

1 (b)(iii) 3 Capital expenditures

(Source: Methodology for the determination of the tariff items for gas transmission, ("Official Gazette" nos. 48/18 and 58/18), Article 11

- a) Methodologies to determine the initial value of the assets
It is recorded per acquisition cost in accordance with the International accounting standard 16 and the International accounting standard 38.
- b) Methodologies to re-evaluate the assets
Measurement after recognition is carried out in accordance with the cost model in compliance with art. 30 of the International accounting standard 16 and article 74 of the International accounting standard 38.
- c) Explanations of the evolution of the value of the assets
Changes in the asset value are recorded on the occasion of new purchases, state aid receiving, expenses and when calculating depreciation.
- d) Depreciation period and the amounts per asset type.

The depreciation of regulated assets is calculated using the linear method by applying annual depreciation rates established according to the expected asset life, in line with the principles of accounting standards.

The expected long-term tangible asset life in the category of gas pipelines, measuring-regulation stations and office buildings is at least 35 years.

The basis for depreciation calculation is the purchase accounting value of fixed assets whose net accounting value on the last day of regulatory year t-1 is in accordance with international accounting standards.

Pursuant to art. 13 para 6 the methodology stipulates that the reasonable value of long-term tangible and intangible assets in the function of gas transmission, reduced by grants for financing the development of the transmission system, may be determined by HERA based on analysis of economic efficiency of the existing assets of the operator, as well as of a comparative analysis of costs and efficiency of business operations of transmission system operators in the neighbouring countries. Accordingly, HERA has conducted the analysis economic efficiency of the existing long-term tangible and intangible assets, i.e. regulated assets in compliance with the valid Decision, where the utilisation of transmission system capacity was used as a key parameter. The utilisation of transmission system capacity represents a relevant indicator of economic reasonability of funds invested in long-term assets, based on which depreciation is calculated and yield from regulated assets, which are the elements for the calculation of the allowed revenue.

Reasonable value of regulated assets is calculated as a share in the total value of regulated assets by applying a linear function according to which reasonable value of regulated assets changed depending on the utilisation of the transmission system capacity.

Applied annual depreciation rate and amount of annual depreciation for years of regulatory period have been shown in Table 8.

Table 8 Depreciation of regulated assets for years of the regulatory period

Regulatory year 2017 (T)			
No.	Structure of regulated assets	Applied annual depreciation rate (%)	Amount of annual depreciation (HRK)
1.	Tangible assets		127.768.642,60
1.1.	Buildings		109.149.932,82
	<i>Gas pipelines, MRSs, office buildings</i>	2,85%	109.079.487,15
	Other buildings. Barracks and garages.	10%	70.445,67
1.2.	Facilities and equipment		18.618.709,78
2.	Intangible assets	20; 25%	12.927.358,99
TOTAL (1.+2.)		-	140.696.001,59

Regulatory year 2018 (T+1)			
No.	Structure of regulated assets	Applied annual depreciation rate (%)	Amount of annual depreciation (HRK)
1.	Tangible assets		95.896.416,04
1.1.	Buildings		74.825.091,30
	<i>Gas pipelines, MRSs, office buildings</i>	2,85%	74.754.645,63
	Other buildings. Barracks and garages.	10%	70.445,67
1.2.	Facilities and equipment		21.071.324,74
2.	Intangible assets	20; 25%	5.324.805,11
TOTAL (1.+2.)		-	101.221.221,16

Regulatory year 2019 (T+2)			
No.	Structure of regulated assets	Applied annual depreciation rate (%)	Amount of annual depreciation (HRK)
1.	Tangible assets		106.913.442,62
1.1.	Buildings		75.836.234,55
	<i>Gas pipelines, MRSs, office buildings</i>	2,85%	75.805.832,16
	Other buildings. Barracks and garages.	10%	30.402,38
1.2.	Facilities and equipment		31.077.208,07
2.	Intangible assets	20; 25%	5.342.388,34
TOTAL (1.+2.)		-	112.255.830,95

Regulatory year 2020 (T+3)			
No.	Structure of regulated assets	Applied annual depreciation rate (%)	Amount of annual depreciation (HRK)
1.	Tangible assets		117.826.062,21
1.1.	Buildings		80.725.304,20
	<i>Gas pipelines, MRSSs, office buildings</i>	2,85%	80.724.514,20
	Other buildings. Barracks and garages.	10%	790,00
1.2.	Facilities and equipment		37.100.758,01
2.	Intangible assets	20; 25%	7.610.626,01
TOTAL (1.+2.)		-	125.436.688,22

Regulatory year 2021 (T+4)			
No.	Structure of regulated assets	Applied annual depreciation rate (%)	Amount of annual depreciation (HRK)
1.	Tangible assets		117.007.017,42
1.1.	Buildings		80.725.304,20
	<i>Gas pipelines, MRSSs, office buildings</i>	2,85%	80.724.514,20
	Other buildings. Barracks and garages.	10%	790,00
1.2.	Facilities and equipment		36.281.713,22
2.	Intangible assets	20; 25%	6.058.676,37
TOTAL (1.+2.)		-	123.065.693,79

Source: Decision by HERA dtd 7 December 2018; model for calculating tariff items for gas transmission