
Boral fly ash offtake agreement at Tarong Power Station

Supplementary submission by Boral
Cement Limited in response to third party
submissions

8 October 2020

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1 Executive Summary

1.1 Introduction

This submission is made by Boral Cement Limited (**Boral**) and relates to the Application for Authorisation (AA1000517-1) of the offtake, operation and maintenance agreement (**OOMA** and the **Agreement**) entered into by Boral and Stanwell Corporation Limited (**Stanwell**). The OOMA relates to the removal of fly ash from Tarong Power Station (**Tarong PS**).

The purpose of this submission is to address the issues raised by Independent Flyash Brokers (**IFB**) in its submission dated 31 August 2020, and by an anonymous third party, as set out in the ACCC's letter of 28 September 2020 (**anonymous submission**).

1.2 IFB submission and commercial context

The primary objection raised by IFB to Boral's application for authorisation of the Agreement, appears to be that the OOMA will result in an over-supply of fly ash in South East Queensland (**SEQ**).¹ As has been submitted by Boral and Stanwell previously, the increase of supply of fly ash in SEQ is a pro-competitive outcome of the Agreement.

An additional source of fly ash being introduced into the market, and therefore an additional volume available for supply, will enhance competition within SEQ and in the broader fly ash market, in which fly ash supply is constrained, as well as in downstream markets which rely on fly ash as an input. The increase in supply will force existing suppliers, including IFB, to compete more vigorously, while strengthening Boral's incentive to supply fly ash to whichever third party demands it, on competitive terms. The effect of this can only be to stimulate price and service competition and improve access to fly ash. Any argument to the contrary made by an existing supplier of fly ash is likely to result from its self-interest in preserving the status quo in SEQ and protecting its own business from the threat of competition.

IFB and the anonymous submission both raise concerns about Boral being vertically integrated into downstream markets and having contractual or JV relationships with other participants in the broader cement and concrete markets. IFB misleadingly presents itself as an independent supplier of fly ash and contends that it would be more competitive if IFB were awarded an offtake contract at Tarong PS, despite the significant horizontal aggregation that would occur if that were the case. IFB goes on to submit that the OOMA creates a risk of concerted practices or coordinated conduct between Boral and Cement Australia as "the two vertically integrated" suppliers of fly ash in Queensland.

These arguments are disingenuous and fundamentally misrepresent the market structure and the role of players within this market.

Despite representing itself on its website as "the first truly independent processor and marketer of CCPs in Queensland" and arguing in its submission to the ACCC that it is independent, IFB's shareholders have significant downstream interests within SEQ, such that it cannot be considered any more independent than other JVs with downstream interests, such as Cement Australia. IFB's shareholders are a number of Queensland based cement and concrete producers, including Sunmix Concrete Pty Ltd (5.94%), Ailort Pty Ltd (6.93%), Neilsen's Concrete Pty Ltd (26.73%) and Wagners Flyash Pty Ltd (59.41%).

¹ See IFB Submission to the ACCC 31 August 2020 at paragraphs 2(d), 8 and 15.

Wagners Flyash Pty Ltd, a wholly owned subsidiary of Wagners Holding Company Limited,² has an almost 60% stake in IFB and, together with other wholly owned subsidiaries of Wagners Holding Company Limited, has business interests in cement, aggregates, and pre-cast concrete products.³ Wagners and Boral are in a protracted legal dispute relating to the long-term cement supply contract between the parties. The parties are in a dispute about the interpretation and application of the pricing provisions, which is currently before the Queensland Court of Appeal.⁴

We note also that Boral currently uses fly ash sourced from Millmerran Power Station.
[Restriction of publication claimed]

These commercial interests and relationships provide important context for the IFB submission and anonymous submission. While IFB has couched its opposition to the OOMA in the language of competition analysis, Boral considers that its true objection is that it will have the effect of disrupting the status quo and requiring it, and other existing off-takers, to work harder to secure customers for their fly ash.

1.3 Overview of Boral response

Boral submits that the arguments put forward by IFB and in the anonymous submission are not supported by evidence and should be disregarded. The ACCC has been provided with detailed confidential information about the terms of the OOMA, Boral's business case for entering the Agreements, and Stanwell's objectives and considerations in undertaking and assessing the responses to its EOI. These directly contradict the assertions put by IFB and in the anonymous submission. Nevertheless, in this submission, Boral responds to some of the specific arguments made in these third-party submissions.

