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**Premier Transmission Limited**  
**Annual report**  
**for the year ended 31 March 2022**

# Premier Transmission Limited

## Annual report for the year ended 31 March 2022

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# Premier Transmission Limited

1

## Directors and advisers

### Directors

Patrick Anderson	Non-executive director	
David Gray	Chairman	
Patrick Larkin	Executive director	
Gerard McIlroy	Executive director	
Harold McCracken	Non-executive director	(appointed 1 September 2021)
Michael McKernan	Non-executive director	
Christopher Murray	Non-executive director	
Ceri Richards	Non-executive director	

### Company secretary

Gerard McIlroy

### Registered office

First Floor  
The Arena Building  
85 Ormeau Road  
Belfast  
BT7 1SH

### Principal place of business

First Floor  
The Arena Building  
85 Ormeau Road  
Belfast  
BT7 1SH

### Solicitors

Arthur Cox Northern Ireland  
Victoria House  
15-17 Gloucester Street  
Belfast  
BT1 4LS

### Bankers

Barclays Bank plc  
Donegall House  
Donegall Square North  
Belfast  
BT1 5GB

### Independent auditors

KPMG  
Chartered Accountants and Statutory Auditors  
The Soloist Building  
1 Lanyon Place  
Belfast  
BT1 3LP

## Strategic report for the year ended 31 March 2022

The directors manage Premier Transmission's operations at the Mutual Energy ("MEL") group level. The strategies, KPIs and operations of the Premier Transmission Pipeline System, which includes the Premier Transmission, Belfast Gas Transmission and West Transmission assets, are therefore considered as a whole.

### Strategic objectives

Our strategy is made up of four key elements:

Strategy	How we deliver	How we measure success
<b>Safe, cost efficient operation</b> Operate the best model to minimise costs and overheads including outsourcing	<p>We provide a safe, reliable and efficient transmission service to the electricity and gas suppliers of Northern Ireland.</p> <p>Delivery is achieved through a competitive tendering process for operational activities and the development of a comprehensive contracting strategy and partnership approach with key contractors.</p> <p>We operate a Health &amp; Safety system based on the Plan, Do, Check, Act approach and have an Asset Management System which is accredited to the ISO 55001 standard.</p> <p>Further information on asset operation can be found on pages 5-6.</p>	<p>Our success measures include:</p> <ul style="list-style-type: none"> <li>- availability targets for our assets (KPI 1);</li> <li>- operational savings against forecast (KPI 2);</li> <li>- lost time incidents (KPI 3) and a series of detailed health &amp; safety targets;</li> <li>- detailed maintenance and contracting milestones which are monitored at contract meetings; and</li> <li>- detailed monthly budgets which are monitored over a rolling five year horizon.</li> </ul>
<b>Return savings to consumer</b> Deliver savings to all consumers evenly over the life of the assets	<p>Our strategy involves returning all savings or cash surpluses to the generality of Northern Ireland consumers as evenly as possible over the life of the assets.</p> <p>In doing so, where possible, we seek to build up reserves to smooth future cash flows and minimise energy price increases and fluctuations associated with our assets. Where appropriate, reserves will be used to provide capital for future investments.</p> <p>Delivery of savings is discussed in more detail on page 7.</p>	<p>Our measures of success include:</p> <ul style="list-style-type: none"> <li>- operational savings against forecast (KPI 2);</li> <li>- cost of capital of Mutual Energy vs NI comparator (KPI 4); and</li> <li>- cash generated from operations (KPI 5).</li> </ul>
<b>Decarbonise</b> Take an active role in collaboration with key stakeholders in the acceleration of decarbonisation through interventions and investments which benefit NI energy consumers	<p>Our strategy is to adapt its structure and focus of the business to rise to the challenge of facilitating the decarbonisation of both the gas and electricity networks in Northern Ireland and facilitating customers who wish to use the networks as a means of decarbonising other sectors.</p> <p>We will also target the CO<sub>2</sub> content of the electricity and gas transported on our networks, playing our part in reducing this by facilitating the connection of both customers and producers.</p> <p>Decarbonisation is discussed in more detail on pages 8-9.</p>	<p>A key factor to enable decarbonisation is the ability of system operators to balance the network and generators to respond flexibly to changes in renewable generation. Success is measured by the flexibility we will be able to supply our customers. In our gas businesses the flexibility we provide is measured by the rate of change we facilitate, and the volume of capacity we can make available.</p> <p>We also monitor the domestic connections made to the transmission network and calculate the CO<sub>2</sub> saving (KPI 6) made by these connections over a 15 year period, as well as monitoring the savings made by industrial consumers compared to using oil (see page 8).</p> <p>Finally, we aim to reduce the emissions in our own business and have agreed a baseline and target for reductions (see page 16).</p>
<b>Manage market change</b> Manage market changes to minimise risks to NI consumer	<p>Our key focus is to ensure, so far as possible, that changes driven by EU, national or other bodies do not impact negatively on our business, our financing arrangements or energy consumers in Northern Ireland.</p> <p>We seek to achieve this by influencing discussions at stakeholder meetings, actively participating in the work of the EU and GB system operator confederations and by assisting the regulators and relevant government departments to identify and address issues particularly relevant to Northern Ireland.</p> <p>The market environment is discussed in more detail on page 10.</p>	<p>Our measures of success include:</p> <ul style="list-style-type: none"> <li>- avoidance of changes which would compromise the financing structures of the group;</li> <li>- monitoring of individual projects against initial objectives and implementation plans with milestone dates; and</li> <li>- market improvements implemented (KPI 7).</li> </ul>

Strategic report for year ended 31<sup>st</sup> March 2022 (continued)

## Key Performance Indicators (“KPIs”)

Our KPIs are designed to reflect what is important to our stakeholders and we use them to assess the Company’s development against its strategy and financial objectives.

Key Performance Indicator	Definition of KPI
<b>1. Availability</b> The quality of service to our direct customers is determined by the performance of our assets, of which the principal measure is the availability of transmission capacity.  A graph showing availability can be found on page 5.	<b>Availability</b> Availability is calculated as the number of hours available (excluding upstream outages) x capacity available / total plant capacity under connection agreements x the number of hours in the year.
<b>2. Operational savings against forecast</b> For the gas businesses cost effectiveness is measured by comparing outturn with the forecast used and submitted in preparing annual gas tariffs.  Operational savings vs forecasts for the gas businesses are shown on page 7.	<b>Operational savings against forecast</b> The KPI for gas business operational savings is calculated by subtracting the actual required revenue for the gas year, calculated in accordance with the gas companies’ licences, from the forecast required revenue submitted in advance of the year.
<b>3. Lost time incidents</b> Our safety is measured by the safe operation of our staff and contractors as noted on page 5.	<b>Lost time incidents</b> Lost time incidents are calculated as the number of lost time incidents per 100,000 hours worked by staff and contractors.
<b>4. Cost of capital of Mutual Energy vs NI comparator</b> Savings incurred on the Mutual Energy group’s financing costs compared to the costs which would have been incurred if financed by a Northern Ireland energy utility comparator. This is a direct saving to consumers.  Cost of capital of Mutual Energy vs NI comparator can be seen on page 7.	<b>Cost of capital of Mutual Energy vs NI comparator</b> The Mutual Energy group incurs financing costs in respect of debt entered into for the purpose of the business. The Mutual Energy group’s average cost of capital is compared to the costs which would have been incurred if financed at the rates charged by a Northern Ireland energy utility comparator over this period.  The KPI is the savings made as a result of the lower cost of capital than the comparator company. The savings are calculated as the cost which would have been incurred by a comparator financing the Mutual Energy group’s debt compared to the costs actually incurred.
<b>5. Cash generated from operations</b> Cash generated which will be used to avoid future charges to consumers.  Cash generated can be seen in the graph on page 7.	<b>Cash generated from operations</b> Cash generated post tax.
<b>6. CO<sub>2</sub> savings</b> The business can contribute to the reduction in CO <sub>2</sub> by facilitating changes on its network to allow: <ol style="list-style-type: none"> <li>1. consumers to move from higher CO<sub>2</sub> emitting fossil fuel to lower emitting fossil fuels;</li> <li>2. lower or zero emission fuels to transport through the networks; and</li> <li>3. different industry types, such as transport, to access electricity or natural gas to lower their CO<sub>2</sub> emissions.</li> </ol> In addition the Mutual Energy group will seek to minimise the emissions from its own operations, encompassing operational activity, transport and other activities ancillary to running the business.  The total of the CO <sub>2</sub> savings is the KPI for this activity and a graph showing the results can be found on page 8.	<b>CO<sub>2</sub> savings from moving to lower emitting fossil fuels</b> <b>Domestic heating</b> The lifetime saving associated with a connection is calculated using Northern Ireland average consumption and applying CO <sub>2</sub> conversion factors for oil vs gas based on UK government figures over an assumed 15 year life. The total for the year is calculated by multiplying by the number of new domestic gas connections in the year using figures from the Utility Regulator (‘NIAUR’) Quarterly Transparency Reports. <b>Industrial and commercial</b> The annual CO <sub>2</sub> saving from industrial and commercial customers burning natural gas compared to CO <sub>2</sub> emissions which would have been generated had the customers been operating on oil. The annual consumption from medium and large industrial and commercial customers on the Northern Ireland network is taken from the quarterly transparency report from NIAUR and the CO <sub>2</sub> savings are calculated by applying CO <sub>2</sub> conversion factors for oil vs gas based on UK government figures.

