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AUSTRALIAN RAIL TRACK CORPORATION LIMITED

Independent Reasonable Assurance Engagement Report

Hunter Valley Access Undertaking – System Wide True Up Test Audit

March 2021



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Independent Reasonable Assurance Report

To: Australian Rail Track Corporation

20 Newton Street
Broadmeadow NSW 2292
15 March 2021

Report on the ASAE 3100 Reasonable Assurance Audit of 2020 True Up Tests

As part of the annual compliance assessment, under the Hunter Valley Rail Access Undertaking (HVAU), Australian Rail Track Corporation (ARTC) engaged Grant Thornton as the independent external auditor to conduct an audit of the organisation's compliance with Schedule 2 of the Access Holder Agreements (AHAs) and provide to the ACCC the final written report of the True Up Test (TUT).

This includes ARTC's compliance with the following obligations under Schedule 2 of the AHAs:

1. Schedule 2, Clause 2.1(a) and 2.6(c) – ARTC will carry out a system-wide true up test monthly or quarterly (depending on the users' allocation period) for each pricing zone;
2. Schedule 2, Clause 2.1(b) and 2.2 – Determination of System Availability Shortfall;
3. Schedule 2, Clause 2.3 – ARTC will determine NPC in accordance with the prescribed steps;
4. Schedule 2, Clause 2.4 and 2.6(a) and (b) – Subject to certain exceptions and limitations, the user will accrue a rebate of the Train Path Take or Pay (TOP) Charge calculated in accordance with a prescribed methodology;
5. Schedule 2, Clause 2.5 - ARTC will include Allowed Tolerance in the user's individual shortfall for the purpose of determining the rebate accrued in a period;
6. Schedule 2, Clause 1 and 2.7(a) - Within 3 weeks of the end of a period, ARTC will publish results of the TUT; and
7. Schedule 2, Clause 2.7(b) – within 3 weeks of the end of a period, ARTC will notify each user.

Respective responsibilities

ARTC is responsible for compliance with the HVAU as measured by the criteria outlined within the HVAU.

Our responsibility is to express a conclusion on ARTC's compliance with the HVAU and Indicative Access Holder Agreement (IAHA) as defined by the criteria in the Schedule 2 of the AHA, in all material respects.

Our procedures included review of relevant documentation supported by discussions with key stakeholders.

Use of report

This compliance audit report has been prepared for ARTC in accordance with our executed agreement dated 18/02/2021.

We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than ARTC, or for any purpose other than that for which it was prepared.



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Inherent Limitations

Because of the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance may occur and not be detected. Further, the internal control structure, within which the control procedures that we have audited operate, has not been audited and no opinion is expressed as to its effectiveness.

An audit is not designed to detect all instances of non-compliance with the HVAU and AHAs, as an audit is not performed continuously throughout the period, and the audit procedures performed in respect of compliance with the HVAU and AHAs 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 the requirements as measured by their obligations defined in Schedule 2 of the AHAs for the period from 01/01/2020 to 31/12/2020.

Findings and recommendations

Please refer to the Detailed Findings sections of this report.

A handwritten signature in blue ink, appearing to read 'B. Mackenzie'.

Brock Mackenzie
15 March 2021
Level 22, Tower 5
727 Collins Street
Docklands VIC 3008

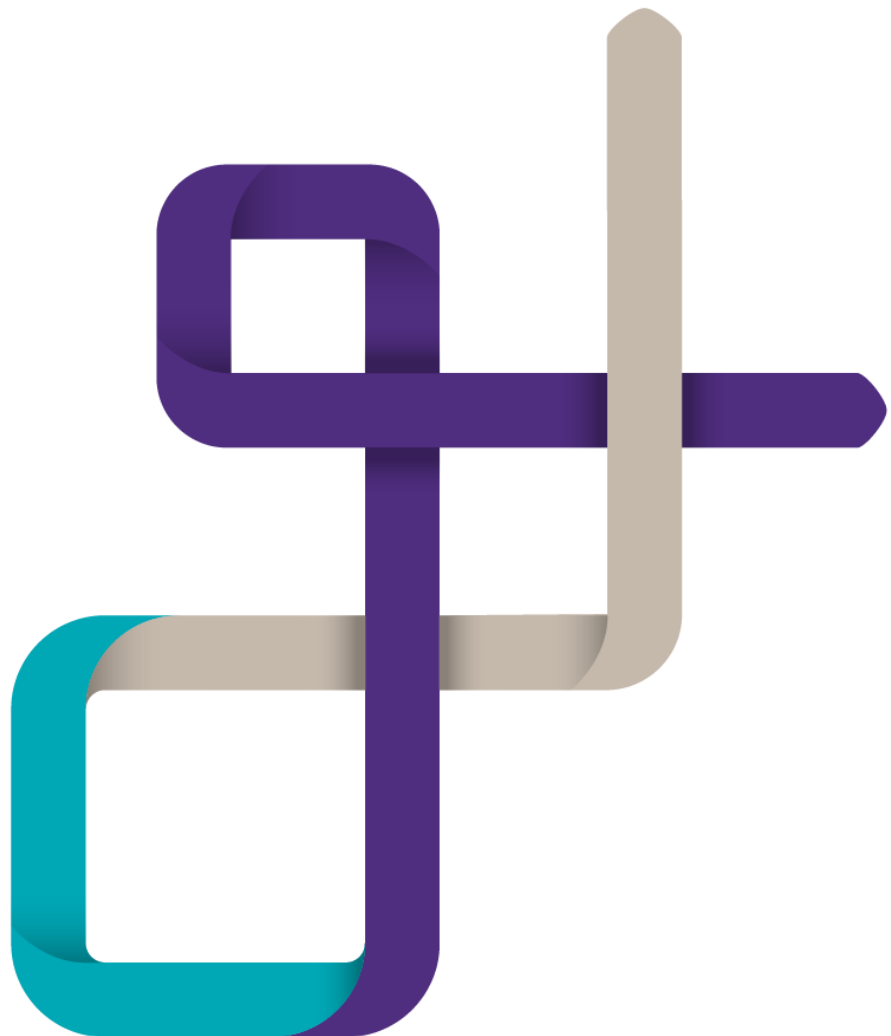
A handwritten signature in black ink, appearing to read 'M. Green'.

