

**POLICY AND PROCEDURES FOR THE SELECTION AND APPOINTMENT OF
MEMBERS OF NORTHERN IRELAND ENERGY HOLDINGS LIMITED**

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1 INTRODUCTION

- 1.1 Members of Northern Ireland Energy Holdings Limited (the "**Company**") will be selected and appointed in accordance with the policy and procedures set out in this document (the "**Membership Policy**"). Save as otherwise defined herein or the context otherwise requires, words and expressions defined in the Company's Articles of Association shall bear the same meanings where used in this Membership Policy.
- 1.2 It is accepted that it will not be practicable to have all of the arrangements set out in this Membership Policy in place immediately and, in particular, in place prior to the acquisition of Premier Transmission Limited ("**PTL**") (see below) and the grant to PTL of its regulatory licence. Accordingly, interim arrangements will be required. These interim arrangements are set out later in this Membership Policy.
- 1.3 The Membership Policy is a public document, available for inspection at the registered office of the Company. The Membership Policy will be reviewed by the board of directors of the Company (the "**Board**") from time to time, including upon the request of the Northern Ireland Authority for Energy Regulation or any successor thereto (the "**Authority**"). The Board shall send to the Authority (a) a report on the outcome of such review and (b) any proposed revisions which (having regard to the outcome of such review) the Board considers ought appropriately to be made to such policy. Following such review, the Board shall be entitled to make such revisions to the Membership Policy from time to time as it considers ought reasonably to be made, provided always that no such revisions may be made unless those revisions have previously been approved:-
- (a) by the Members at a general meeting of the Company; and
 - (b) by the Authority, provided always that in the event that the Authority does not notify the Board in writing within 28 days of receipt of such revisions that it objects to such revisions then such revisions shall be deemed to be approved by the Authority.

The first review will take place not later than by 31 December 2007 and thereafter at intervals of not more than three years.

2 COMPANY LIMITED BY GUARANTEE

- 2.1 The Company is a "company limited by guarantee", registered in Northern Ireland under The Companies (Northern Ireland) Order 1986. It was formed on 31 January 2005. It is intended that the Company will serve several purposes as follows:-
- (a) As an immediate goal, it is intended that the Company will be the ultimate holding company of a group of companies which will own the Scotland to Northern Ireland Pipeline ("**SNIP**"). More particularly, the Company will own the whole issued share capital of Northern Ireland Gas Transmission Holdings Limited ("**NIGTHL**"), which will in turn beneficially own the whole issued share capital of Premier Transmission Holdings Limited ("**PTHL**"), which will in turn own the whole issued share capital of Premier Transmission Financing plc ("**PTF**") which will in turn own the whole issued share capital of PTL. PTF will be a vehicle which, through the issue of bonds, will finance the acquisition of PTL, PTL being the company which owns the SNIP infrastructure assets.

- (b) As a longer term goal, and subject to a consultation process being gone through (expected to take place in early 2005) and to the outcome of that process being that it is appropriate, the Company would also become the direct holding company of Moyle Holdings Limited ("**MHL**"). MHL in turn owns the whole issued share capital of Moyle Interconnector (Financing) plc ("**MIF**") which in turn owns the whole issued share capital of Moyle Interconnector Limited ("**MIL**"). MIL in turn owns the Moyle Interconnector infrastructure and assets.
- (c) In the event that the Moyle group of companies is indeed in due course transferred so as to be owned by the Company, a new joint services company (the "**JSC**") may be incorporated as a direct wholly owned subsidiary of the Company. The intention behind the creation of the JSC is that the JSC would provide joint management and other services to both the Moyle group of companies and also to the SNIP group of companies in a more cost efficient manner than each of those groups could have sourced those services independently.
- (d) As a longer term possibility the Company may also be used as a vehicle for acquiring and holding other energy assets, such as (without limitation) the Phoenix pipeline.
- (e) As a company limited by guarantee, the Company has no share capital and therefore no shareholders. Individuals appointed as members of the Company ("**Members**") do not receive dividends nor do they have any other financial interest in the Company and, accordingly, all financial surpluses generated, if any, will be retained by the Company for the benefit of its operating companies and, ultimately, energy consumers.