Boral also submits that limited weight should be placed on the anonymised submission,⁵ as the full submission has not been made available and therefore the assertions made by the interested party cannot be properly publicly tested.

Boral is concerned that, without visibility of the identity of the interested party making the anonymised submission or access to the full text of the submission, it does not have the opportunity to properly respond to the issues raised in context. While it is important that both applicants and interested parties are able to have truly confidential information redacted from the public register, this should not extend to confidentiality over the entirety of a submission and the identity of the submitter in a public authorisation process. The anonymised submission makes statements about Boral's economic incentives, including asserting that Boral will behave in a way that will maintain prices of fly ash to protect its downstream business. As the interested party has been able to make this claim, and potentially other claims which have not been included in the ACCC's summary, without publicly putting its name to it, it avoids having to substantiate or account for the claim.

² Wagners Annual Report 2020, page 98.

³ Wagners is actively growing its SEQ integrated concrete business, with six operational sites and another three in development. <https://investors.wagner.com.au/market-releases/>

⁴ The Supreme Court of Queensland delivered its judgment in Boral's favour on 19 May 2020 – see *Wagners Cement Pty Ltd & Anor v Boral Resources (Qld) Pty Ltd & Anor* [2020] QSC 124. Wagners announced on 7 July 2020 that it would appeal this decision.

⁵ *ACCC Guidelines for authorisation of conduct (non-merger)*, March 2019, [3.15] – “The exclusion of information from the public register may limit the ACCC's ability to test that information publicly which, in turn, may limit the weight that the ACCC can give to such information.”

2 Boral is effectively a new entrant in the market for the supply of fly ash in SEQ and beyond

IFB states that Boral cannot be considered a 'new entrant', as it is simply replacing the previous operator at Tarong PS. This is an incorrect characterisation of the situation. As the ACCC is aware, there has been no off-taker at Tarong PS for a number of years and its fly ash has not been taken to market. The Agreement will have the result of additional fly ash capacity being made available where it currently is not.

Boral does not currently have any direct offtake arrangements with power stations or fly ash assets, other than indirectly through its joint ventures. The Agreement therefore will not result in any consolidation of an existing position of Boral in the supply of fly ash – rather it is Boral's first entry into this business.

It is the case that Boral has interests in Sunstate and in Fly Ash Australia. IFB submits that Boral should have an economic incentive to source fly ash from its joint venture, Sunstate. Boral and Sunstate are operated as entirely independent businesses and are not related bodies corporate. While Boral certainly has an incentive to ensure that its investment in these joint ventures perform well, it has a greater interest in promoting the success of wholly Boral-owned businesses. Boral has a duty to, and does, act in its own best economic and commercial interests.

[Restriction of publication claimed]

IFB submits that authorisation of the OOMA for a term potentially concluding in 2030 will essentially foreclose any entry to Tarong PS, given that Tarong PS is scheduled to close around 2035-2036. Boral notes that no party has been taking fly ash from Tarong PS for a number of years, and the OOMA is introducing a source of fly ash into SEQ which otherwise wouldn't exist. Further, as the offtake facility being constructed at Tarong PS will belong to Stanwell, there will be low barriers to entry for any party wishing to enter after the OOMA concludes or is terminated (i.e. a new offtake facility would not need to be built for only five years' operation). As has previously been submitted to the ACCC, there is also another opportunity to acquire fly ash at the newer Tarong North Power Station, which will continue to operate beyond the closure of Tarong PS. Boral's entry into the Agreement with Stanwell with respect to Tarong PS does not foreclose any other new entrant, including at Tarong North Power Station. Boral also notes that Millmerran Power Station, the newest power station in SEQ built in 2002, will likely continue operating until the 2040s.⁶

Boral notes that IFB's references to a '10-year exclusive contract' are not accurate, as the term of the OOMA is five years with a further five years exercisable at either party's option.