Strategic report for year ended 31<sup>st</sup> March 2022 (continued)

## Key Performance Indicators (“KPIs”) (continued)

Key Performance Indicator	Definition of KPI
<p>6. CO<sub>2</sub> savings (continued)</p>	<p><b>CO<sub>2</sub> savings from moving to lower emitting fossil fuels (continued)</b></p> <p><b>Power generation</b> The annual CO<sub>2</sub> saving of connecting a unit to the gas network is the emissions of the gas burned in a year compared to the emissions that would have been generated had that unit been operating on another fuel. The comparison fuel is power station specific, and dependent on its historic fuel and the calculation uses the UK Government Greenhouse Gas (‘GHG’) Conversion factors as appropriate. Where the capacity of a unit has changed as part of the gas conversion process, we only compare new emissions to the lower of the old and new generation capacity. Only plant connected in the timeframe Mutual Energy owned the pipelines are included.</p> <p><b>Lower or zero emission fuels to transport through the networks</b></p> <p><b>Biomethane injection</b> CO<sub>2</sub> savings from connecting low CO<sub>2</sub> gas producers are calculated by comparing the CO<sub>2</sub> content of gas from the UK Government to the content of the gas injected.</p> <p><b>CO<sub>2</sub> saved in Mutual Energy group operations</b> These are calculated in accordance with guidance provided by the Department of Business, Energy and Industrial Strategy (‘BEIS’), for conversion of different fuel types, to calculate the CO<sub>2</sub> usage.</p>
<p>7. Market improvements implemented<sup>1</sup></p> <p>GMO NI uses a Market Improvement Register to identify and manage changes to the gas market in Northern Ireland, and to aid with planning of work and resources. The register weights each change from minor updates to larger implementations of key regulatory changes.</p> <p>Market improvements implemented can be seen in the graph on page 10.</p>	<p><b>Market improvements implemented</b> Number of market improvements implemented within each financial year.</p>
<p>8. Annual Debt Service Cover Ratio</p> <p>The ability to acquire infrastructure at low cost to the consumer is critically dependent upon our track record with the existing asset financing.</p> <p>As well as compliance with the respective financing covenants, the principal requirements of all financiers are the maintenance of Annual Debt Service Cover Ratios (ADSCR) of greater than 1.25.</p> <p>A graph showing these ratios can be found on page 6.</p>	<p><b>Annual Debt Service Cover Ratio</b> The Annual Debt Service Cover Ratios are calculated in accordance with the terms of the bonds for each operational company.</p> <p>The basis of calculation is Available Cash / Debt Service in the next 12 months.</p> <p>In each case Available Cash = the difference between income and expenses in the period + cash in designated bank accounts, where cash in the designated bank accounts is limited to 1x Debt service.</p>

A number of other KPIs are used at Mutual Energy group level to monitor other aspects of business performance, including corporate responsibility KPIs and Employee KPIs. These are included later in this report.

<sup>1</sup> “Market change date milestones met” KPI was replaced with “Market improvements” KPI this year as the previous KPI was based on EU requirements which had fixed dates, however, this is no longer the case for many of the market improvements following Brexit

## Strategic report for year ended 31<sup>st</sup> March 2022 (continued)

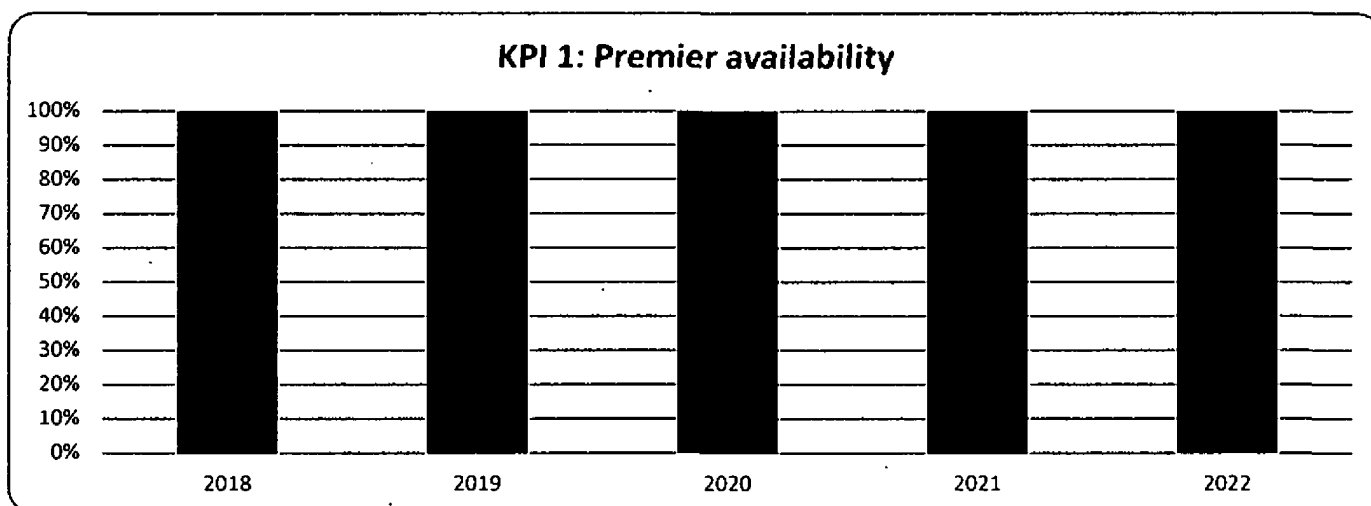
### Gas business review

**Strategic objective: Operate assets safely and cost effectively, outsourcing where appropriate**

#### *Operational performance*

It was a relatively mild winter, the peak day gas demand occurring on 24<sup>th</sup> January 2022 6.4mscm/d, less than the forecasted 7.5mscm/d and the previous year's peak of 7.01mscm/day on 10th February 2021. Wholesale gas prices were high and Ukraine conflict occurring late February did raise concern on gas supply, but there were no supply issues in GB and no operational issues with our gas transmission network so we are very pleased to have maintained the availability of the gas system through the year at 100% (KPI 1). The expansion of the distribution sector continues apace with almost 17,000 additional domestic connections in the 2021 calendar year, creating an approximate lifetime CO<sub>2</sub> emissions saving of c170,000 tonnes. Annual consumption of gas for the power generation sector continues to decrease with intermittent renewables contributing more to the electricity mix. That said, the peak daily requirement for power generation remains at the same levels on the days the renewables are not available and is set to take a step increase as more new connections to gas fired electricity generation come on stream.

There were no lost time incidents in the year (KPI 3).



We continued the roll out of the replacement control computers on the sites and working with adjacent transmission system operators began to implement changes in the operational pressures in the network in preparation for increasing peak day demands.

#### *Financial performance*

The combined gas business costs for Mutual Energy's subsidiaries (Premier Transmission, Belfast Gas Transmission and West Transmission) for the gas year ending on 30 September 2021 were £0.2m below the forecasts used for predicting tariffs (September 2020: £2.0m below) (KPI 2).

The businesses are cash generative and able to meet their debt service obligations, though, because of the debt structures, they are not expected to be profitable in the earlier years when interest costs incurred are in excess of debt repayments. This situation will then reverse in later years.

## Strategic report for year ended 31<sup>st</sup> March 2022 (continued)

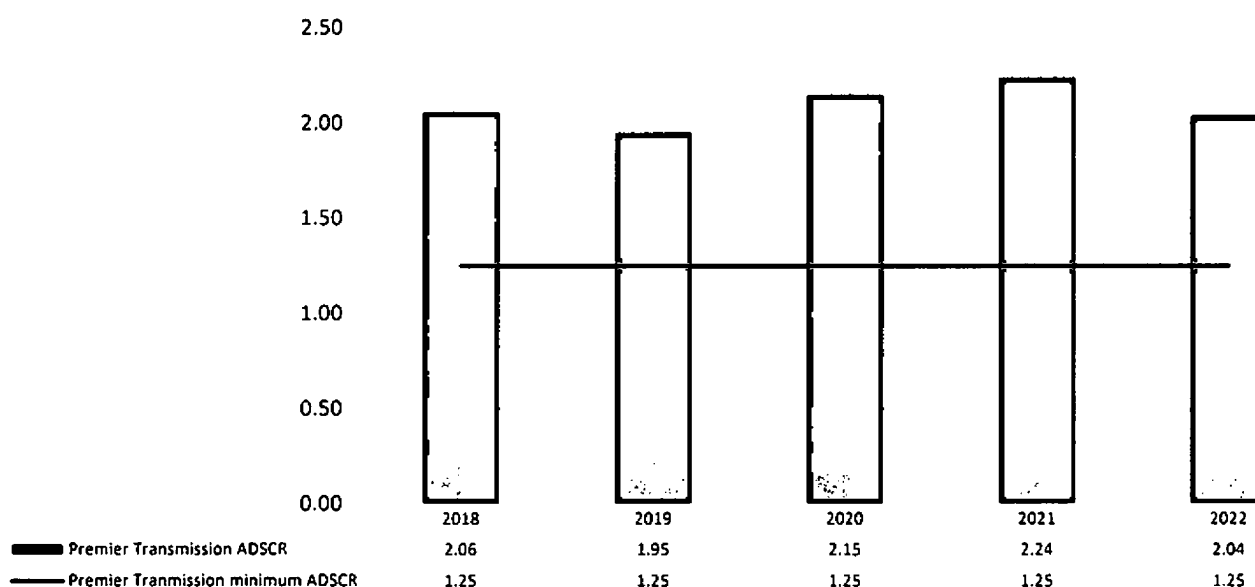
**Strategic objective: Operate assets safely and cost effectively, outsourcing where appropriate (continued)**

### Financial performance (continued)

The Annual Debt Service Cover Ratio (ADSCR) will tend to average towards 2.0. Over-performance above 2.0 in earlier years will reverse in the future and will result in future ADSCR below 2.0 when this cash is released to the benefit of consumers. The timing of tax payments can have a similar effect.