2.2 Membership is personal and cannot be transferred.

3 MEMBERS OF THE COMPANY

3.1 Role of and selection of Members

3.1.1 The Board is accountable to Members for its management of the Company's business. Members will therefore play a role in scrutinising PTL's performance against commercial and other targets, as well as against energy industry benchmarks for quality of service and cost efficiency. Similarly, if in due course the Moyle group of companies or any other energy asset owning companies are brought within the Company's group, Members will play a role in scrutinising the performance of those companies against their commercial and other targets, as well as against energy industry benchmarks for quality of service and cost efficiency. Accordingly, the role of Members is similar to that of shareholders in a public limited company, save that Members have no financial interest in the Company. Members will perform this corporate governance role by receiving regular reports on the Company's performance and by participating in Members' conferences and in general meetings of the Company.

3.1.2 In addition, Members will have a role in:

- (a) approving certain changes to the Company's constitution;
- (b) approving the appointment, re-appointment and removal of directors;
- (c) approving the Company's annual report and accounts;

- (d) approving the report of the Company's remuneration committee; and
- (e) approving the appointment, re-appointment and removal of the Company's auditors.

3.1.3 Members will be selected on merit and against objective criteria, the intention being that the Company has a membership which has the necessary skills, expertise, industry experience and/or capacity to contribute to these key governance roles and, in particular, to represent effectively energy consumer interests.

3.2 **Number of Members**

Unless otherwise agreed by the Authority, and subject always to the interim arrangements referred to below, the Company will have not less than thirty Members. The membership should be large enough and sufficiently diverse as to ensure that all stakeholders are adequately represented and, in particular, that there is adequate representation of consumers. Members should be motivated to ensure that the Board and management of the Company and associated companies operate on a sound commercial footing in energy consumers' interests. Whilst the minimum number of Members should (subject as aforesaid) be thirty, the number of Members should be sufficiently restricted as to ensure that each Member takes sufficient interest in and responsibility for monitoring the Company and ensuring that it and its Board and management are accountable. The number of Members should not be so large as to impede the Board from being able to manage effectively.

3.3 **Term of appointment**

It is the Board's intention that Members' appointments will be for periods of three years. Membership may be renewed by the Board beyond the initial period of three years. Membership may be renewed, provided that:-

- (a) the maximum tenure for members will be three consecutive three year terms;
- (b) for the avoidance of doubt, any renewal may not be made for more than a three year term; and
- (c) any renewal will require the approval of the Membership Selections Committee.

3.4 **Liability of Members**

In the event that the Company were ever "wound up", then every Member would be required to contribute £1 to the assets of the Company. This is the maximum liability of any Member and this liability would only arise at all if the Company were to be wound up in circumstances where the Company was unable to meet all its debts in full.

3.5 **Members' right to receive expenses**

No portion of the income or property of the Company may be distributed to Members, whether by dividend, bonus or other form of profit. Members will, however, be reimbursed all reasonable expenses incurred in respect of their attendance at the annual general meeting, Members' conference(s) or similar events.

3.6 **Standard of conduct**

Members must at all times observe the highest standards of propriety in relation to their membership. Members must:

- (a) take decisions as Members in the interests of the Company, having regard to the interests of the energy consumers of Northern Ireland, and not to gain any financial or other material benefits for themselves, their family, their friends or any particular organisation or other interest group;
- (b) exercise their rights and powers as Members to further the objects of the Company as set out in the Company's Memorandum of Association;
- (c) not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties;
- (d) make their choices on merit in carrying out Company business, including where making appointments to the Board, recommending individuals for rewards and benefits and approving transactions to be entered into by the Company;
- (e) be as open as possible about all the decisions and actions that they take, giving reasons for their decisions and restricting information only when the wider public interest clearly demands;
- (f) be accountable for their decisions and actions and submit themselves to a level of scrutiny which is appropriate to their membership of the Company;
- (g) not use their position as a Member, or information received by virtue of their position as a Member, to further private interests or to frustrate or influence policy, decisions or actions of the Company in an improper manner;
- (h) declare to the Board any private interests relevant to their membership or the activities of the Company; and
- (i) conduct themselves in a manner which will maintain and strengthen the public's trust and confidence in the Company and avoid any action which would, or could, bring the Company's name and reputation into disrepute.

