

Mr Mark Sealey – Chief Financial Officer
Arc Infrastructure Pty Ltd
Level 3, 1 George Wiencke Drive
Perth Airport, WA, 6105

Mr Paul Kelly
Executive Director, Regulations & Inquiries
Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street, Perth WA 6000

10 December 2020

Dear Sirs,

Report of Factual Findings

As Arc Infrastructure Pty Ltd has an operator with Access Agreements (as listed in Appendix 1) under the Railways (Access) Code 2000 regulated by the Economic Regulation Authority, we have performed the procedures based upon the objective and scope of audit as per correspondence dated 19 August 2020, agreed with you and the Economic Regulation Authority (the “ERA”) to complete an independent review of Arc Infrastructure Pty Ltd’s compliance with the Overpayment Rules as approved in May 2020 (the “Over-payment Rules”) which apply where breaches of clause 8, Schedule 4 of the Railways (Access) Code 2000 (described within the Over-payment Rules as the “Ceiling Price Test”) occur on the part of that railway owner that could reasonably be avoided for each of the years ending 31 December 2017, 2018 and 2019 (the “Purpose”). The procedures performed are detailed in the terms of the engagement dated 19 August 2020 and described below with respect to the Over-payment Rules.

Arc Infrastructure Pty Ltd and the ERA’s Responsibility for the Procedures Agreed

You and the ERA are responsible for the adequacy or otherwise of the procedures agreed to be performed by us. You and the ERA are responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you and the ERA wish to draw on the subject matter.

Our Responsibility

Our responsibility is to report factual findings obtained from conducting the procedures agreed. We conducted the engagement in accordance with Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*. We have complied with ethical requirements equivalent to those applicable to Other Assurance Engagements, including independence.

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The agreed-upon procedures do not constitute either a reasonable assurance (audit) or limited assurance (review) engagement in accordance with the Auditing and Assurance Standards Board (AUASB) standards, and as such, we do not express any conclusion and provide no assurance on the Over-payment Rules. Had we performed additional procedures or had we performed a reasonable or limited assurance engagement in accordance with AUASB standards, other matters might have come to our attention that would have been reported to you.

Factual Findings

The procedures were performed solely for the Purpose as specified above. The procedures performed and the factual findings obtained are as follows:

	Procedures Performed	Factual Findings	Exceptions Identified
1	<p>Verify that the over-payments have been calculated in respect of each route section for the 12 month period ended 31 December 20XX.</p> <p>Verify that the route sections are consistent with those outlined in the Access Agreements.</p>	<p>Verified that the over-payments have been calculated in respect of each route section for the 12 month periods ended 31 December 2017, 2018 and 2019 by inspecting management’s schedule “Overpayment by Route Section – 01 Jan 2017 to 31 Dec 2019 v7” and confirming that the over-payments have been computed for each route section [REDACTED] within the appropriate Ceiling Test tabs [REDACTED]</p> <p>Verified that the route sections stated in management’s schedule “Overpayment by Route Section - 01 Jan 2017 to 31 Dec 2019 v7”, [REDACTED] as approved by the ERA (procedure 4 below) are included in the 15 Commercial Track Access Agreements entered into between Arc Infrastructure Pty Ltd (Arc) and Co-operative Bulk Handling Limited (CBH) dated 13 November 2019 by inspecting the schedule provided by management and agreeing the route sections to the relevant agreements.</p>	None
2	<p>Verify that the distribution of Access Revenue has been performed in accordance with the Rules in Section 2.6 of the Over-payment Rules.</p>	<p>Verified that the allocation of Access Revenue has been performed in accordance with the Rules in Section 2.6 of the Over-payment Rules, as follows:</p> <p>a) Agreed the annual revenues for each customer as per management’s schedule Overpayment by Route Section - 01 Jan 2017 to 31 Dec 2019 v7”, [REDACTED] [REDACTED] [REDACTED] to the general ledger (detailed in procedure 4);</p>	None

