

Notification email – Commerce Commission – Further details on 2016/17 milk price calculation review workshop

Good afternoon

As we advised on 7 April, we will be holding a workshop on the following topics for our review of Fonterra's 2016/17 base milk price calculation:

- Asset beta
- Amendment to the milk price calculation to include reference to off-GlobalDairyTrade sales.

This email provides further information on the workshop.

The workshop sessions will be technical discussions on the milk price calculation and therefore geared towards milk processors and their experts.

When and where

The workshop will take place on Tuesday 23 May and will be held at The Commission's Wellington office, 44 The Terrace, Wellington. The workshop will start at 9am and is intended to finish around midday, subject to comments on the draft agenda.

Purpose and format

The workshop is intended to facilitate meaningful engagement with interested parties on our focus areas for this year's review.

The workshop will include topic based sessions. These will be introduced by the Commission and will feature a combination of presentations by participants and discussions led by us.

The workshop will be transcribed by a stenographer. Copies of the transcript will be made available on our website after completion of the workshop.

Tea and coffee will be available for all participants.

Sharing workshop presentations with other participants

In order to facilitate conversations and give other participants an opportunity to respond on the day, we ask participants to share their presentations with the other participants before the workshop. Participants should therefore provide us with a copy of their presentations no later than **5pm, Tuesday 9 May**. We will then distribute these to other participants.

RSVPs

Milk processors and their experts who would like to attend the workshop should provide the names and position of those people who will participate in the workshop on behalf of your organisation to regulation.branch@comcom.govt.nz by **5pm, Friday 21 April**. If numbers are high, we may have to limit the number of attendees, so please provide the order of preference for your requested attendees.

Draft agenda

We invite comments on the draft agenda by **5pm, Friday 21 April**. Please send comments to regulation.branch@comcom.govt.nz with the subject line: Comments on milk price calculation workshop draft agenda.

Along with the topic sessions mentioned above, we will give participants an opportunity to outline their material concerns on the regime or on our review of the calculation in the workshop.

We will confirm the topics and circulate a final agenda to attendees once we have considered comments received.

| Time | Duration | Session |
|--------------|------------|---|
| 9.00 | 15 minutes | Introduction |
| 9.15-9.30 | 15 minutes | All participants to be given an opportunity to present key material concerns on the regime or what we should be looking at as part of its review. |
| 9.30 - 11.00 | 90 minutes | <p>Asset beta</p> <p>We will outline our approach for this year's review in concluding on the practical feasibility of the asset beta. Our approach is consistent with our final report: Review of Fonterra's 2015/16 base milk price calculation, paragraphs 4.51 – 4.57.</p> <p>We invite any comments from Fonterra outlining:</p> <ul style="list-style-type: none"> • information that would assist the Commission to judge whether Fonterra has given sufficient weight to the comparable company evidence; and • evidence of the extent to which other processors in the comparable company sample set have the ability (or have a reduced ability) to make ex-post adjustments to pass through variances between the forecast and actual milk price, and how that ability compares to the notional producer's. |

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|---------------|------------|---|
| | | <p>We also invite participants to provide:</p> <ul style="list-style-type: none"> • any comments on our approach to resolving the practical feasibility of the asset beta; and • their view on what the asset beta should be to meet the practical feasibility test. This may include: <ul style="list-style-type: none"> ○ any response to Fonterra’s information and evidence; and ○ any additional evidence that would assist us to conclude on whether the notional producer’s asset beta is practically feasible. |
| 11.00 - 11.15 | 15 minutes | Morning tea break |
| 11.15 - 11.55 | 40 minutes | <p>Amendment of the milk price calculation to include reference to off-GDT sales</p> <p>We will outline:</p> <ul style="list-style-type: none"> • its conclusion on the appropriateness of including off-GDT sales as an input to the milk price model. Our conclusions on the appropriateness will be based on our 2016/17 Milk Price Manual review conclusions; • an outline of our review scope; and • a summary of the relevant sales and associated costs now included in the calculation. <p>We invite any comments from Fonterra outlining any changes to the assumptions adopted, inputs and process used in the calculation due to this amendment.</p> <p>We also invite participants to provide:</p> <ul style="list-style-type: none"> • an outline of any substantive concerns as to the impact of this change of the calculation of notional revenues; • a description of the associated cost changes which they consider appropriate; and • an outline of any information transparency concerns with this amendment. |
| 11.55 - 12.05 | 10 minutes | Closing statement |

If you have any queries, please email regulation.branch@comcom.govt.nz.

Kind regards

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