4 **SELECTION OF MEMBERS**

4.1 Members will be appointed by the Board on the recommendation of a selection committee (the "**Membership Selections Committee**"). The Membership Selections Committee will be comprised of the following:-

- (a) two Members who are not also directors of the Company;
- (b) two non-executive directors of the Company; and
- (c) two independent representatives of the Authority,

provided always that in the event that from time to time any person referred to in any of (a) to (c) above has not been appointed to the Membership Selections Committee such that the Membership Selections Committee is less than six, the Membership Selections Committee shall comprise such person as have at the relevant time been appointed to it.

4.2 The two Members referred to in paragraph 4.1(a) above shall be selected by the Board and, to this end, the Board shall be entitled to seek applications from Members. Any such Member shall cease to be a member of the Membership Selections Committee if he/she:-

- (a) ceases to be a Member; or
- (b) resigns his/her membership of the committee; or
- (c) is or has been suffering from mental ill health or becomes a patient for any purpose of any statute relating to mental health and the Board resolves that his/her office is vacated; or
- (d) is absent without the permission of the committee from meetings of the committee for twelve consecutive months and the Board resolves that his/her office is vacated; or
- (e) becomes bankrupt or compounds with creditors generally; or
- (f) joins the Board.

4.3 The two directors referred to in paragraph 4.1(b) above shall be selected by the Board from amongst its number and any person so selected shall cease to be a member of the Membership Selections Committee:-

- (a) in any of the circumstances referred to at paragraph 4.2(b) to (e) above apply; or
- (b) if the Board so resolves.

5 **HOW MEMBERS MAY BE SOUGHT**

As noted earlier (see paragraph 3.2 above) the membership should be large enough and sufficiently diverse as to ensure, inter alios, that all stakeholders are adequately represented and in particular that there is adequate representation of energy consumers. As also previously noted (see paragraph 3.1.3 above) Members should have the necessary skills, expertise, industry experience and/or capacity to contribute to the membership's key governance roles and, in particular, to represent effectively the interests of consumers. To ensure that this is the case the Membership Selections Committee will be required to select candidates through two routes:-

- (a) key stakeholders and consumer groups determined by the Membership Selections Committee will be asked to put forward candidates for consideration; and
- (b) in addition, it is intended that these should be an open and transparent recruitment process similar to that used for public appointments.

The split between stakeholder members and other members is expected to be roughly 60:40. For the avoidance of doubt, however, this ratio is not intended to be prescriptive or binding.

The Membership Selections Committee will issue an invitation for candidates to apply for membership which will include the following information:

- (a) the date by which a response to the invitation should be given;
- (b) background information on the Company and on the group's business;

- (c) details of the requirements, responsibilities and rights of Members;
- (d) a copy of the constitutional documents of the Company; and
- (e) such other information as the Board considers appropriate.

In all cases potential Members must submit a written application to the Company Secretary.

6 THE APPOINTMENT PROCESS

6.1 The Membership Selections Committee will assess applications from potential Members and make its recommendation to the Board.

6.2 The assessment process will comprise three stages.

Stage 1: On receipt of applications, the Company Secretary will review them to ensure that they have been properly completed. The Company Secretary will then compile a list giving brief details of each potential Member, and will pass this to the Membership Selections Committee for initial review.

Stage 2: The Membership Selections Committee will carry out an initial review of the list of potential Members. If there are any potential Members that the Membership Selections Committee deems to be unsuitable or inappropriate, then a member of the Membership Selections Committee will write to such individuals advising them of the Membership Selections Committee's decision. The Company Secretary will record and keep appropriate details in the Register of Applications for Membership.