The ADSCRs can be seen in the following graph.

**KPI 8: Premier ADSCRs**



### Future development – asset performance and utilisation

The Mutual Energy group will soon connect the Kilroot Power Station to the Belfast Gas Transmission pipeline and integrate the operation of the connecting site and pipeline into the overall operation of the gas transmission assets. The renewables-based electricity system requires dispatchable flexible generation to have available for the substantial periods when intermittent renewable generation is insufficient. During the year, Kilroot submitted a formal connection request for circa 750MW of gas-powered plant at Kilroot. This will start to contribute to peak daily gas requirements from 2023. The step up in gas capacity required to fuel the 750MW electrical plant will take overall NI daily capacity beyond the 8.08mscm/d that is available through Twynholm and the SNIP pipeline, which will lead to the commercial use of the Gormanston supply point into NI as a minimum. The potential increased load, essential to keeping the electrical system functioning effectively, will push the NI gas transmission system close to the limits of its physical capacity and bring likely bring forward the first use of existing capacity constraint management arrangements. The NI TSOs and Gas Market Operator are seeking information on running regimes from the electrical system operators which will guide any capital expenditure or system changes to help facilitate this unprecedented increase in load. Preliminary analysis of the operating regime suggests that, in open cycle mode, the new plant may want to have offtake rates on the system in excess of all the existing gas-powered plant combined. The timeline for changes to the system will be determined in 2022 once the proposed requirements of the electrical system are confirmed, including outline timelines for any required capital expenditure.



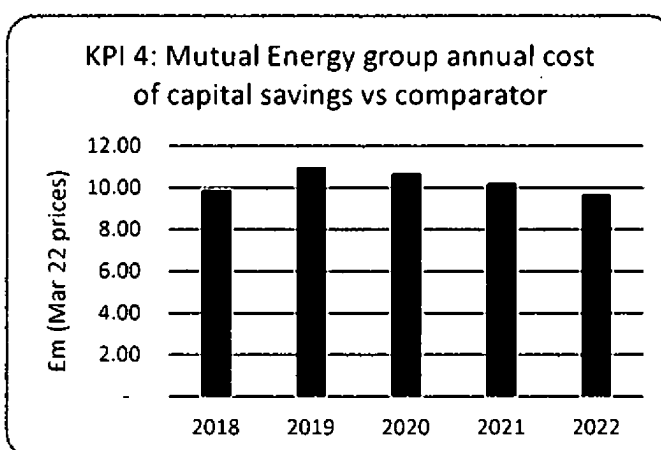
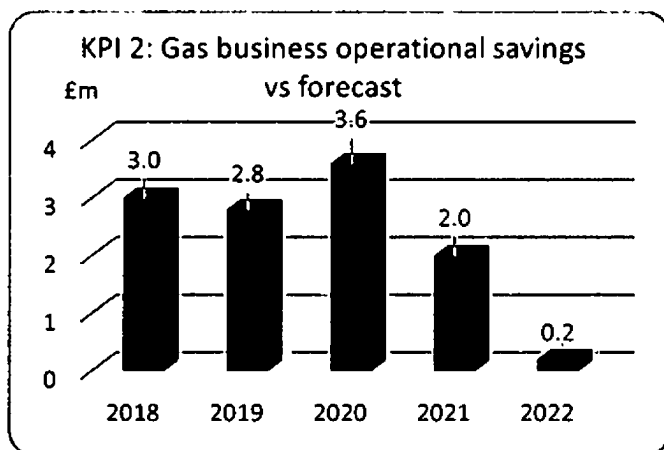
## Strategic report for year ended 31<sup>st</sup> March 2022 (continued)

### Strategic objective: Deliver savings to current and future consumers over the life of the assets

In the gas year 2019-20 we agreed with the Utility Regulator (NIAUR) to set aside £2.7m of the money we had saved in our gas businesses to assist in the cash flow of our shippers should any shipper default in its payment obligations due to the impact of the COVID-19 pandemic. This reserve continues to be held given recent market conditions and high gas prices.

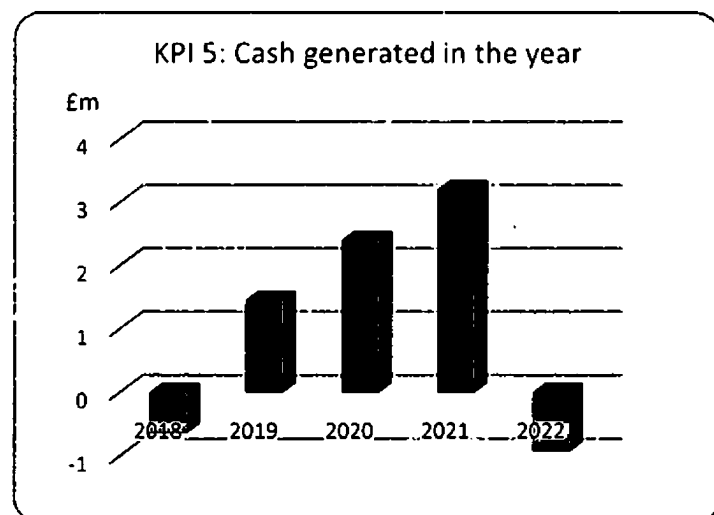
Whilst savings against the forecasts and the use or return of these to shippers are very welcome, the main means by which the businesses deliver savings to the consumers in Northern Ireland is through providing a low cost of capital. The costs of the gas transmission assets are charged to the respective shippers through a “use of system” charge which happens automatically through the postalised transmission system charging methodology. The savings achieved due to our low costs of capital are therefore passed on to shippers, allowing them to charge the end consumer less for their gas. Overall gas business charges recovered from shippers in the 2020-21 gas year (excluding the new West Transmission assets) were 20% lower (2019-20: 13% lower) in real terms than in 2004-05, before the mutualisation of Mutual Energy’s gas assets. We continually seek to achieve operational savings and efficiencies.

Year on year the business measures its progress with reference to the annual forecast provided for the tariff calculation, as shown in the following chart (KPI 2). Savings in the most recent year were reduced by increased spend in negotiating the upstream Transportation Agreement with GNI(UK), the outcome of which was significant future savings for NI consumers.



The Mutual Energy group passes further savings on to consumers through its low cost of capital. A way of measuring the benefit which will flow to consumers is to calculate the cost of capital savings for the Mutual Energy group compared to a Northern Ireland energy utility comparator (KPI 4). The chart above shows the annual savings in March 2022 prices over the last 5 years. Cumulative savings to 31 March 2022 have exceeded £160m.

KPI 5 shows the movement in the cash balance (including deposits and investments with maturity of less than 1 year) from the previous year.



The cash generated in 2021 reflects the agreement with NIAUR to set aside the additional reserve to help shipper liquidity in the event of a shipper defaulting, but has not been required to date. In 2017/18, £1.25m of funds retained from Premier Transmission’s previous outperformance against targets were provided to West Transmission to assess the opportunity of a preconstruction financing. As a result, West Transmission was financed in July 2018 at a very low rate, resulting in significant benefit to customers.

