

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 (AHAs) for the year ended 31 December 2013 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 2013.

Findings

We note the following relevant findings in relation to the period ended 31 December 2013

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. Several exceptions have been noted, however the overall result of these exceptions would increase the system availability surplus position in each period.
 - Domestic cancellation data was inadvertently omitted from the 'Cancellation to System Losses' model resulting in a number of small variances to Actual System Losses and Actual Other Party Losses for Pricing Zone 2 throughout the year. These variances are summarised in Appendix 1, table 1.
 - 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 a 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 2.
 - The individual access holder's tolerance limit for one of the monthly Access Holders was understated by 2 paths from April to June and 3 paths from July to December. 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 (April) where this exception has affected the usage inputs included in the TUT, overstating ad-hoc paths by 2 (increasing total path usages required (TPR)). As there was a system availability surplus there was no effect on the result of the relevant TUT.
 - 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.
 - An erroneous use of weightings within the NPC model resulted in a net understatement of the Network Path Capability each month and as a result an understatement of the System Availability Surplus. These amounts have been summarised in Appendix 1, table 3.
 - The calculation of actual maintenance requirement for April was overstated by 168 for pricing zone 1 and 52 for pricing zone 2, resulting in an understatement of the system availability surplus.
4. No system availability shortfall was recorded for any period during the year meaning no accruals were required to be paid.



5. TUT results have been published for all relevant Pricing Zones for each month from January to December 2013, 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.
 - Some inputs to the True-up test can alter subsequent to the time of publication due to changes in data from external sources. A number of small variances were identified between the published results and the final TUT which can be attributed to this fact. The net impact on the monthly System Availability Surplus is summarised in Appendix 1, tables 4 and 5. In each case, the published result agreed to the True-up test calculation at the time of publication.
 - The system true-up test results for January to March 2013 were republished in October 2013 to reflect amendments to HVCCC maintenance reporting data. The initial published results included commentary that the results may be subject to change following the resolution of HVCCC maintenance reporting issues.

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

BDO Audit (SA) Pty Ltd

Paul Gosnold
Director

Adelaide, 28 March 2014



APPENDIX 1

Table 1

Monthly understatement of Pricing Zone 2 Losses from omitted domestic cancellation data

(+'ive indicates a higher value had the domestic data been incorporated)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ARTC Losses	-	-	1	2	3	2	1	-	1	1	1	1
Actual Other Losses	7	6	7	7	8	8	11	12	12	7	5	10

***Pricing zone 1 and 3 were unaffected by the data omission*

Table 2

Summary of misallocated BPU's each month

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

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

***Pricing zone 3 was unaffected*

Table 3

Summary of understated NPC

(+'ive indicates an understatement of published NPC)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Pricing Zone 1	310	280	310	300	310	300	248	248	240	248	240	248



Table 4

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	-	-	-	-	-	-	(9)	(3)	(3)	(2)	(2)	(2)
Pricing Zone 2	-	-	-	-	-	-	-	-	-	-	-	-
Pricing Zone 3	-	-	-	-	-	-	-	-	-	-	-	-

Table 5

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 1	N/A	N/A	N/A	N/A
Pricing Zone 2	-	-	(23)	(20)
Pricing Zone 3	N/A	N/A	N/A	N/A