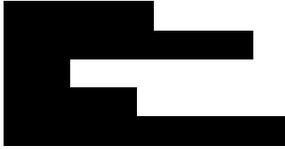




AUSTRALIAN RAIL TRACK CORPORATION LTD

Monday, 25 June 2012



Email: [REDACTED]

Dear [REDACTED]

DEVELOPMENT OF THE FINAL INDICATIVE SERVICE AND PRICING UNIT

Under Section 4.18 of ARTC's 2011 Hunter Valley Coal Network Access Undertaking (2011 HVAU), ARTC has certain obligations to develop characteristics of the Final Indicative Service (as defined in the 2011 HVAU), and consider an appropriate pricing unit to encourage efficient consumption of Capacity for submission to the ACCC for approval by 31 December 2013.

ARTC understands that Hunter Valley coal stakeholders see the development of the Final Indicative Service and the application of an appropriate pricing unit to encourage efficient utilisation of Capacity as an important part of the overall commercial framework ultimately intended to incentivise users towards efficient utilisation of, and investment in, the Hunter Valley coal chain.

ARTC sees there being two separate, but related, strands of work:

1. The first relates to the development of the characteristics of the Final Indicative Services (FIS), requiring development and analysis of robust coal chain modelling.
2. The second relates to the consideration as to whether or not gtkm is the most appropriate pricing unit to encourage efficient consumption of Capacity.

It is proposed that these two strands are dealt with separately as set out below.

1 Final Indicative Service (FIS) development

ARTC will adopt the following methodology to undertake this activity.

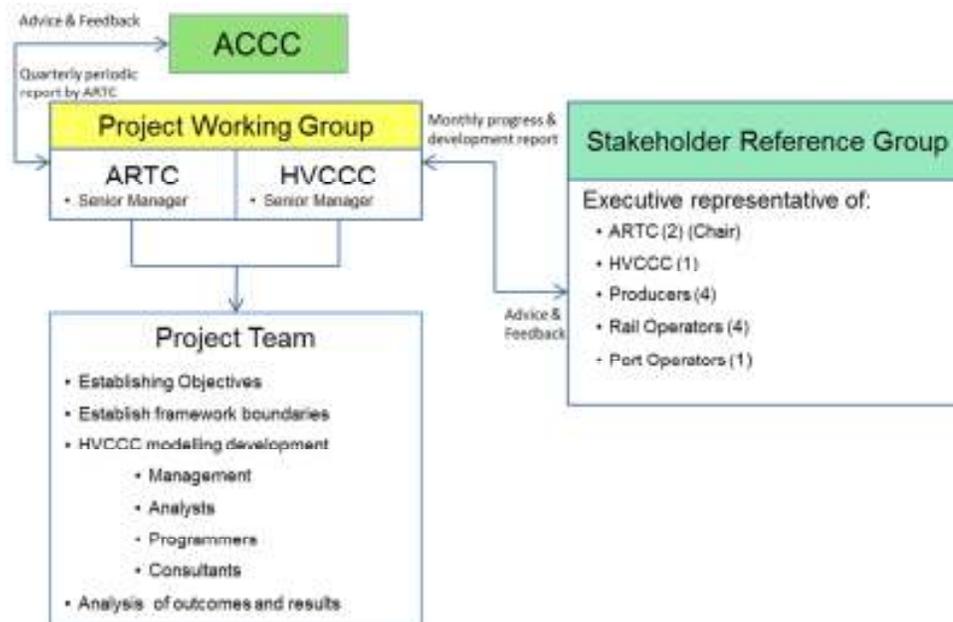
- Detailed development activity including establishing the objectives, framework/boundaries for FIS consideration and modelling, model development, determining appropriate measurement and detailed analysis of outcomes is best undertaken jointly by ARTC and the HVCCC with specific utilisation of HVCCC (and external) resources with expertise in these areas.



AUSTRALIAN RAIL TRACK CORPORATION LTD

- Regular reference to a Stakeholder Reference Group representing stakeholder groups through progress information and consultation. Such a group would act in an advisory capacity rather than in a project management capacity.
- Regular progress advice/feedback by ARTC to the ACCC.

ARTC considers that the following organisation arrangement is appropriate to support the above methodology:



ARTC proposes the first of these Stakeholder Reference Group meetings to take place on **Thursday 12 July 2012 at 11am in Newcastle.**

To enable this group to function properly, ARTC seeks interest from Stakeholders who wish to participate as members of the Stakeholder Reference Group.

Nominations from interested parties for membership of the Stakeholder Reference Group indicating the name and contact details of a delegate and substitute delegate should be forwarded to Karen Newman at knewman@artc.com.au to be received by ARTC no later than close of business Friday 6 July 2012.

The proposed agenda for the first meeting shall cover:

1. Objectives
 - a. What are we trying to achieve – common view?
2. Framework/constraints
 - a. How far into the future are we looking?
 - b. What parts of the coal chain do we put constraints on?
 - c. What aspects of System Assumptions do we put constraints on?



AUSTRALIAN RAIL TRACK CORPORATION LTD

3. Model development
 - a. Do we want an optimisation model or a scenario testing model?
 - b. Cost/benefit?
4. Measurement and analysis
 - a. Basis of measurement of 'optimal'?
5. Expense Recovery

2 Appropriate Pricing Unit (APU) development

ARTC will adopt the following methodology to undertake this activity.

- a) Identify APU options – ARTC will identify a number of options for pricing access to rail networks, and any approaches proposed by stakeholders.
- b) Evaluate APU options – ARTC will consider the merits of the gtkm approach currently used under the 2011 HVAU relative to alternative options and will prepare a stakeholder consultation document for discussion with the HVCCC.
- c) HVCCC consultation – ARTC will, following consultation with the HVCCC finalise the document for stakeholder consultation.
- d) Stakeholder consultation – ARTC will invite submissions from Access Holders and Operators in relation to its stakeholder consultation document and will have regard to those submissions in preparing its ACCC submission.
- e) Keeping the ACCC informed – ARTC will provide the ACCC with an indicative timetable for APU development and periodic progress reports as needed.

I look forward to your involvement in this important activity.

Yours sincerely

Alec Mackenzie
Executive General Manager
Hunter Valley