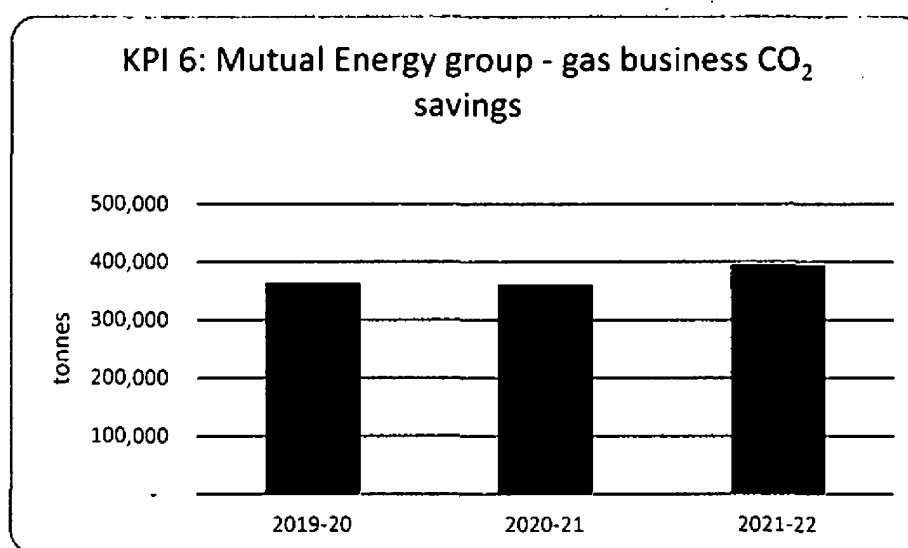
The Northern Ireland consumer will face significant costs as government policy changes to seek to decarbonise the economy, and the ability to generate savings and then return them to customers or absorb some of these additional costs will become an important part of our strategy going forward.

## Strategic report for year ended 31<sup>st</sup> March 2022 (continued)

**Strategic objective: Take an active role in collaboration with key stakeholders in the acceleration of decarbonisation through interventions and investments which benefit Northern Ireland energy consumers**

### Future development – energy transition

The Mutual Energy group targets its activities to allow users of our assets to reduce their CO<sub>2</sub> and measures the CO<sub>2</sub> savings which are facilitated by the business as outlined in the graph below (KPI 6). The facilitation of CO<sub>2</sub> savings by others is the key contribution the group can make to achieving net zero. The direction of our efforts to facilitating replacement of higher CO<sub>2</sub> emitting fuels with lower CO<sub>2</sub> emitting fuels and transporting lower carbon energy, as measured by this KPI, will provide a benefit of many multiples the savings we can make in our own energy use.



The most immediate way to reduce CO<sub>2</sub> is to facilitate higher CO<sub>2</sub> emitting sectors converting to lower CO<sub>2</sub> emitting gas and this continues to be a core business, with domestic and commercial customers steadily moving from oil to gas for heating purposes. A key ongoing project is the connection of the Kilroot power station to the gas network, enabling the coal fired plant to be replaced by a gas fired plant. The CO<sub>2</sub> savings from this change will be evident once the new plant comes online.

Longer term we aim to facilitate the progressive reduction of the CO<sub>2</sub> content of the gas we transport through our assets. The first milestone in this process is the ability to accept biogas in the networks, and our Gas Market Operator has successfully adapted the commercial framework for gas transportation to facilitate this injection which will take place on the distribution networks, with first injections hopefully in the 22/23 year. Other progress continues to be difficult as Northern Ireland is still in the process of developing an energy strategy, and the Utility Regulator are not adopting any framework to support regulated entities in making any substantive progress. We continue to engage with both parties to identify areas where progress can be made.

Another complement to biogas reducing the carbon footprint of transported gas is the use of hydrogen. During the year we partnered with B9 Energy, Islandmagee Energy Storage and the Net Zero Technology centre to develop the “Ballylumford Power to X” project which aims to convert excess renewable electricity into hydrogen, store it and then use the hydrogen to create electricity when renewable electricity is not available. This project is at a very early stage, but has received funding from BEIS and will provide a practical insight into one possible solution to the fundamental problem of the intermittency of renewable energy.

On the research side the Mutual Energy group continue to work with the Hylight collaboration, bringing together research expertise from Dublin City University, National University of Ireland, Galway and University College Cork and a large number of interested companies to assess the potential for hydrogen in Ireland.

## Strategic report for year ended 31<sup>st</sup> March 2022 (continued)

**Strategic objective: Take an active role in collaboration with key stakeholders in the acceleration of decarbonisation through interventions and investments which benefit Northern Ireland energy consumers (continued)**

**Future development – energy transition (continued)**

### **Ballylumford Power to X project**

Our Energy Transition team worked closely with the Net Zero technology centre, Islandmagee Energy Storage and B9 Energy to identify the opportunity to address one of the core challenges in decarbonising the electricity sector: dispatchable low carbon power generation. The potential solution is to store surplus renewable electricity in the form of hydrogen and then reconvert this back to electricity when required. BEIS has awarded over £986,000 to this 12-month Power-to-X Project as part of its support for the UK's first ever Hydrogen Strategy, and this project will drive forward the commitments laid out in the UK Government's Ten Point Plan for a Green Industrial Revolution which includes the ambition to deliver 5GW of low carbon hydrogen production capacity by 2030.

Phase one of the Power-to-X Project will see the delivery of a front-end engineering design (FEED) to demonstrate the concept of innovative, first-of-a-kind, longer duration energy storage technologies which can be deployed at scale, and where green hydrogen from renewable energy sources, such as wind and solar, will be stored for later use as carbon free fuel in both the transport and power generation sectors.

Ultimately the Ballylumford Power-to-X Project seeks to create a full-cycle hydrogen economy, from production, storage and distribution to usage at the site. The FEED study will establish a set of requirements to improve the security and reliability of Northern Ireland and Ireland's power system through curtailment management and the provision of a range of system services including electrolyzers and a gas turbine.

The Ballylumford power generation site has unique significance because it combines strong connection to the gas and electricity transmission networks, interconnection with Scotland through the SNIP and Moyle pipeline and cables respectively, along with power generation and salt cavern storage that allow optimum conditions for green hydrogen production, storage and use, and for delivering security of supply in a not-too-distant net zero world.

This project will provide invaluable knowledge and open opportunities – allowing the generation of real-world data and practical experience in developing a high pressure 100% hydrogen network and building an understanding of the associated legislative and regulatory framework surrounding such networks. All this will be critical both to delivering the crucially important energy transition for Northern Ireland and maintaining a robust security of energy supply in the future.

## Strategic report for year ended 31<sup>st</sup> March 2022 (continued)

**Strategic objective: Manage market changes and regulatory developments to minimise risks to the Northern Ireland consumer**

### UK-EU New Working Arrangements

As a result of Brexit, the EU legislation that drives many of our market rules were transposed into UK Law on an as-is basis, and in addition the UK transmission companies were no longer able to continue membership of the European Network of Transmission System Operators (“ENTSO”). However, it was felt that strong working relationships need to continue to try to minimise divergence over time and to align arrangements where possible between the EU and the UK for an efficient and seamless gas market. A Working Arrangements Agreement (“WAA”) has been agreed in principle between the UK TSOs and ENTSOG, with approval pending from the EU. A Task Force has been enacted and meets quarterly to discuss common items and identify any workstreams that need to be progressed between the parties. For example, the EU has recently consulted on an update to the 3<sup>rd</sup> gas package to cover renewable gases and is proposing arrangements that would impact cross border flows with the UK. This arrangement stemming from the WAA is in its infancy with the agreement being developed and the first meeting being held within the last financial year. As this work progresses it is seen as a critical forum to monitor regulatory developments and manage market change especially in areas related to the energy transition impacting on cross border flows between the EU and the UK. GMO NI has been involved in the development of this, along with the parent NI TSOs and will be attending the meetings to cover any NI gas market related activities moving forward.

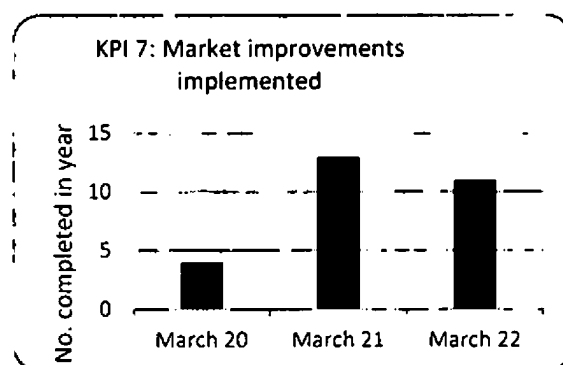
### Biomethane Implementation

The largest market change over the last financial year has been designing and updating arrangements to accept biomethane injection within NI. At the transmission level this involves allowing injected gas to trade across to a different distribution network than where it was injected, or even virtually reverse flow the biomethane back through Moffat (the NI entry point from National Grid) to claim incentives available within GB. For these activities virtual flow on the transmission network is needed. GMO NI has worked with the distribution system operators, NIAUR, and engaged with stakeholders to develop rules to allow the potential of biomethane to be maximised and to ensure arrangements are suitable to accommodate this, mainly by the introduction of aggregate balancing across both the distribution and transmission networks. The last year has seen the design, engagement and consultation with industry on business rules along with the initial IT systemisation to accommodate this, with the final phase of IT systemisation, code modifications and full implementation to be completed later in 2022. In terms of transmission injection although no entities have made approaches to inject into the transmission grid, GMO NI has worked to progress and outline a connection process along with certain documentation and base case rules to ensure that, when an entity does request a biomethane injection connection to the transmission network, there is a defined process and necessary documentation required for the application to progress successfully.