3 Boral is the most competitive option for fly ash removal at Tarong

As outlined in Boral's and Stanwell's joint submission to the ACCC, Stanwell conducted a competitive Expression of Interest (**EOI**) process for the offtake and sale of fly ash at Tarong PS. The process was informed by Stanwell's extensive experience with contractual arrangements at Tarong PS and involved the careful assessment of the

⁶ Forty years is a reasonable estimate of the life of a power station. Boral also understands from industry cost estimates released by AGL, that Millmerran Power Station is lower cost than Tarong PS so will likely be maintained for longer.

merits of each EOI received. Stanwell has provided the ACCC with details of its strategy for the EOI process and why it considered Boral to present the most acceptable proposal.

IFB has made a number of submissions referring to more competitive counterfactuals, including it becoming the off taker at Tarong PS, Stanwell constructing and operating a facility and an offtake agreement without exclusivity. The reasons why these are not likely counterfactuals, and why the Agreement is a more competitive outcome, are set out below.

3.1 An offtake agreement between IFB and Stanwell would be less competitive than the OOMA

IFB and Nucrush Pty Ltd (**Nucrush**) both responded to Stanwell's EOI process and were unsuccessful. Stanwell has previously provided the ACCC with information as to why it did not consider the EOIs received from IFB or Nucrush to meet its objectives or align with its strategy. Stanwell made an assessment that no other EOI was acceptable to it, and has stated that, in the counterfactual, it would be likely to go out to tender again rather than select one of the other EOIs it was presented with. While IFB may consider itself to have been a strong contender, Stanwell's assessment that Boral represents the most efficient operator is clear.

In any case, a scenario in which IFB were to become the operator and off-taker at Tarong PS does not result in a more competitive outcome. Given IFB is currently a supplier of fly ash into SEQ, an offtake agreement at Tarong PS would result in significant consolidation and a reduction of competition for the supply of fly ash. The horizontal effects would cause an anti-competitive outcome, as opposed to the pro-competitive outcome which will result from the OOMA. The effect of the OOMA is to add a supplier of fly ash into SEQ.

Further, despite its submissions, IFB is itself a vertically integrated firm. Its shareholders consist of a variety of Queensland concrete producers that are downstream users of the fly ash its offtakes from Millmerran. Any concerns expressed by IFB in relation to a vertically-integrated off-taker controlling an important input into a downstream concrete market, can by the same principles, be applied if IFB were the off-taker at Tarong PS. However, Boral notes that, despite its vertically-integrated position, IFB supplies Millmerran fly ash to a range of customers, just as Sunstate and Fly Ash Australia do today, and Boral will once the OOMA is operational.

3.2 There is no counterfactual in which Stanwell will operate the facility

IFB submits that Stanwell could itself construct the offtake facility, or contract with a third party to construct the facility, and then enter into one or more offtake agreements with various parties. This scenario would require Stanwell to perform the operation and maintenance roles in respect of the facility. Stanwell has previously submitted to the ACCC its reasons for not wishing to operate the facility.

3.3 Exclusivity and take-or-pay are essential commercial requirements of the parties and result in the same dynamic as exists at Millmerran Power Station

IFB submits that a viable alternative to the OOMA is an offtake agreement between Boral and Stanwell that does not allow for exclusive access by Boral and does not include a take-or-pay arrangement. This option is uneconomic. As a consequence of its experience with Cement Australia, Stanwell has specified that it will own the equipment and the to-be-constructed offtake facility at Tarong PS. This requirement was set by Stanwell in order to retain a level of control over the process and avoid a situation in which the facility is removed if the off-taker is subsequently replaced (as occurred with Cement Australia previously). To support its investment, manage ash dam capacity and fly ash disposal costs, and guarantee revenue, Stanwell requires the certainty of return which is provided

by the take-or-pay obligations. This is a sound commercial basis for such obligations. In turn, Boral cannot agree to the take-or-pay obligations without certainty of access to fly ash, which is provided by the exclusivity under the Agreement. This also provides Boral with the incentive to develop the facility and contribute to the cost of the equipment.

[Restriction of publication claimed] The ACCC has been provided with details of Stanwell's strategy and assessment of Boral's EOI response, compared with the other participants in the process.

