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AUSTRALIA

INDEPENDENT COMPLIANCE AUDIT REPORT
TO AUSTRALIAN RAIL TRACK CORPORATION LTD

We have conducted a reasonable assurance engagement over Australian Rail Track Corporation Ltd's (ARTC) compliance with the system true up test (TUT) obligations specified under Schedule 2 of the Access Holder Agreements (AHAs) for the year ended 31 December 2016 as performed under Section 4.10(f) of the 2011 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 Standard 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. Our procedures include examination, on a test basis, of evidence supporting the matters on which we are required to form an opinion. These procedures have been undertaken to form a conclusion whether Australian Rail Track Corporation Ltd has complied in all material respects, with Schedule 2 of the Access Holder Agreements for the year ended 31 December 2016.

Our Independence and Quality Control

We have complied with the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements, BDO Audit (SA) Pty Ltd maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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 (including specifically, external sculptured tonnage data) 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.

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 2016.

Findings

We note the following relevant findings in relation to the period ended 31 December 2016

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. All potential access holders identified by a review of the coal license holders in the Hunter Valley region appear to have been included in the TUT.
3. 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. The below exceptions have been noted, however the overall impact of these exceptions would not result in a Take or Pay Rebate payment in any period.
    - The process of allocating the annualised sculpted path usages between months is performed differently for domestic and export Access Holders. As part of this process, the allocation of paths for one of the export Access Holders was allocated on the basis of a domestic Access Holder, while three domestic Access Holder's paths were allocated on an export basis. While this didn't impact the overall base path usages, it had a minor impact on the individual monthly base path usages (BPUs) as summarised in Appendix 1, table 1.
    - An erroneous formula within the true-up test calculation was identified which resulted in overstated ad hoc path usage in September and a corresponding understatement of the System Availability Surplus. This variance is summarised in Appendix 1, table 2.
4. TUT results have been published for all relevant Pricing Zones for each month and quarter from January to December 2016, 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 ARTC reasonably considered such information, despite aggregation, would disclose confidential information about an individual access holder. In each instance there was no System Availability Shortfall.

- The monthly and quarterly system true-up test results between March and August were not published until 29 September 2016 as an issue was identified within the true-up test calculations that was in the process of being resolved. The monthly system true-up test results for January and September and the quarterly results for September were also not published within 3 weeks of the end of the period.
- The system true-up test results for January and February were republished, due to minor changes as a result of the annual reconciliation process.
- Some inputs to the TUT can alter subsequent to the time of publication due to changes in data from external sources. This resulted in a number of small variances being identified between the published results and the final TUT. The net impact on the System Availability Surplus is summarised in Appendix 1, tables 3 and 4.

BDO

BDO Audit (SA) Pty Ltd

Paul Gosnold

Paul Gosnold
Director

Adelaide, 4 July 2017

APPENDIX 1

Table 1

Summary of misallocated BPU's each month

(+'ive indicates a higher BPU value when allocation corrected)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Pricing Zone 1	(2)	2	1	1	-	(1)	(1)	-	(1)	-	-	1
Pricing Zone 2	(3)	3	3	1	-	(1)	(3)	-	(1)	-	-	1

***Pricing zone 3 was unaffected*

Table 2

Summary of ad hoc usage variances in the TUT

(+'ive indicates overstated ad hoc usages in the TUT, resulting in understated system availability surplus.)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Pricing Zone 1	-	-	-	-	-	-	-	-	2	-	-	-

***Pricing zones 2 and 3 were unaffected*

Table 3

Summary of variances between Monthly published TUT data and final TUT calculations

(+'ive indicates a higher system availability surplus in the published results)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Pricing Zone 1	-	-	-	-	-	-	1	-	-	-	-	-
Pricing Zone 2	-	-	-	-	-	-	-	(3)	-	-	(2)	-

***Pricing zone 3 was unaffected*

Table 4

Summary of variances between Quarterly published TUT data and final TUT calculations

(+'ive indicates a higher system availability surplus in the published results)

	Q1	Q2	Q3	Q4
Pricing Zone 2	-	-	(3)	-

***Pricing zones 1 and 3 were unaffected*