### Market improvements implemented (KPI 7)

The GMO NI Market Improvement Register is reviewed quarterly and considers changes in the following areas, all weighted depending on their significance:

- **Market:** Changes which improve transparency / information provision or may increase efficiency, flexibility or liquidity and therefore directly benefit the Shipper either via cost savings or otherwise
- **Operational:** Changes that improve the operation of the network
- **External:** Includes work such as accommodating a new connection point onto the network or a regulatory change that requires updates to the business
- **Process:** Changes which are beneficial to Shippers or the transporters in their daily interactions associated with the NI gas transmission market



Changes implemented in the year ended 31 March 2022 include the transition of the Trustee and Account Bank to new providers, the design and implementation of business rules for aggregate balancing arrangements across transmission and distribution networks, amendments to the Stranraer tariffing arrangements and inclusion within the annual reconciliation process for legislative compliance, and increased stakeholder engagement with Shippers via a winter webinar series.

## Strategic report for year ended 31<sup>st</sup> March 2022 (continued)

### Stakeholders, relationships and resources

The interests of the Company's stakeholders are considered through interactions with shippers at shipper forums and through face-to-face meetings. Formalised reporting to and regular calls and meetings with financiers and rating agencies are carried out. Regular engagement is carried out with key contractors in line with each contract management plan. Meetings are held with the Consumer Council to ensure consumer interests are taken into consideration. More information on our stakeholders is set out below.

#### Customers

All Mutual Energy businesses supply, not to the end consumer, but to the large gas shippers or electricity suppliers and traders in the energy markets.

The Premier Transmission Pipeline System provides a service to shippers from Moffat in Scotland to exit points at EP Ballylumford, the connection with Gas Networks Ireland (NI) ('GNI') pipelines at Carrickfergus, Belfast Gas exit points in Belfast and Larne, and West Transmission's exit points at Maydown and in the West of Northern Ireland via offtakes from GNI(UK)'s pipelines. A total of 19 shippers (2021: 18) are currently registered to use our gas system.

#### Partners and contractors

There has been no change to the major outsourced contractors in the year with SGN carrying out the routine maintenance, emergency response, and monitoring our system from their gas control centre in Horley, outside London. The gas control contract, which is an important partnership for the Company, has been extended for a further 10 years to 2032 following a procurement exercise under the new post Brexit procurement regulations.

#### Regulators and government departments

The Mutual Energy group works closely with the NIAUR and the Department for the Economy (DfE), where appropriate, to ensure that the interests of Northern Ireland's energy consumers are protected. The Mutual Energy group welcomes the commencement of DfE's new Energy Strategy and continues to work with the Department to determine how Mutual Energy can assist with this move towards a low carbon environment.

#### Bondholders and financiers

The directors are very conscious of their obligations to the bondholders and noteholders in the finance documents. In addition to complying with their other reporting obligations, they make available to financiers copies of the Annual Report.

#### Staff

The Mutual Energy group is committed to maintaining a high quality and committed workforce. Our vision is to have an innovative corporate culture and employees who will look to constantly improve all aspects of the business to achieve the corporate strategy.

The Mutual Energy group employs a personal performance evaluation system with assessment of targets and training needs to encourage performance. Succession planning is periodically reviewed by the board. Remuneration is linked to performance throughout the organisation.

#### Employee diversity

The Mutual Energy group recognises the importance of diversity amongst its employees and is committed to ensuring that employees are selected and promoted on the basis of merit and ability, regardless of age, gender, race, religion, sexual orientation or disability. The gender split across the Company as at 31 March is illustrated in the table below:

	2022		2021	
	Male	Female	Male	Female
Board	6	1	6	2
Senior Management	5	1	4	1
All employees & Board	16	5	14	6

**Strategic report for year ended 31<sup>st</sup> March 2022 (continued)****Stakeholders, relationships and resources (continued)****Social, community and human rights issues**

The Mutual Energy group has a fundamental community focus through its purpose: to own and operate energy infrastructure in the long-term interest of energy consumers in Northern Ireland. This is also reflected through all of our strategic objectives which include cost effective operation to deliver savings and minimise risks of market change to Northern Ireland consumers. More information on how the Company delivers these objectives can be found on pages 2 to 10.

The Company also continues to consider its impact on the environment and remains committed to reducing our energy consumption and related emissions where possible, as well as reducing our wider impacts such as resource use and waste to landfill. The Company ensures robust Health & Safety systems are in place as discussed on page 16, for the benefit of employees, contractors and the wider public. We comply with the Employments Rights Act, Modern Slavery Act and all other applicable UK law as an absolute minimum and recognise the importance of treating all of our employees fairly. We are committed to conducting business in an honest and ethical manner and act according to our Code of Ethics, which is integral to our business and sets out a range of principles we adhere to. We do not tolerate bribery or corruption of any kind and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships. The Mutual Energy group is a member of Business in the Community and continues to explore options for positive improvements to our environment, community and workforce.

**Risk management**

Risk management is overseen by Mutual Energy on behalf of the whole Mutual Energy group. The Mutual Energy group carried out a comprehensive review of its risk processes during 2020/21. The group's risk process was subsequently revised and changes were implemented during the year to encompass feedback from the review. These changes will ensure that risk appetite is more clearly defined and that risk assessment is fully embedded throughout all areas and levels of the business, ensuring effective risk management.

**Risk management structure**

The Mutual Energy Board approves the overall risk management process and the Audit and Risk committee approves all the policies covered by the framework. The new process implemented in the year ensures that people at all levels of the Mutual Energy group feed into the risk assessment process. Staff from each business function meet quarterly to identify and assess the risks faced and the functional risk registers produced at these meetings are then shared with senior management. Senior management also meet quarterly to identify strategic risks, taking into consideration the functional risks reported.

As part of the new risk process implementation some changes were made to the Mutual Energy Board's committees, effective 1 October 2021, including changes to the composition of the committees and updates to the names and terms of reference of the existing Audit Committee and Risk Committee. Strategic risks are now reported to the Asset Oversight Committee (formerly the Risk Committee) and Audit and Risk Committee (formerly the Audit Committee) at least twice yearly, with an annual review of these also being carried out by the Board.

Responsibility for ensuring compliance with the policies is delegated to the Audit and Risk Committee who delegate asset-related risks (including Health & Safety) to the Asset Oversight Committee. Moyle Control System Upgrade Subcommittee is responsible for managing the risks of the Control System upgrade. The Asset Oversight Committee reports to the Audit and Risk Committee after each meeting. The Moyle Control System Upgrade Subcommittee reports to the Board as appropriate.

Assessment of risk was carried out, throughout the year ended 31 March 2022 and up to the date of approval of the annual report and financial statements, in line with the risk process in effect at that time.

Control is maintained through a management structure with clearly defined responsibilities, authority levels and lines of reporting; the appointment of suitably qualified staff in specialised business areas; a comprehensive financial planning and accounting framework and a formal reporting structure. These methods of control are subject to periodic review as to their continued suitability.

The Mutual Energy Board, Audit and Risk Committee, and Asset Oversight Committee review the risk registers regularly and consider the approach to risk recording, management, and mitigation and how this remains appropriate in the current market environment. The Mutual Energy Board, during its annual review of the effectiveness of the group's internal control and risk management systems, did not identify, nor was advised of, any failings or weaknesses which it has determined to be significant.

Strategic report for year ended 31<sup>st</sup> March 2022 (continued)






## Risk management (continued)

The Mutual Energy group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The principal risks of the Mutual Energy group relevant to the Company have changed considerably as a result of the risk process refresh, with many risks being reclassified or separately identified as a result of the changes in the process, and are set out below.

## Operational risk



*The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The risk encompasses internal failures, such as poor processes or insufficient or untrained staff, and external actions such as cyber threats, or 3rd party accidental or malicious actions which restrict the ability of our assets to operate, either physically or commercially.*

Risk description and potential impact	Mitigations and actions taken	Risk trend
Ineffective processes, procedures or management of third party activities enable ignorant or negligent third parties to cause catastrophic failure of the pipelines or cables onshore or offshore leading to loss of gas supply, costly and lengthy repairs and reputational damage.	Experienced qualified maintenance subcontractors are used and are managed through the contractual process, frequent performance monitoring, and maintaining a high standard of eligibility for tendered work. As part of this process, we require the contractors to work under a set of processes and procedures which enable us to manage the associated risks of the networks.	
Reliance on 3rd Parties to supply business critical services can result in counterparty risk. Exposure to a limited number of counterparties interested in providing services could lead to uncompetitive pricing.	Contract management plans are in place which identify key deliverables and ensure regular reporting and meetings with contractors. Due diligence is performed where required to ensure financial stability. Termination rights and exit planning are in place where appropriate.	
Health & safety risk: Failure to maintain robust and effective health and safety practices, or failure to identify and manage wellbeing in the workforce may lead to injury to staff, contractor or public or have an adverse impact on the organisation's operations.	A Health & Safety policy, management system, and plans are in place which are reviewed annually. Risk assessments, method statements, audits, inspections and training are regularly performed.	
People and HR risk: The failure to effectively manage talent, ensure appropriate training and resourcing, and plan for leadership succession could impede the realisation of strategic objectives.	The business operates a performance-based culture with competitive pay and conditions benchmarked against the market, engaging closely with staff and utilising performance management and development programmes and succession planning. Human Resources policies are in place, the operation of which mitigate risks in this area. Risk has increased in this area due to skills shortages observed in the market and difficulties recruiting staff.	
Business continuity risk: One-off events or public health emergencies, epidemics or pandemics, have the potential to significantly impact the Company's operations through a fall in demand for the Company's products/services, a reduction in staff availability and business interruption.	A business continuity plan is in place, with key tasks identified and more than one individual trained in each. This system has been thoroughly tested and is proven to work well.	