Matthew Green
15 March 2021
Level 22, Tower 5
727 Collins Street
Docklands VIC 3008

ASAE 3100 Audit Report

**Independent Reasonable Assurance Engagement Report
Hunter Valley Access Undertaking – System Wide True Up Test Audit**

March 2021



Introduction

Background

Australian Rail Track Corporation (“ARTC”) manages Australia’s largest rail freight network, including the Hunter Valley (“HV”) coal rail network. Within the HV network, ARTC manages the movement of trains between the Coal Producers’ Load Point and the Terminals.

The Hunter Valley Access Undertaking (“HVAU”) is structured so that for each user (Access Holder) there is a standard Access Holder Agreement (“AHA”) in place. Within the HV network there are three different Pricing Zones and each has differing Network configurations, cost profiles and volumes/traffic.

The AHAs include a requirement for ARTC to carry out:

- A system true-up test for each Pricing Zone at the end of each Month to determine the System Availability Shortfall in that Month for all access holders with a monthly allocation period; and
- A system true-up test for each Pricing Zone at the end of each Quarter to determine the System Availability Shortfall in that Quarter for all access holders with a quarterly allocation period.

Each year, ARTC must submit a Compliance Assessment to the Australian Competition and Consumer Commission (“ACCC”) in relation to its obligations under the HVAU. A component of the Compliance Assessment relates to the audit of ARTC’s compliance with the True Up Test (“TUT”) as described above. The requirements for the audit are set out in Section 4.10(f) of the AHA and Schedule G of the HVAU.

Audit Scope

As part of the annual compliance assessment, under the HVAU, ARTC engaged Grant Thornton as the independent external auditor to conduct an audit of ARTC’s compliance with Schedule 2 of the AHAs and provide to the ACCC the final written report of the TUT.

This includes ARTC’s compliance with the following obligations under Schedule 2 of the AHAs:

1. Schedule 2, Clause 2.1(a) and 2.6(c) – ARTC will carry out a system-wide true up test monthly or quarterly (depending on the users’ allocation period) for each pricing zone;
2. Schedule 2, Clause 2.1(b) and 2.2 – Determination of System Availability Shortfall;
3. Schedule 2, Clause 2.3 – ARTC will determine NPC in accordance with the prescribed steps;
4. Schedule 2, Clause 2.4 and 2.6(a) and (b) – Subject to certain exceptions and limitations, the user will accrue a rebate of the Train Path TOP Charge calculated in accordance with a prescribed methodology;
5. Schedule 2, Clause 2.5 - ARTC will include Allowed Tolerance in the user’s individual shortfall for the purpose of determining the rebate accrued in a period;
6. Schedule 2, Clause 1 and 2.7(a) - Within 3 weeks of the end of a period, ARTC will publish results of the TUT; and
7. Schedule 2, Clause 2.7(b) – within 3 weeks of the end of a period, ARTC will notify each user.

ARTC has appointed Grant Thornton as Independent Auditor for the purposes of section 4.10(f) of the HVAU.

Audit Period

For all elements of the scope, the audit period is from 1 January 2020 to 31 December 2020.

Reporting

ARTC has had the opportunity to comment on the accuracy of the report and has provided management comments.

Overall Management Comments

During the 2020 calendar year, ARTC completed a number of system improvements to enhance the more timely and reliable generation of monthly true up test reports. The benefits of this work can be seen in the minimal issues identified during the audit process this year.