Stage 3: For those which proceed beyond the initial review, the Membership Selections Committee will assess applications against the Company's published criteria for membership, particularly as regards the qualities and industry experience (whether specific or general) of the potential Member, his or her independence and personal integrity, his or her ability to contribute to the Company and the need to ensure a balanced membership.

6.3 In carrying out this assessment it may be necessary to contact the potential Member to seek further clarification of his or her application. If this is necessary, all such communication will be in writing. If, in exceptional circumstances, it is necessary to meet the potential Member, then the Chairman of the Membership Selections Committee and at least one other member of the Membership Selections Committee will be present and a record of the meeting will be prepared.

6.4 The Membership Selections Committee will submit a report to the Board on the potential Members considered by it together with a clear recommendation as to which should be invited to become a Member. Having made its decision the Board will issue an invitation to membership as appropriate.

6.5 The Board can reject potential Members recommended by the Membership Selections Committee where the appointment process set out in this Membership Policy has not been properly observed. Only potential Members recommended by the Membership Selections Committee can be appointed as Members.

- 6.6 The Board will confirm in writing to the potential Member whether or not their application for membership has been successful and the Company Secretary will record the new Member's details in the Register of Members.
- 6.7 Those responsible for the selection and approval of Members will be required to be able to show that objectivity and probity have been exercised throughout the selection process.

7 INTERIM ARRANGEMENTS

As noted earlier, it is accepted that it will not be practicable to have all of the arrangements set out in this Membership Policy in place immediately and, in particular, in place prior to the acquisition of PTL and the grant to PTL of its regulatory licence. Accordingly, the following arrangements will apply for an interim period, the interim period to run until the date of the first Annual General Meeting of the Company, the first AGM of the Company to take place within 6 months of the acquisition of PTL:-

- (a) The Board will initially comprise those 5 persons who are currently non-executive directors of MHL (subject, of course, to those persons agreeing to become non-executive directors of the Company, although it is noted that each of them has informally and in principle agreed to join the Board);
- (b) Following the acquisition of PTL, at least a further 2 persons will be appointed as non-executive directors of the Company;
- (c) Each of the current members of MHL will be invited to become a member of the Company, provided always that the initial term of appointment (which shall, for the avoidance of doubt, be subject to extension or renewal in accordance with the Articles of Association of the Company) shall be restricted to 2 years rather than 3;
- (d) During the interim period, the process of appointing new Members (in accordance with the criteria and processes referred to above) will take place, the intention being that by the date of the first AGM the number of Members will be at least at the minimum level of 30 Members; and
- (e) During the interim period, any decision which would otherwise have required the approval of Members in general meeting will require consultation with the Authority.

8 CORPORATE GOVERNANCE

8.1 Combined Code

Only those companies whose shares are listed on the London Stock Exchange are required to comply with the Combined Code on Corporate Governance (the "**Combined Code**") set out in the Listing Rules published by the UK Listing Authority. Notwithstanding this, and subject always to recognition being given to the differences between the structure of a conventional listed company and the structure and aims of the Company, the Company shall be seen to be adopting best practice, by endeavouring to adhere to the Combined Code where appropriate. In particular, the Combined Code's key principles of accountability, transparency and effectiveness should be key guiding principles for the corporate governance of the Company. Without prejudice to the foregoing generality, the Board shall appoint a committee relative to the appointment of members to the Board (the "**Board Nominations Committee**"), an audit committee (the "**Audit Committee**") and a remuneration committee (the "**Remuneration Committee**").

8.2 **Appointments to the Board**

- 8.2.1 Whilst the current directors of MHL will be asked to become non-executive directors of the Company, subsequent appointments should be made by the Board Nominations Committee to be established.
- 8.2.2 The Board Nominations Committee would comprise three non-executive directors (including the Chairman of the Board).
- 8.2.3 The Board Nominations Committee would make its terms of reference available.
- 8.2.4 The Board Nominations Committee would make its recommendations based upon merit and objective criteria. The criteria would outline the skills, knowledge and experience required. In light of this, for each casual vacancy a candidate specification will be prepared outlining the role and the skills required.