Strategic report for year ended 31<sup>st</sup> March 2022 (continued)



## Risk management (continued)

## Operational risk (continued)

Risk description and potential impact	Mitigations and actions taken	Risk trend
IT and cyber risk: The business is dependent on information and operational technology systems to support its business activities. Any significant operational event, whether caused by external attack, insider threat or error, could lead to loss of access to systems or data, adversely impacting business operations across both the Information Technology and Operational Technology networks.	A business continuity plan is in place with resilient infrastructure and disaster recovery environments available. Access security and protocols are in place and penetration testing is carried out at regular intervals. The business liaises with the National Centre for Cyber Security and the Centre for the Protection of National Infrastructure and utilises security consultants as required.	
Gas system flexibility deteriorates: Either through increases or changes in demand profile or reductions in upstream pressure or changes in rules we are unable to provide the flexibility our customers expect, even if we are operating within our contractual entitlement.	Longer term systems planning is in place through annual gas capacity statement. The Northern Ireland network code and upstream Transportation Agreement with GNI(UK) define the business rules and capacity levels. Capacities and pressures are monitored to make sure they are not breached. System constraint arrangements and emergency response arrangements are in place. Risks have increased as generation load on the gas network is expected to increase significantly in the near term and this will lead to additional challenges in managing the network.	

## Financial risk

*The risk of failing to safeguard the organisation's assets, financial impropriety or financial misreporting. Inadequate financing, liquidity problems, non-compliance with covenants, market changes or failure of counterparties could lead to failure of financial structure. It includes fraud risk which is seen as the risk of internal or external fraud leading to financial loss, service disruption and reputational damage.*

Risk description and potential impact	Mitigations and actions taken	Risk trend
Poor financial management could result in breach of financing covenants, compliance failure or financial loss.	Controls are in place which cover authority limits, budgeting and financial processes and the overall governance structure. The most recent changes include implementation of a strict ring back process for payee changes.	
Inadequate financing, liquidity problems, non-compliance with covenants, market changes or failure of counterparties could lead to failure of financial structure.	Financing costs from borrowing arrangements are fully recovered through income allowances reducing the Group's exposure to inflation risk. Processes are in place to monitor covenant compliance and there is active management of market changes. Treasury policies are aimed at minimising the risks associated with the Company's financial assets and liabilities and financial counterparty failure clauses are included in financing documents. The Company has low liquidity risk due to its strong cash flows and the reserve accounts and liquidity facilities required by its financing documents. The required reserve accounts remain fully funded and £14m of liquidity facilities were in place throughout the year. Business planning processes are in place to identify cash requirements in advance.	




Strategic report for year ended 31<sup>st</sup> March 2022 (continued)

## Risk management (continued)



## Business environment and market risk

*The risk to the organisation of potentially failing to meet its objectives following significant changes or negative events within the external environment in which it operates. Examples of external risk include but are not limited to: sectoral risks such as Brexit; the impact of global factors and market conditions such as economic slowdown; external political environment or 'global shocks' such as terrorist attacks; extreme weather events, third party damage to assets etc.*

Risk description and potential impact	Mitigations and actions taken	Risk trend
Market changes for gas and electricity in Northern Ireland could result in reduced volumes transported through the assets, insufficient revenue recovery, default on debt, damage to reputation of mutual model or fines.	Licence provisions implementing the postalised charges system in the gas business are designed to offset the impact of such changes. An influencing strategy is in place to positively impact market developments. Recent and future market development are discussed on page 10. Risk has increased in the period due to the need for market changes to meet decarbonisation targets.	




## Political and regulatory risk

*Risks driven by regulatory or political attitudes to the industry generally or the Company in particular.*

Risk description and potential impact	Mitigations and actions taken	Risk trend
As the business is regulated it is exposed to regulatory risk. Changes in economic regulation or government policy could have an adverse impact on our financial position.	The Mutual Energy group's relationships with NIAUR and DfE are managed at senior level through frequent meetings and correspondence in line with the group's communication strategy. The business coordinates with other EU system operators on EU issues. A proactive approach is taken to consultations on any issue which could affect the Company's business interests, with legal advice sought where appropriate.	
As the Company is subject to growing number of laws and regulations, the cost of compliance or the failure to comply with current and future laws/regulations may negatively affect the Company's business and our financial position.	There is a full suite of processes in place to ensure compliance. Our asset management systems and Health and Safety management and environmental systems are essential in ensuring legislative compliance.	

## Corporate strategy and communication risk

*The risk associated with failure to achieve the strategic and business objectives. Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.*


Risk description and potential impact	Mitigations and actions taken	Risk trend
Inadequate corporate strategy and communication with external stakeholders could result in reputational damage, regulatory action, loss of support from members or lost growth opportunities.	The Mutual Energy Board retains responsibility for strategy as a reserved matter and manages communications directly in line with its communication plan, using outsourcing as appropriate. A member of staff has been appointed to have oversight of the day to day operation of Mutual Energy group communications and management of the external consultant.	
Risk of failure to develop brand and reputation to successfully deliver on strategic objectives.	The key control in this area is the communications plan and Board's involvement in this. As part of the execution of the current communications plan, there has been extensive recent engagement with the relevant politicians.	
Failure to prepare for energy transition and/or inadequate operating model to support the energy transition could result in significant financial, operational and reputational impacts.	The Mutual Energy group strategy has been amended to concentrate on this area and the Board's cycle of strategy evaluation and business planning gives explicit regard to energy transition. The refocus of the organisation structure and investment in two full time staff seeks to involve the business as much as possible in future developments and has decreased the risk in this area.  Gas industry wide co-ordination is relatively new, has become more formal and progress is now being made as resources are applied from all companies.	

Strategic report for year ended 31<sup>st</sup> March 2022 (continued)

## Risk management (continued)

## Project delivery risk

*The risk of an event or occurrence that may negatively impact on the delivery of a project. This could be as a result of poor contracting or management, insufficient resources or extreme weather could cause project delays resulting in financial losses, reputational damage, and damage to assets or loss of availability.*

Risk description and potential impact	Mitigations and actions taken	Risk trend
Poor contracting or management, insufficient resources or extreme weather could cause project delays resulting in financial losses, reputational damage, damage to assets or loss of availability.	A project governance structure exists with sufficiently qualified and trained resources. Controls are project specific, but centre round project execution plans and project governance arrangements for each project. Contractors are closely monitored and stakeholder engagement plans and insurance are in place.	

## Health, Safety and Environment

The Company continues to put a high value on the Health and Safety of its operations and to recognise the importance of minimising the impact of its activities on the environment, both locally and in the global context. The wellbeing of the Company's staff is considered extremely important to the business and particular focus was paid to this area in the year, given the potential impact of the COVID-19 pandemic on employees.

The Mutual Energy group has a comprehensive Health and Safety Management System (HSMS) which is based on HSE's HSG 65 'Successful Health and Safety Management' and the revised joint Institute of Directors / Health & Safety Executive guidance "Leading Health and Safety at Work". HSG 65 was substantially revised in December 2013 and re-titled 'Managing for Health and Safety' and is now based on the Plan, Do, Check, Act approach which achieves a balance between the systems and behavioural aspects of management. It also treats Health and Safety management as an integral part of good management generally, rather than a stand-alone management system. In addition, the Mutual Energy group has incorporated a number of wellbeing strategies into the Health and Safety Management System.

A Royal Society for the Prevention of Accidents (RoSPA) Quality Safety Audit was carried out in the year, with an improvement having been obtained on the already strong result from the previous audit in 2018/19. A plan is being put into place to progress the further improvements identified.

Our gas business runs simulated gas emergency exercises to ensure a robust response plan is in place to manage gas supply emergencies and pipeline incidents. Mutual Energy Limited, having taken over as the Northern Ireland Network Emergency Co-ordinator (NINEC) in November 2019, coordinated the annual Gas Supply Exercise in November, testing the response to an incident on one of the Gas Transmission Pipelines in Northern Ireland. An actual Gas Supply Emergency would be co-ordinated and managed in the same manner as that tested in the exercise.

The Mutual Energy group is committed to good environmental performance and holds under review its policies and strategies to monitor and deliver on this commitment, in the context of shifting societal awareness and priority on improving environmental performance. No breach of any environmental licence or permits were recorded in the year.

## Greenhouse gas emissions reporting

The Mutual Energy group continues to strive to increase the scope of our carbon monitoring and reporting with a view to reduce our overall emissions by 30% by 2030, with the clear objective of achieving the net zero targets in line with Northern Ireland policy timelines as outlined in the Northern Ireland Climate Change No. 2 bill.