Detailed Findings




Assessment of Compliance Obligations identified within the Suitable Criteria

Clause	Testing Conducted	Results
<p>Schedule 2, Clause 2.1(a) and 2.6(c) ARTC will carry out a system-wide true up test monthly or quarterly (depending on the users' allocation period) for each pricing zone.</p>	<ul style="list-style-type: none"> Ensure that 48 separate TUT's (12 x 3 Pricing Zones for monthly Access Holders and 4 x 3 Pricing Zones for quarterly Access Holders) have been completed for the 2020 year. If the number of separate TUT's appears incomplete, ascertain the reason why. If a TUT was not conducted, in accordance with clause 2.6(c) of schedule 2 of the AHA consider the basis for concluding that all base path usages were used and there were no allowed tolerances. 	<p>No exceptions found.</p>
<p>Schedule 2, Clause 2.1(b) and 2.2 Determination of System Availability Shortfall.</p>	<ul style="list-style-type: none"> Ensure the TUT was conducted consistently with the requirements of Clause 2.1(b) and 2.2 of the AHA. Assess the completeness of the list of users included in the TUT with reference to executed and operative Access Holder Agreements. Test allocation of users between Pricing Zones. Review external data sourced by ARTC and reconcile to relevant inputs in the TUT model. Compare contract entitlements per user to executed agreements. Recalculate adds and calculations within the TUT spreadsheet and links between worksheets for accuracy. Consider appropriateness of rules and formulae for path usage categorisation and ensure they have been applied as intended. 	<p>No exceptions found.</p>
<p>Schedule 2, Clause 2.3 ARTC will determine NPC in accordance with the prescribed steps.</p>	<ul style="list-style-type: none"> Determine the extent of communication with external data providers to consider adequacy of consultation process. Recalculate network path capability and consider completeness of non-coal, ad-hoc paths, path maintenance and lost paths. 	<p>ARTC calculates NPC using multiple Network points rather than the single points set out in the AHA. The approach taken by ARTC provides a more accurate representation of NPC and is effectively communicated to users at the start of each year through the NPC Notification document.</p>
<p>Schedule 2, Clause 2.4 and 2.6(a) and (b) Subject to certain exceptions and limitations, the user will accrue a rebate of the Train Path TOP Charge calculated in accordance with a prescribed methodology.</p>	<ul style="list-style-type: none"> When an accrual rebate is calculated for a particular period, ensure that accrual is adequately carried forward to enable accurate recognition of potential future period recovery. Consider calculation of rebate, ensure the calculation appears adequate (i.e. a system availability shortfall existed) and that the rebate has been assigned to the correct users using the prescribed pro-rata method. 	<p>No exceptions found.</p>

<p>Schedule 2, Clause 2.5 ARTC will include Allowed Tolerance in the user's individual shortfall for the purpose of determining the rebate accrued in a period.</p>	<ul style="list-style-type: none"> Review process for determining allowed tolerance levels and ensure levels are adequately encompassed into the TUT calculation. 	<p>No exceptions found.</p>
<p>Schedule 2, Clause 1 and 2.7(a) Within 3 weeks of the end of a period, ARTC will publish results of the TUT.</p>	<ul style="list-style-type: none"> Review relevant ARTC procedure and records to ensure compliance and report any exceptions. 	<p>The monthly TUT report for January 2020 was not published on the ARTC website within three weeks of the end of the TUT period.</p>
<p>Schedule 2, Clause 2.7(b) Within 3 weeks of the end of a period, ARTC will notify each user.</p>	<ul style="list-style-type: none"> Review relevant ARTC procedure and records to ensure compliance and report any exceptions. 	<p>No exceptions found.</p>

Update on Prior Year Findings

Status update of Audit Recommendations previously raised as part of the 2019 review

#	Finding	Summary	Status*	Follow Up Commentary
1	Publication of TUT Reports within the prescribed timeframe	Monthly TUT reports for February, March, September and December 2019 were not published within three weeks of the end of the TUT period.		<p>Schedule 2 Clause 2.7(a) of the AHA's requires the TUT report to be published within three weeks of the TUT period. This finding remains outstanding, see table on previous page.</p> <p>Management Comment:</p> <p>ARTC has implemented improved review procedures to manage the timely publishing of true up test reports which has resulted in a reduction instances where reporting deadlines have not been met.</p>
2	Errors in TUT report published and lack of quality assurance review over the TUT data received	The previous audit identified errors in the calculation of the total path usage in relation to forecast system losses arising from other parties and path usage by non-coal trains, as referenced in Clause 2.2 of Schedule 2.		<p>Lesser of Actual v Forecast System Losses – other parties</p> <p>This error has been corrected and the system losses calculation is updated when a BPU is adjusted.</p> <p>Non-coal Trains</p> <p>The NPC master calculation spreadsheet has been updated to correct the error made in 2019.</p>
3	Lack of Supporting Documentation over the TUT data used to determine the cause of Domestic Cancellations	To determine actual system losses, ARTC use domestic cancellation data obtained from Live Run Cancellation Reports. The previous audit found that two cancellations were allocated without appropriate supporting documentation. There is no material impact from allocating cancellations as ARTC losses vs other party losses.		<p>Review of the 'Cancellations to System Losses' spreadsheet showed there were still allocations of cancellations without a cause noted. As stated in previous Audit reports there is no material impact from allocating cancellations as ARTC losses vs other party losses and as such a finding has not been included in this report.</p>

*Status Key:  Item Actioned  Item in Progress  Item Not Actioned

Note: The CY 2019 TUT audit was completed by RSM Australia.



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