		<p>b) Access revenue derived from a route has only been allocated to route sections on that same route, and that the route sections are consistent with those verified in procedure 1;</p> <p>c) Other than CBH (detailed below), customer level revenues for the years ended 31 December 2017, 2018 and 2019 has been allocated to each route based on KMs used for that route as a percentage of the total KMs for all routes (in aggregate) utilised by that customer for that financial year;</p> <p>d) Other than CBH (detailed below), customer level revenues for the years ended 31 December 2017, 2018 and 2019 has been allocated to each route section based on available KMs for that route section as a percentage of the total available KMs on that applicable route;</p> <p>e) In the case of CBH, revenues for the years ended 31 December 2017, 2018 and 2019 has been allocated to each route and route section based on GTKs used for that route and route section and unit pricing for that financial year;</p> <p>f) The total KMs and GTKs travelled for each route section and total KMs and GTKs for the route has been agreed to managements schedule "Overpayment by Route Section - 01 Jan 2017 to 31 Dec 2019 v7", [REDACTED] [REDACTED] [REDACTED] Data from Activity Summary and [REDACTED]</p> <p>g) In the case of CBH, unit pricing has been agreed to managements schedule "Overpayment by Route Section - 01 Jan 2017 to 31 Dec 2019 v7", tab "CBH Raw Data"; and</p> <p>h) For purposes of calculating the overpayment for each route section, we have verified that Arc has allocated access revenue (computed in accordance with procedure 2b, c and d above) to cover the costs attributable to each route section as follows and in the following order:</p>	
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		<p>I. The incremental cost for each route section by checking that the allocated access revenue exceeds the incremental cost for each route section;</p> <p>II. Up to the ceiling on all dedicated route sections by checking that the allocated access revenue does not exceed the ceiling for each dedicated route section; and</p> <p>III. Up to the ceiling on all shared route sections by checking that the allocated access revenue does not exceed the ceiling for each shared route section.</p>	
3	<p>Recalculate the over-payment as the difference between:</p> <ul style="list-style-type: none"> • Annual revenues for each route, less • Total Costs (as defined in the Code) 	<p>Recalculated the over-payment as the difference between:</p> <ul style="list-style-type: none"> • Annual revenues for each route section, less • Total Costs 	None
4	<p>Agree the Total Costs as per [management’s schedule-tab reference] to the most recent ERA determination of total costs. This is the Determination of Costs Relevant to Co-Operative Bulk Handling’s Access Proposal dated 10 December 2013, including Corrigenda notice dated 16 April 2015 and including adjusted costs approved by the ERA based on that determination.</p> <p>Agree the annual revenues for that route as per [management’s schedule- tab reference] to the general ledger as of the same financial year.</p>	<p>Agreed the Total Costs as per management’s schedule “Overpayment by Route Section - 01 Jan 2017 to 31 Dec 2019 v7” [REDACTED] to the most recent ERA determination of total costs as per https://www.erawa.com.au/cproot/21407/2/Arc-Submission-letter-with-costs-REDACTED-for-publication.PDF. This is the Determination of Costs Relevant to Co-Operative Bulk Handling’s Access Proposal dated 10 December 2013, including Corrigenda notice dated 16 April 2015 and including adjusted costs approved by the ERA based on that determination.</p> <p>Agreed the annual revenues for each customer as per management’s schedule “Overpayment by Route Section - 01 Jan 2017 to 31 Dec 2019 v7”, [REDACTED] to the following:</p> <ul style="list-style-type: none"> • The general ledger as of the same financial year for the invoiced revenues; and • For differences identified between invoiced revenues and management’s schedule, we have agreed 5 of such 	None