8.3 **Audit Committee**

- 8.3.1 The Board should appoint a three person Audit Committee. At least one member of the Committee should be financially literate.
- 8.3.2 The main role and responsibilities of the Audit Committee should be set out in written terms of reference and should include:
- (a) to monitor the integrity of the financial statements of the group, and any formal announcements relating to the group's financial performance, reviewing significant financial reporting judgements contained in them;
 - (b) to review the group's internal financial controls and, unless expressly addressed by a separate risk committee composed of independent directors, or by the Board itself, to review the group's internal control and risk management systems; and
 - (c) to make recommendations to the Board, for it to put the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor.

8.4 **Remuneration Committee**

- 8.4.1 The Board should appoint a Remuneration Committee comprised of non-executive directors.
- 8.4.2 As all directors of the Company will be independent non-executives they will not be eligible for bonuses. They will earn only a directors emolument. That emolument will be set by the Remuneration Committee and externally benchmarked.
- 8.4.3 It is anticipated that PTL will have an executive director. The remuneration of that director (and any other executive director of PTL from time to time) will be considered and set by a remuneration committee of PTL (the "**PTL Remuneration Committee**"), subject to the Remuneration Committee (i.e. of the Company) having a right of veto in respect thereof.
- 8.4.4 The Remuneration Committee and the PTL Remuneration Committee (as appropriate) should judge where to position remuneration relative to other companies. The performance related element of an executive's package should, to the extent possible, align the interest of that executive with those of the stakeholders.

9 **PROVISION OF INFORMATION TO MEMBERS**

The Company will keep the Members informed of the Company's activities, progress and performance:

- (a) by the issue of an annual report and financial statements;
- (b) at an Annual General Meeting which will include presentations on the group's general and financial performance, including specifically (1) the performance of the SNIP, its maintenance programme, compliance with the terms of PTL's licence, an analysis of expenditure as compared with budget, details of PTL's compliance with financial ratios and customer service and (2) similar presentations in relation to other key assets (e.g. the Moyle Interconnector, in the event that the Moyle group of companies come to be owned by the Company); and
- (c) at any other Members' conferences which from time to time the Board may consider necessary or desirable.

10 **GENERAL**

10.1 **Termination of membership**

Membership may only be terminated in accordance with the relevant provisions of the Company's Articles of Association. A Member can resign at any time by serving written notice on the Company Secretary and it will be effective from the time such resignation is recorded in the Register of Members.

10.2 **Applicability of the Membership Policy**

The Membership Policy is to be followed in respect of the selection and appointment of all Members without exception.

10.3 **Communication with Members**

10.3.1 All communication between the Company, potential Members and Members relating to the selection process should normally be in writing through the Chairman of the Board, the Chairman of the Membership Selections Committee, or the Company Secretary.

10.3.2 Where this is not possible full details of oral communication with potential Members should be recorded by or on behalf of the Membership Selections Committee. Any information disclosed to a potential Member during the selection process must, to the extent it is relevant, be disclosed to all other potential Members.

10.4 **Withdrawing an application**

If a potential Member wishes to withdraw at any time during the selection process, then written confirmation of the decision must be submitted to the Company Secretary.

10.5 **Retention of correspondence**

10.5.1 The Company Secretary will be responsible for maintaining all correspondence in relation to Members or potential Members in an appropriate filing system. All correspondence relating to unsuccessful applications will be retained for a period of five years.

10.5.2 Information held by the Company about potential Members and Members will be used only for the administration of the membership and, if relevant, for the proper conduct of the Company's affairs.

10.6 **Public register of Members**

In line with the policy of openness and transparency on which the Company has been founded, the Register of Members (giving the names of Members but no other details) will be published on the Company's website. This is required of all Members and consent for this is given by submission of an application for membership.

10.7 **Copies of this Membership Policy**

Copies of this policy document are available for inspection at the registered office of the Company or on written request from the Company Secretary.