IFB compares the OOMA with its own agreement at Millmerran Power Station, submitting that it was refused exclusivity in its fly ash supply contract due to competition law concerns. IFB also refers to statements made by Perram J in relation to a court enforceable undertaking. Boral notes that the agreement entered into by IFB and Millmerran Power Station is one that was based on an assessment undertaken by IFB, and the parties' decision not enter into an exclusive agreement cannot mean that such an agreement must also be suitable to Boral and Stanwell. Further, Perram J's statements are made in a very different context about the terms of an undertaking designed to remedy competition harm, in a context where that harm has already occurred or been assessed as likely to occur by the court or the ACCC. The current context is two commercial parties that have reached an agreement on terms that address their specific commercial requirements. Boral and Stanwell are seeking ACCC authorisation to give effect to these commercial terms. It is now for the ACCC to assess whether it will authorise the OOMA based on the relevant legal test.

While IFB makes much of its non-exclusive offtake arrangement at the Millmerran Power Station, it is important to note that IFB owns the plant, is the primary off-taker and has the first right to take fly ash. IFB's first right is no different in practice to an exclusive access and, given IFB owns the plant, it can control access to fly ash. Nevertheless, Boral considers that Millmerran provides an important source of fly ash in SEQ and that it will be a key competitor once the OOMA is operational. **[Restriction of publication claimed]**

Like IFB, Boral will on-supply fly ash to a range of downstream customers despite being the off-taker with a first right or exclusive right to offtake from the power station. While Boral will be the exclusive off-taker using the to-be-constructed plant, this will apply only to certain hoppers. It would be open to a potential off-taker to take fly ash from the remaining hoppers if it considered it commercially viable. Further, Tarong North will remain uncommitted and available for potential off-takers to access by agreement with Stanwell.

4 The Agreement increases competition for the supply of fly ash in SEQ and beyond

IFB submits that fly ash demand in SEQ is fixed, and that currently the supply of fly ash in the region significantly exceeds demand. IFB submits that as a result of this, the additional volume of fly ash in SEQ will not result in increased supply, but a mere transfer of business from one supplier to another, with the same volume of fly ash being diverted to ash dams, negating the environmental benefits that Boral has identified as flowing from the OOMA.

IFB's submission is based on a view of the current and future market that is not aligned with Boral's considered assessment. Boral has provided the ACCC with its detailed confidential business plan which supports this assessment. Boral anticipates that there will be an increase in demand for fly ash, both in total and as a replacement ratio for

cement, and its intention is to stimulate the growth of the broader market for fly ash.⁷ The increase is expected to come from increased concrete demand in SEQ,⁸ export to areas outside SEQ and increased use in recycling applications in SEQ (currently in NSW, it is being used in road bases and construction and demolition waste recycling projects). Based on current usage rates, Boral has modelled an increase in demand for fly ash over the life of its agreement and concrete demand increases. **[Restriction of publication claimed]** In fact, Wagners already markets an environmentally friendly concrete which is a high-volume supplementary cementitious materials product that contains no cement and relies on chemical activators. Boral plans to supply Tarong PS fly ash to capture the anticipated additional demand in SEQ and export it **[Restriction of publication claimed]** where there are currently fly ash shortages. **[Restriction of publication claimed]** IFB submits that it is uneconomic to export fly ash outside SEQ and Northern NSW. This is not Boral's assessment and does not align with its business intention. In this regard the existing export of fly ash by Cement Australia to NSW and Victoria supports Boral's assessment that fly ash is capable of export from SEQ.

It is clear from IFB's submission that its central objection to the OOMA is that it will admit into SEQ another competitor, increasing volumes of fly ash supply in circumstances where it considers that there is insufficient demand for that supply in SEQ.⁹ While Boral disagrees with the premise that there is over-supply and that fly ash cannot be profitably exported from SEQ, IFB's objection is based on a desire to preserve IFB's incumbent business, not to preserve competition.

Additional fly ash supply into SEQ will only increase competition between the existing suppliers – IFB, Sunstate, Cement Australia – and Boral, likely putting downward pressures on their prices.

IFB submits that Boral says nothing about reducing its production or sale of cement, and repeats environmental promises made by Pozzolanic and Coal Reuse that were not delivered. In response, Boral notes that increasing use of fly ash is a way for Boral to reduce cement emissions while maintaining its revenue. Boral's position is very different to that of Pozzolanic, which withheld fly ash from third party sales, and Coal Reuse, which ultimately did not sell fly ash.