		<p>differences from management's schedule to supporting documentation validating the following:</p> <ol style="list-style-type: none"> 1. The adjustment has been recognised in the correct period by checking that the adjustment pertains to the correct financial year, including those revenues that were received by Arc subsequent to the financial year in which it related to; and 2. The accuracy and appropriateness of these adjustments. 	
5	<p>Recalculate the over-payment percentage as:</p> <ul style="list-style-type: none"> • Annual revenues in excess of the Total Costs, divided by • Annual Total Costs 	<p>Recalculated the over-payment percentage for each route section as:</p> <ul style="list-style-type: none"> • Annual revenues in excess of the Total Costs, divided by • Annual Total Costs. 	None
6	<p>Verify that the over-payment has been calculated according to the pro-rata formula outlined in paragraph 6 of Section 3 of the Over-payment Rules.</p>	<p>Verified that the over-payment has been calculated according to the pro-rata formula outlined in paragraph 5 of Section 3 of the Over-payment Rules by re-calculating the over-payment for each route section in which such an over-payment existed using the pro-rata formula.</p>	None
7	<p>Verify that an over-payments account has been credited with all over-payments that are equal to or less than the 10 percent amount allowance for breaches of the Total Costs for the financial year.</p>	<p>Verified that an over-payments account has been credited on 1 January of the following financial year by checking that all route section over-payments that are equal to or less than the 10 percent amount allowance for breaches of the Total Costs for the financial years ended 31 December 2017, 2018 and 2019 were added to the over-payment account.</p>	None
8	<p>Verify that interest has been credited to the over-payment account, and that interest has been calculated daily on the balance standing to the credit of the over-payment account.</p>	<p>Verified that interest has been credited to the over-payment account commencing 1 January of the following financial year, and that interest has been calculated daily on the balance standing to the credit of the over-payment account by checking the following:</p> <ul style="list-style-type: none"> • The interest rate used is consistent with that verified in procedure 9 below; and • The daily interest calculation is mathematically accurate and is utilising the correct over-payment amount which 	None

		was agreed to [REDACTED] management's schedule "Overpayment by Route Section - 01 Jan 2017 to 31 Dec 2019 v7".	
9	Verify that interest has been credited at a rate equal to the 10 year long term bond rate as of 31 December each year, and if 31 December falls on a day which is not a business day then the rate published on the first day after that date.	Verified that interest has been credited at a rate equal to the 10 year long term bond rate as of 31 December each year, and if 31 December falls on a day which is not a business day then the rate published on the first day after that date by agreeing the rate used to the following site: https://www.rba.gov.au/statistics/tables/ , "Capital Market Yields – Government Bonds – Daily – F2" spreadsheet "Data" tab, column E.	None

Restriction on Distribution and Use of the Report

This report is intended solely for the use of Arc Infrastructure Pty Ltd and the ERA for the purpose set out above. As the intended user of our report, it is for you and the ERA to assess both the procedures and our factual findings to determine whether they provide, in combination with any other information you and the ERA have obtained, a reasonable basis for any conclusions which you and the ERA wish to draw on the subject matter. As required by ASRS 4400, distribution of this report is restricted to those parties that have agreed the procedures to be performed with us and have been identified in the terms of the engagement (since others, unaware of the reasons for the procedures, may misinterpret the results). Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than Arc Infrastructure Pty Ltd and the ERA for any consequences of reliance on this report for any purpose.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Yvonne van Wijk

Yvonne van Wijk
 Partner
 Chartered Accountants
 Sydney, 10 December 2020

APPENDIX 1 – Access Agreements under the Code

The following is a list of the Access Agreements between Arc Infrastructure Pty Ltd and the operator included in the scope of this engagement.

- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 1 – Avon to West Kalgoorlie
- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 5 – West Kalgoorlie to Esperance
- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 23 – Avon to Albany
- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 27 – Wagin to Newdegate
- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 28 – Lake Grace to Hyden
- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 34 – Avon Yard to McLevie
- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 35 – Goomalling to Mukinbudin
- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 36 – Amery to Kalannie
- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 37 – Burakin to Beacon
- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 38 – Millendon Junction to Geraldton
- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 39 – Dongara to Eneabba
- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 40 – Narngulu to Perenjori
- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 41 – Toodyay West to Miling
- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 44 – Midland to Avon
- Commercial Track Access Agreement (Co-operative Bulk Handling Limited Train Paths)
Route No 45 – Midland to Kwinana

APPENDIX 2 – Overpayment for the years ended 31 December 2017, 2018 and 2019

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]