As part of this process in improvement in reporting we will be monitoring our emissions on both the contract-based method and the location-based method as recommended by the US environmental protection agency based on The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (GHG Protocol) developed by the World Resources Institute (WRI). The contract-based method helps support renewables on the widest viewpoint, by allowing companies to support offsetting renewable investment at the most appropriate sites rather than always at the point of use, which is rarely possible. The location-based method helps incentivise actual reductions in energy use as well as investments in self supply of electricity.

**Strategic report for year ended 31<sup>st</sup> March 2022 (continued)****Environment and safety (continued)****Greenhouse gas emissions reporting (continued)**

The Mutual Energy group has further targets to improve monitoring and estimations in areas such as emissions during maintenance activities, and to extend the scope of our monitoring to "scope 3" emissions.

The table below sets out our greenhouse gas (GHG) emissions, energy use and energy intensity ratio for the current and prior year for Mutual Energy's gas businesses:

	Location-based calculation		Contract-based calculation	
	2022	2021	2022	2021
Usage of gas (GWh)	4.7	4.0	4.7	4.0
Usage of gas in operations (tCO <sub>2</sub> e)	860	737	860	737
Usage of electricity (GWh)	0.3	0.3	0.3	0.3
Usage of electricity in operations (tCO <sub>2</sub> e)	69	76	69	76
Gas intensity ratio - emissions per GWh gas transmitted to distribution networks	0.12	0.11	0.12	0.11

Whilst we will actively target improvements in our own emissions, our main focus will remain the emissions savings we can help achieve in the wider decarbonisation of the electricity and gas networks, where our progress to date has an impact many hundreds of times greater.

**Methodology**

We have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 and Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Emissions have been calculated using UK Government guidelines for conversion of natural gas and grid electricity. Scope 3 emissions have not been reported. It is not practical as yet for the company to publish information in respect of its consumption of fuel for the purposes of transport, which consists only of fuel used in personal/hire cars for business use. All energy usage and emissions are in respect of UK operations.

Intensity ratios are influenced by a range of factors including ambient temperatures and pressures.

**Energy efficiency measures**

During the year the Mutual Energy group continued to invest in energy efficiency measures including the introduction of an electric vehicle scheme which is open to all employees by way of salary sacrifice arrangements.

**Forward-looking statements**

The Strategic report contains forward-looking statements. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, the actual results of operations, financial position and liquidity may differ materially from those expressed or implied by these forward-looking statements.

By order of the Board



Gerard McIlroy  
Director  
1 July 2022

## Directors' report for the year ended 31 March 2022

The directors present their annual report and the audited financial statements of the Company for the year ended 31 March 2022.

General information on the Company can be found on page 1 and within note 1 to the financial statements.

### Results and dividends

The Company's profit for the year is £3,387,000 (2021: £7,691,000). The directors do not recommend the payment of a dividend (2021: £nil).

A review of our operational and financial performance, research and development activity, current position and future developments is included in our Strategic report and is included in this report by cross-reference.

### Directors

The directors, who served the Company during the year, and up to the date of signing the financial statements, were:

Patrick Anderson	
David Gray	
Patrick Larkin	
Gerard McIlroy	
Harold McCracken	(appointed 1 September 2021)
Michael McKernan	
Kate Mingay	(resigned 23 September 2021)
Christopher Murray	
Ceri Richards	

### Going concern

The Company is cash generative and is forecast to remain cash positive. The forecast cash generated is adequate to meet the Company's liabilities as they fall due over the 12 months from the date of approval of the financial statements including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the Company being short of adequate cash to service the bond an arrangement approved by the Northern Ireland Authority for Utility Regulation would be triggered which would ensure bond payments are made. Accordingly, the directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

### Post balance sheet events

There were no subsequent events that need to be brought to the attention of the users of the financial statements.

### Directors indemnities

The Company has made a qualifying third party indemnity provision for the benefits of its directors during the year and it remained in force at the date of this report.

### Political contributions

The Company has not made any political donations or incurred any political expenditure in the current year (2021: £nil).

### Other information

An indication of likely future developments in the business have been included in the Strategic Report on pages 2 to 17.

## Directors' report for the year ended 31 March 2022 (continued)

### Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 101 Reduced Disclosure Framework.

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

### Statement of disclosure of information to auditor

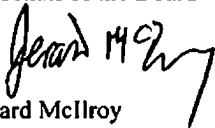
So far as each of the directors in office at the date of approval of these financial statements is aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG will therefore continue in office.

On behalf of the Board



Gerard McIlroy  
Director  
First Floor  
The Arena Building  
85 Ormeau Road  
Belfast  
BT7 1SH

1 July 2022

KPMG  
Audit  
The Soloist Building  
1 Lanyon Place  
Belfast BT1 3LP  
Northern Ireland

## **Independent auditors' report to the members of Premier Transmission Limited**

### **Report on the audit of the financial statements**

#### ***Opinion***

We have audited the financial statements of Premier Transmission Limited ('the Company') for the year ended 31 March 2022 set out on pages 24 to 41, which comprise the statement of profit and loss and other comprehensive income, the balance sheet, statement of changes in equity and related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is UK Law and FRS 101 Reduced Disclosure Framework.

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework issued by the UK's Financial Reporting Council; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of financial statements in the UK, including the Financial Reporting Council (FRC)'s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Conclusions relating to going concern***

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.



## **Independent auditors' report to the members of Premier Transmission Limited (continued)**

### **Report on the audit of the financial statements (continued)**

#### **Detecting irregularities including fraud**

We identified the areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements and risks of material misstatement due to fraud, using our understanding of the entity's industry, regulatory environment and other external factors and inquiry with the directors. In addition, our risk assessment procedures included: inquiring with the directors as to the Company's policies and procedures regarding compliance with laws and regulations and prevention and detection of fraud; inquiring whether the directors have knowledge of any actual or suspected non-compliance with laws or regulations or alleged fraud; inspecting the Company's regulatory and legal correspondence; and reading Board and audit committee minutes.

We discussed identified laws and regulations, fraud risk factors and the need to remain alert among the audit team.

The Company is subject to laws and regulations that directly affect the financial statements including companies and financial reporting legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items, including assessing the financial statement disclosures and agreeing them to supporting documentation when necessary.

The Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's licence to operate. We identified the following areas as those most likely to have such an effect: Government utility regulations and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these non-direct laws and regulations to inquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

We assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. As required by auditing standards, we performed procedures to address the risk of management override of controls. On this audit we do not believe there is a fraud risk related to revenue recognition. We did not identify any additional fraud risks.

In response to risk of fraud, we also performed procedures including: identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation; evaluating the business purpose of significant unusual transactions; assessing significant accounting estimates for bias; and assessing the disclosures in the financial statements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.



## **Independent auditors' report to the members of Premier Transmission Limited (continued)**

### **Report on the audit of the financial statements (*continued*)**

#### ***Other information***

The directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the strategic report and the directors' report. The financial statements and our auditor's report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

#### **Opinions on other matters prescribed by the Companies Act 2006**

Based solely on our work on the other information undertaken during the course of the audit:

- we have not identified material misstatements in the directors' report or the strategic report;
- in our opinion, the information given in the directors' report and the strategic report is consistent with the financial statements;
- in our opinion, the directors' report and the strategic report have been prepared in accordance with the Companies Act 2006.

#### ***Matters on which we are required to report by exception***

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.



## **Independent auditors' report to the members of Premier Transmission Limited (continued)**

### **Respective responsibilities and restrictions on use**

#### ***Responsibilities of directors for the financial statements***

As explained more fully in the directors' responsibilities statement set out on page 19, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

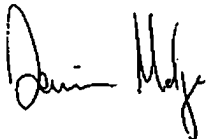
#### ***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities or error, and to issue an opinion in an auditor's report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

#### ***The purpose of our audit work and to whom we owe our responsibilities***

Our report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**4 July 2022**

**Dominic Mudge, Senior Statutory Auditor**  
**for and on behalf of**  
**KPMG Statutory Auditor**  
*The Soloist Building*  
*1 Lanyon Place*  
*Belfast*  
*BT1 3LP*

**Profit and loss account and other comprehensive income for the year ended 31 March 2022**

	Note	2022 £'000	2021 £'000
<b>Revenue - continuing operations</b>		<b>32,244</b>	<b>28,126</b>
Operating expenses	2	(19,890)	(14,812)
<b>Operating profit</b>		<b>12,354</b>	<b>13,314</b>
Finance income and similar income	4	215	321
Finance expense and similar expenses	4	(5,701)	(4,119)
Finance expenses - net	4	(5,486)	(3,798)
<b>Profit before tax</b>		<b>6,868</b>	<b>9,516</b>
Tax on profit	5	(3,481)	(1,825)
<b>Profit and total comprehensive income for the financial year</b>	<b>13</b>	<b>3,387</b>	<b>7,691</b>

All results arise from continuing operations.

The notes on pages 27 to 41 are an integral part of these financial statements.