IFB also submits that the OOMA represents a 'bare transfer' of fly ash in SEQ, saying that Millmerran Power Station will dump more fly ash if Tarong PS supplies fly ash. The introduction of Boral as a new entrant to the fly ash supply market, and the introduction of Tarong PS fly ash as a new source of fly ash in SEQ, cannot be characterised as a 'bare transfer' of fly ash. It is the provision of a new and alternative option for fly ash for customers. Further, the 'bare transfer' argument is inconsistent with IFB's submission that the offtake arrangement would be more competitive with a different off-taker, or that the terms of the take or pay arrangement will unfairly preclude access to fly ash. If, as IFB contends, there is already an excess of fly ash in SEQ and therefore can be no rational business case for Boral off-taking from Tarong PS, then neither exclusivity nor Boral's purported incentives as a vertically-integrated business could possibly have the effect of reducing downstream competition by foreclosing access to fly ash. The reality is that the proposed arrangements will increase fly ash access and competition for its supply and that the arguments put by IFB are entirely inconsistent.

IFB submits that a potential acquirer of fly ash from Tarong PS would likely be deterred by the perception that Boral would have the ability and incentive to discriminate, given it is

⁷ See Boral's response to the ACCC's RFI, 8 July 2020, question 4.

⁸ As the ACCC is aware, fly ash use as a substitute for cement in concrete is already widespread, so increased concrete demand will likely lead to increased demand for fly ash. Boral also expects that there will be an increase in the proportion of concrete that uses fly ash as a cement replacement versus concrete that does not **[Restriction of publication claimed]**

⁹ See IFB Submission to the ACCC 31 August 2020 at paragraphs 2(d), 8 and 15.

a competitor in the downstream market. If a potential acquirer of fly ash from Tarong PS were likely to be deterred, this would mean that Boral must compete even harder to win their business, resulting in a pro-competitive outcome.

5 Boral will supply to third parties

IFB submits that Boral will not supply fly to third parties in a meaningful way, contending that it does not have the incentive to do so as a vertically-integrated player with interests in JVs that supply fly ash and that it will have a contractual right to discriminate against competitors.

The anonymous submission states that, while the OOMA will give Boral access to “cheap fly ash” at Tarong PS, Boral will not have the economic incentive to supply this to third parties as this would undermine its existing JV relationships and would provide a cheap source of fly ash to Boral’s competitors in downstream concrete markets.

It goes on to further allege that Boral’s economic incentive is to control a key source of fly ash in a way that minimises price competition to preserve its various relationships and ensure that it can maximise the downstream price for concrete. Even more outrageously it states that Boral could pay Stanwell the take or pay but only remove fly ash for its own use, effectively paying Stanwell to exclude its competitors from access to the fly ash.

These accusations, made under the veil of anonymity, are very far removed from what the ACCC will already understand is Boral’s commercial intention and the scope of what is permitted under the OOMA.

Boral has addressed the issue of on-supply of fly ash to third parties in several submissions and responses to the ACCC. Boral has also provided the ACCC with details of its internal fly ash usage requirements, which is an amount significantly lower than the volume of fly ash it is required to offtake from Tarong PS. Boral’s business case is therefore built on third-party supply, **[Restriction of publication claimed]** The contractual terms requiring Boral to both **[Restriction of publication claimed]** and to make that supply **[Restriction of publication claimed]** will prevent it from discriminating against its competitors, contrary to the anonymous submission and IFB’s submission.

For completeness Boral notes:

- As set out in its confidential business case, Boral’s reason for entering into an offtake agreement at Tarong PS is to give it access to a cheaper source of fly ash both for its own needs and to on-supply to third parties.
- Boral’s strong economic incentive is to maximise the profitability of its own businesses and ensure that they remain innovative and relevant into the future, including a future that requires higher environmental standards and lower emissions. This includes not only accessing the most efficient sources of fly ash for its own downstream use but also building its customer base in new areas, including ash supply.
- **[Restriction of publication claimed]** What this shows is that Boral does not have an economic incentive to protect its JV interests or commercial relationships at the expense of accessing, in its own right, a more economically efficient source of fly ash for its own downstream needs and to on-supply to a range of customers as part of an emerging business in what it sees as a market with real growth potential.
- Stanwell has specifically ensured that the OOMA will not repeat the shortcomings associated with previously proposed offtake arrangements at Tarong. Boral has no

incentive or ability to withhold fly ash as the anonymous submission suggests. The Agreement does not permit Boral to pay for the minimum volume but not take it.

