdm/wdleasing.html>.

Table 2. Overall Average of Typical Cash Rents 2009-2013, Corn and Soybean Acres

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
District 1	\$187	\$188	\$224	\$267	\$283
District 2	196	191	220	277	294
District 3	186	192	223	266	281
District 4	196	195	227	279	294
District 5	197	195	226	275	297
District 6	193	196	219	252	284
District 7	170	176	213	246	257
District 8	146	151	177	193	210
District 9	173	169	198	217	229
State	\$183	\$184	\$214	\$252	\$270



Minimize risk by monitoring farm energy costs

by Dana Petersen, ISU Farm Energy Conservation and Efficiency Initiative, 515-294-5233, petersen@iastate.edu, and Mark Hanna, extension ag engineer

As harvest approaches, my colleagues in ISU Extension and Outreach are urging farmers to remain cautious regarding commodity prices. The same can be said for farm fuel and energy prices, including a more detailed look at managing farm energy costs.

Take a moment to review the past 5 to 10 years. Did your recorded expenses for propane, electricity, diesel or gasoline used on the farm change noticeably during any of those years? Are the increases—or decreases—primarily due to fluctuations in your energy consumption? Changes in the market price? Other factors?

“Fluctuating energy prices can be troublesome,” says Mark Hanna, ag engineer with ISU Extension and Outreach. “Knowing whether energy costs are related to changing prices or specific changes in your energy needs is a useful first step to cutting expenses.”

The weather offers an explanation for some of the variations you will find. Undoubtedly, your grain drying costs the past few years will reflect the weather conditions, with fluctuations in your demand for propane, electricity or natural gas. However, adding a little more detail in your records

may help you to manage the potential risks of farm energy expenses, come rain or shine.

You might begin by reviewing your monthly and yearly accounting records to ensure that they are up-to-date. Many of the farmers I met this past year explained that, generally speaking, they know their total monthly electricity or diesel costs. Their bills are entered each month into the farm’s financial records, but that’s often as far as it goes. Once a bill is paid, well... “out of sight, out of mind” is how one farmer described it.

As you’re getting your bills in order, consider entering the information from them into a farm energy log. A simple Microsoft Excel version is available under the Farm Energy Publications link on our website, http://farmenergy.exnet.iastate.edu/?page_id=11. Look for the fact sheet “Tracking the Energy Use on Your Farm,” PM 2089C, and the corresponding farm energy log under the Energy Consumption subheading. This form can be customized to fit your needs using formulas or additional worksheets.

When monthly energy consumption and cost are entered into the form, the cost per unit is automatically calculated. As an example, consider

Minimize risk by monitoring farm energy costs, continued from page 3

your farm's electric bill. By entering this month's kilowatt hours (kWh) and total cost from your statement, the energy log will calculate your cost per kWh. For fuel sources such as diesel, gasoline or propane, the form will calculate the price per gallon. Previous or future bills also can be added to show changes in cost and volume over time.

"Using an energy log not only shows the total energy expenses, but also how the number of gallons or kilowatt hours used is changing during the year," says Hanna. "This allows meaningful comparison of energy consumption from year to year."

Whether you use our farm energy log or create one that suits your needs, enter your information from

each monthly bill and review the results. Try to get a better sense of the fluctuations in your farm's energy demands from season to season and year to year. This information can help you minimize your short-term expenses with management techniques, such as adjusting grain drying temperature or hog confinement ventilation settings, to reduce propane or electricity consumption. Observing yearly trends over the long run may also help you identify the optimal time to replace your equipment or implement energy efficiency upgrades for barns or buildings.

Check out the farm energy log and follow us on Twitter @ISU_Farm_Energy to learn more about energy efficiency all around the farm.



Iowa State University economists have cautious message for farmers

by John Lawrence, Agriculture and Natural Resources Extension and Outreach, 515-294-7801, jdllaw@iastate.edu; Ed Adcock, Agriculture and Life Sciences Communication Service, 515-294-2314, edadcock@iastate.edu

Iowa State University economists are cautioning farmers to be prepared for a potential downturn in the values of commodities and land.

John Lawrence, director of Agriculture and Natural Resources Extension and Outreach and associate dean for Extension Programs and Outreach, said four Iowa State economists give "an analysis of the current state of Iowa agriculture" in a series of papers on the Ag Decision Maker website (<http://www.extension.iastate.edu/agdm/>, under the Ag Cycles heading).

"This analysis is not intended to be a forecast of annual prices in the coming months or years. Nor is it predicting gloom and doom for agriculture. Rather, it is intended to help put current economic conditions into a historic context, better understand the factors that will influence prices and margins in the future and help farmers prepare for whatever direction the market turns," Lawrence said.

The ISU economists offer ways that crop and livestock producers can be ready for the possibility

of economic upheaval after many years of increasing prices and land values.

Chad Hart, associate professor of economics and extension economist, points out the cyclical nature of commodity markets and advises farmers to create and follow a marketing plan based on production costs: buy inputs when making crop sales; move to fixed rate loans to protect against higher interest rates; and continue to use risk management programs, such as crop insurance.

Lee Schulz, assistant professor and extension livestock economist, presents the supply and demand situations for beef cattle and hogs. He highlights the importance of managing costs and price risks in a successful operation.

Michael Duffy, professor of economics and extension economist, reviews the history of Iowa farmland values and sees a likely decline as corn and soybean prices fall, but suggests the decline won't be as steep as the Farm Crisis of the 1980s.