



Commerce Commission - Publication of milk price asset beta and specific risk premium reports

Good morning

Today we have published:

- The report of Fonterra's independent expert (Dr Alastair Marsden) which informs the asset beta and specific risk premium estimate that Fonterra will use in the WACC component of the 2015/16 base milk price calculation; and
- The peer review report of our independent expert (Dr Martin Lally) which reviews Dr Marsden's report.

The two reports can be found on our website at:

<http://www.comcom.govt.nz/review-of-milk-price-calculation-201516-season/>

Our response in principle to concerns about the framework for reviewing Fonterra's asset beta estimate

We note that in submissions on our Process and Issues Paper of 18 December 2015 a submitter raised concerns about how Fonterra has estimated the asset beta for the base milk price calculation and its consistency with the section 150A 'practical feasibility' test.

Our view is that provided the notional efficient processor could actually and reasonably exist in New Zealand, it is open to Fonterra to use any notional costs that would be practically feasible for the notional efficient processor. This includes using an asset beta that matches the attributes of the notional efficient processor. We further consider that because there is a conclusive presumption that the assumptions in section 150B do not detract from the section 150A purpose, they need not be taken into account when assessing whether or not the notional efficient processor could actually and reasonably exist in New Zealand.

We invite comments on these reports, and these should be provided not later than 5pm on **Friday, 17 June 2016**.

We will consider any received comments before we publish our draft report on our review of Fonterra's 2015/16 base milk price calculation on 15 August 2016.

Comments should be emailed to regulation.branch@comcom.govt.nz with the subject: 'Comments on milk price asset beta and specific risk premium reports'. We intend to publish received comments on our website.

Kind regards

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