

INDEPENDENT COMPLIANCE AUDIT REPORT TO AUSTRALIAN RAIL TRACK CORPORATION LTD

We have audited Australian Rail Track Corporation Ltd's (ARTC) compliance with the system true up test obligations under Schedule 2 of the Access Holder Agreements for the year ended 31 December 2012 as performed under Section 4.10(f) of the Hunter Valley Coal Network Access Undertaking (HVAU).

Respective Responsibilities

Australian Rail Track Corporation Ltd is responsible for compliance with the system true up test obligations as per Schedule 2 of the Access Holder Agreements.

Our responsibility is to express a conclusion on compliance with the system true up test obligations as per Schedule 2 of the Access Holder Agreements, in all material respects. Our audit has been conducted in accordance with applicable Standards on Assurance Engagements (ASAE 3100 Compliance Engagements) to provide reasonable assurance that Australian Rail Track Corporation Ltd has complied with the system true up test obligations as per Schedule 2 of the Access Holder Agreements.

Use of Report

This compliance audit report has been prepared for Australian Rail Track Corporation Ltd in accordance with section 4.10(f) of the HVAU. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than Australian Rail Track Corporation Ltd, or for any purpose other than that for which it was prepared.

Inherent Limitations

Because of the inherent limitations associated with evidence obtained from ARTC's train timetabling system, ARTC's national train monitoring system, the Hunter Valley Coal Chain Coordinator's reports and the Hunter Valley path usage recording system, it is possible that fraud, error or non compliance may occur and not be detected. An audit is not designed to detect all instances of non compliance with Schedule 2 of the Access Holder Agreements, as an audit is not performed continuously throughout the year and the audit procedures performed in respect of compliance with Schedule 2 of the Access Holder Agreements are undertaken on a test basis. The audit conclusion expressed in this report has been formed on the above basis.

Independence

In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

Conclusion

In our opinion, ARTC has complied, in all material respects, with Schedule 2 of the Access Holder Agreements under the HVAU for the year ended 31 December 2012.

Findings

We note the following relevant findings in relation to the period ended 31 December 2012

1. The Access Holder Agreements clearly state that both the Access Holder Agreement and the Operator Sub-Agreements together comprise the basis on which ARTC grants the Access Holder access to the Network and the use of those access rights by nominated operators.
2. A review of Access Holder documentation did not identify any Access Holders with both an Access Holder Agreement and Operator Sub-Agreement executed until February 2012. All monthly and quarterly TUT calculations have been performed from this date to 31 December 2012.
3. All potential access holders identified by a review of the coal license owners in the Hunter Valley region appear to have been included in the TUT.
4. Detailed consideration of ARTC's TUT model and associated calculations confirm that the required calculations have been performed in accordance with Schedule 2 of the Access Holder Agreements. Several minor exceptions have been noted, which are deemed insignificant in relation to the system availability surplus position of any TUT.
 - A comparison of the final outputs of the 'Cancellation to System Losses' model against the data entered into the TUT model revealed a number of small variances over the year. These variances are summarised in Appendix 1, table 1.
 - A contract variation was signed by an Access Holder in the second half of the year which altered their train path schedule from the beginning of July 2012 onwards. Although this change was reflected in the allocations of actual Base Path Usage (BPU) used for the Access Holder, the sculpted Base Path Usage inputs into the TUT were not updated. As this contract variation was a reduction in train paths this resulted in sculpted BPUs being overstated by 55 paths over the relevant six month period. As the system was not in a shortfall position in any of the TUT periods, this had no effect on the result of any TUT's.
 - The individual access holder's tolerance limit for two Access Holders were understated by 3 paths respectively for the months of July to December 2012. This limit only impacts outputs once a user has been granted tolerance paths up to their limit. A review of the Access Holders usage statistics revealed there is only one month (September) for one Access Holder where this exception has affected the usage inputs included in the TUT, overstating ad-hoc paths (increasing TPR). As there was a system availability surplus there was no effect on the result of the relevant TUT.
 - A number of small variances were identified between the final outputs of the categorisation model and the data input into the TUT. A summary of these variances over the year have been summarised in Appendix 1, table 2.
 - ARTC's method to calculate Network Path Capability (NPC) was much more extensive than is required under the AHAs. This appears to calculate a more accurate estimate of NPC data than simply using one point in each of the three pricing zones.
 - In determining the total BPUs, ARTC has a debateable interpretation of the below clause in relation to the ad-hoc paths number used in the TUT:

2.2(a) (ii) the aggregate ad hoc path usages provided in the Period in respect of which a Coal Train is operated and,

- (A) if the relevant Period is a Month, the aggregate quarterly base path usages in respect of which a Coal Train was actually operated in that Month, or
- (B) if the relevant Period is a Quarter, the aggregate monthly base path usages in respect of which a Coal Train was actually operated in that Quarter

we believe the above clause states that for both monthly and quarterly TUTs the ad-hoc path usages as per the TPR calculation should include the aggregate ad-hoc paths used for both monthly and quarterly customers and the deemed ad-hoc paths as per the TPR calculation should include, for monthly TUTs the actual BPU's used for quarterly customers and for quarterly TUTs vice versa.

While this has been performed for the monthly TUT access holders, for quarterly access holders, the ad hoc path usages number was set up as:

- The aggregate ad hoc path usages provided, in accordance with above , and;
- The sculpted (contracted) base path usages for monthly customers, instead of actual BPU's used, which will always yield a higher number than actual BPU's used.

While slightly different to the requirements as set out above, this interpretation calculates a higher TPR in the test, making it less likely to record a system surplus and produces a result that is more consistent with the results of the monthly true-up tests over the same period.

5. No system availability shortfall was recorded for any period during the year meaning no accruals were required to be paid.
6. TUT results have been published for all relevant Pricing Zones for each month from February to December 2012, with the below exceptions:
 - In accordance with Clause 2.7(a) of Schedule 2 of the Access Holder Agreements, system true-up tests were not published where disclosure of data would disclose confidential information about an individual access holder. We have considered and accepted these occurrences. In each instance there was no System Availability Shortfall for the relevant Pricing Zone.
 - In March 2012, the published results for the monthly true-up tests for pricing zone 1 and 2 were inconsistent with the ARTC workings and appeared to be the results of the quarterly true-up tests for the March 2012 quarter.



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