- **[Restriction of publication claimed]**

Additionally, Boral's ability to lower the price at which it acquires fly ash (through **[Restriction of publication claimed]**) will enable it to more efficiently produce concrete and other products, making the downstream market more competitive. The simple economics of supply and demand mean that the introduction of more fly ash into SEQ will have to have a downward impact on prices.

Boral has provided the ACCC with details of its plans to export fly ash from SEQ and considers these plans sufficiently address IFB's submission that Boral cannot economically transport fly ash by road.

6 The OOMA will not increase the likelihood of coordinated conduct within the market

IFB makes the assertion that the OOMA will increase the likelihood of coordinated conduct between Boral and Cement Australia, as "the two vertically-integrated" fly ash suppliers in the market. IFB provides no support for this assertion. Boral is committed to acting competitively in all markets and, in any event, Boral submits that the market conditions are such that this would not be a likely outcome of the OOMA. In particular:

- As discussed above, Cement Australia is no more vertically integrated than IFB. It is unclear why IFB considers that the OOMA increases the risk of coordinated conduct between Boral and Cement Australia, how this relates to their vertical interests, or why IFB's incentives vis-à-vis its shareholders is different to those of Cement Australia.
- Both the anonymous submission and IFB refer to Boral's existing contractual arrangements in the market and their potential to impact Boral's incentives. It is unclear what is meant by this. Boral acquires fly ash from Fly Ash Australia, its JV with Cement Australia, in NSW and in Victoria. Equally, it acquires fly ash from IFB in SEQ - the market IFB contends is the only relevant one for an assessment of the impact of the OOMA on fly ash supply – and from Sunstate, its JV with Adelaide Brighton, in SEQ. Boral's business decision to enter into the OOMA is made based on the economic interests of Boral, independent of all of these interests and will affect these existing arrangements to varying degrees.
- The OOMA will have the effect of increasing the number of competitors within SEQ, not reducing it. Increasing the number of competitors, thus reducing market consolidation, is not usually associated with an increased risk of coordinated conduct.
- While fly ash is a commodity product, the cost of supply varies greatly depending on the location of plant, transport options and costs, and the efficiency of supply chains and logistics. The prices available for fly ash sourced in different geographic areas and under different contracts vary significantly. Given this differentiation, and the role of long-term supply agreements, the market is not well-suited to pricing coordination.
- The increased capacity in SEQ, or as IFB puts it excess supply, makes it more likely that suppliers will compete for customers and less likely that a coordination strategy would be successful. When suppliers need to compete strongly to win customers, tacit collusion is undermined.

Boral has made submissions demonstrating that the market for fly ash is much larger than SEQ (and likely is a broader East Coast market). However, IFB has stated that it is a narrower SEQ market in which fly ash is both acquired and supplied. Cement Australia does not offtake fly ash within SEQ, either in its own right or via Fly Ash Australia. Therefore, it is nonsensical for IFB to argue both that the only relevant area of consideration is SEQ while also arguing that the OOMA would make it likely that Boral and Cement Australia would be able to coordinate within this market.

7 Conclusions

The submissions made by IFB and the anonymous submission are based on a fundamentally different view of the market from that held by Boral and evidenced in its business plans provided to the ACCC.

Their assertions about the incentives of Boral are unfounded and inconsistent. Boral submits that it has neither the incentive nor ability to withhold supply of fly ash, foreclose access by downstream competitors, or manipulate prices to protect its downstream businesses. To the contrary, the offtake agreement and the introduction of Tarong fly ash into the market will have an immediate pro-competitive effect, providing more capacity, pricing competition and choice for a range of customers for fly ash in SEQ and beyond.

At the same time, it will result in meaningful public benefits through this enhanced competition, and in the form of environmental sustainability and economic efficiencies. These benefits more than outweigh any potential detriment associated with the OOMA.