

17 June 2016

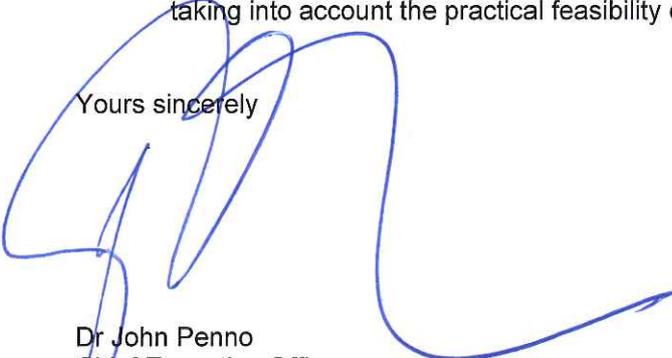
Leighton Wong
Regulation Branch
Commerce Commission
PO Box 2351
WELLINGTON 6140
By email: regulation.branch@comcom.govt.nz

Dear Leighton

SUBMISSION ON EXPERT REPORTS RELATED TO THE COST OF CAPITAL OF THE NOTIONAL PROCESSOR

1. Synlait Milk Limited welcomes the opportunity to make this submission on the expert reports that have been released on the asset beta of the notional processor and the specific risk premium for asset stranding.
2. Synlait also welcomes the additional oversight of a key input into the milk price. The asset beta is a key determinant of the practical feasibility of the milk price, and in turn, the robustness of the milk price regulatory regime in supporting a contestable market for milk.
3. Our comments on the expert reports are that:
 - i. the asset betas estimated by the two experts are not practically feasible because they lead to a cost of capital below that necessary to provide equity investors with the return they would expect from the notional processor. The reports assume that the notional processor's business is close to riskless—but this is not the case for any processor actually able to operate in the real world;
 - ii. we do not agree that electricity lines businesses (ELBs) are an appropriate starting point for estimating the asset beta of the notional processor when ELBs are in a very different economic sector facing different risks;
 - iii. we believe that market comparators are the best starting point for an estimate of the notional processor's asset beta, and that any discount on that asset beta should be justified by reference to differences in the risks the notional processor is exposed to—taking into account the practical feasibility of that exposure.

Yours sincerely


Dr John Penno
Chief Executive Officer
Synlait Milk Limited