## Balance sheet as at 31 March 2022

	Note	2022 £'000	2021 £'000
<b>Fixed assets</b>			
Tangible assets	6	62,445	64,377
Investments	7	2	2
		<b>62,447</b>	<b>64,379</b>
<b>Current assets</b>			
Debtors	8	61,388	49,935
Stocks	9	57	113
Financial assets	10	28,777	26,539
Cash at bank and in hand	11	11,168	14,332
		<b>101,390</b>	<b>90,919</b>
<b>Total assets</b>		<b>163,837</b>	<b>155,298</b>
<b>Capital and reserves</b>			
Called up share capital	12	861	861
Share premium account	12	14,012	14,012
Profit and loss account	13	40,938	37,551
		<b>55,811</b>	<b>52,424</b>
<b>Non-current liabilities</b>			
Creditors: amounts falling due after one year	14	86,299	84,730
Deferred tax liabilities	15	8,900	6,923
		<b>95,199</b>	<b>91,653</b>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	16	12,826	10,284
Corporation tax payable		1	937
		<b>12,827</b>	<b>11,221</b>
<b>Total liabilities</b>		<b>108,026</b>	<b>102,874</b>
<b>Total reserves and liabilities</b>		<b>163,837</b>	<b>155,298</b>

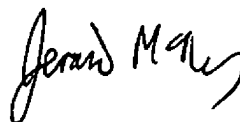
The notes on pages 27 to 41 are an integral part of these financial statements.

The financial statements on pages 24 to 41 were authorised for issue by the Board of Directors on 1 July 2022 and were signed on its behalf by:

Patrick Larkin  
Director



Gerard McIlroy  
Director



## Statement of changes in equity for the year ended 31 March 2022

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity £'000
At 1 April 2020	861	14,012	29,860	44,733
Total comprehensive income for the year	-	-	7,691	7,691
At 1 April 2021	861	14,012	37,551	52,424
Total comprehensive income for the year	-	-	3,387	3,387
At 31 March 2022	861	14,012	40,938	55,811

The notes on pages 27 to 41 are an integral part of these consolidated financial statements.

**Notes to the financial statements for the year ended 31 March 2022****1 Accounting policies and critical accounting estimates/judgements****General information**

The Company's principal activity during the year was the operation of the Scotland Northern Ireland pipeline which links the gas transmission systems of Northern Ireland and Scotland. The Company is a private company limited by shares and incorporated, registered and domiciled in Northern Ireland. The registered number of the Company is NI026421 and the address of its registered office is First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. All of the Company's assets and liabilities are denominated in Sterling. These financial statements were authorised for issue by the Board of Directors on 1 July 2022 and were signed on their behalf by Patrick Larkin and Gerard McIlroy. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared on a going concern basis, under the historical cost convention.

**Basis of preparation**

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Note 21 gives details of the Company's parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- A cash flow statement and related notes have not been presented;
- The Company's capital management policy has not been presented;
- The effects of new but not yet effective IFRSs has not been presented;
- Comparative information in respect of tangible assets has not been presented;
- Related party disclosures between entities that are wholly owned within the Mutual Energy group have not been given; and
- Disclosure in respect of the compensation of key management personnel has not been presented.

As the consolidated financial statements of Premier Transmission Financing PLC include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

**Going concern**

The Company is cash generative and is forecast to remain cash positive. The forecast cash generated is adequate to meet the Company's liabilities as they fall due over the 12 months from the date of approval of the financial statements including the scheduled partial repayment of bond capital and interest. In the unlikely event that a change in circumstances results in the Company being short of adequate cash to service the bond an arrangement approved by the Northern Ireland Authority for Utility Regulation would be triggered which would ensure bond payments are made. Accordingly, the directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

**Notes to the financial statements for the year ended 31 March 2022****1 Accounting policies and critical accounting estimates/judgements (continued)****Newly adopted standards**

The Company has adopted the following IFRSs in these financial statements:

- Amendments to IFRS 9: Interest Rate Benchmark Reform Phase 2 has been adopted from 1 April 2021. The Phase 2 has been applied retrospectively, however, in accordance with the exceptions permitted in the Phase 2 amendments, the Company has elected not to restate comparatives for the prior periods to reflect the application of these amendments. Since the Company has no transactions for which the benchmark rate had been replaced with an alternative benchmark as at 31 March 2021, there is no impact on the opening equity balances as a result of retrospective application. The details of the accounting policies are disclosed in note 1.
- Amendments to IFRS 16: Leases Covid-19 Related Rent Concessions has been adopted. The amendment introduces an optional practical expedient for leases in which the Company is a lessee. For leases to which the Company applies the practical expedient, the Company is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic are lease modifications. The Company has applied the amendment retrospectively. The details of the accounting policies are disclosed in note 1 and see also note 20 for related disclosures. The further amendment, which extended the concession period, has been early adopted.

The adoption of these amendments to IFRSs did not result in material changes to the Company financial statements.

**Segment reporting**

The Company has one business segment, the selling of capacity on the Scotland Northern Ireland Pipeline for the transmission of gas between Scotland and Northern Ireland and one geographical segment, the United Kingdom. Accordingly segment reporting is not deemed to be applicable.

**Revenue**

Revenue comprises the fair value of the consideration received or receivable for the sale of capacity on the Scotland Northern Ireland Pipeline for the transmission of gas between Scotland and Northern Ireland. All revenue is generated within the United Kingdom. Revenue is shown net of value-added tax and rebates. Revenue is recognised in accordance with the terms of the licence issued by the regulatory authority, namely in line with the applicable costs incurred by the Company over the same period. The Company recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

**Finance income and finance expenses**

Finance income comprises interest income on funds invested, negative interest on leases, net foreign exchange gains and financial liabilities amortisation. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance expenses include interest expense on borrowings and net foreign exchange losses. Interest expense is recognised as it accrued in profit or loss using the effective interest method. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

## Notes to the financial statements for the year ended 31 March 2022

## 1 Accounting policies and critical accounting estimates/judgements (continued)

## Tangible assets

Tangible assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises purchase cost plus any costs directly attributable to bringing the asset into operation and an estimate of any decommissioning costs.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. An asset is derecognised upon disposal or when no future economic benefit is expected to arise from the asset. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

The charge for depreciation is calculated so as to write off the depreciable amount of assets over their estimated useful economic lives on a straight line basis. The useful economic lives of each major class of depreciable asset are as follows:

Pipeline	58 years
Plant and machinery	15-31 years
Office equipment	3 years
Right-of-use assets	36 years

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

## Leases

The Company does not act as a lessor on any leases. The accounting policies presented below set out the policies for recognising leases where the Company acts as a lessee.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At commencement or modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the asset are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

**Notes to the financial statements for the year ended 31 March 2022****1 Accounting policies and critical accounting estimates/judgements (continued)****Leases (continued)**

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Company changes its assessment of whether it will exercise a purchase extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'tangible assets' and lease liabilities in 'creditors' in the balance sheet (see notes 6 and 18 respectively).

***Short-term leases and leases of low-value assets***

The Company has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**Stocks**

Stocks represent assets which are intended to be used in order to generate revenue in the short-term to maintain our network. Stocks are stated at the lower of weighted average cost and net realisable value. Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

**Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset.

**Reversal of Impairment losses**

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**Investments**

Investments in unquoted companies are recorded at fair value, which is considered to be equivalent to the consideration paid.

**Financial instruments****(i) Recognition and initial measurement**

Trade debtors and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade debtor without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade debtor without a significant financing component is initially measured at the transaction price.



**Notes to the financial statements for the year ended 31 March 2022****1 Accounting policies and critical accounting estimates/judgements (continued)****Financial instruments (continued)****(ii) Classification and subsequent measurement****Financial assets****(a) Classification**

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – equity investment.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

**Cash and cash equivalents**

Cash and cash equivalents comprises cash balances and call deposits with original maturities of three months or less.

**(b) Subsequent measurement and gains and losses**

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

**Financial liabilities and equity**

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

**Notes to the financial statements for the year ended 31 March 2022****1 Accounting policies and critical accounting estimates/judgements (continued)****Financial instruments (continued)****(ii) Classification and subsequent measurement (continued)****Financial liabilities and equity (continued)**

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

**(iii) Impairment**

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets and contract assets measured at amortised cost.

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade debtors and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

***Measurement of ECLs***

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

***Credit-impaired financial assets***

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

***Write-offs***

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

***Derecognition - financial assets***

The Company derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
  - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
  - the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

**Notes to the financial statements for the year ended 31 March 2022****1 Accounting policies and critical accounting estimates/judgements (continued)****Financial instruments (continued)****(iii) Impairment (continued)***Derecognition - financial liabilities*

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

**Financial liabilities at amortised cost (financial instruments)****(a) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account as a finance expense over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**(b) Financial liabilities**

Financial liabilities represent financial guarantees issued by the Company to a 3<sup>rd</sup> party in respect of liabilities of the Company's parent undertaking. Financial liabilities are recognised initially at fair value and subsequently stated at amortised cost with the amortisation being recognised in finance income in the profit and loss account.

**(c) Creditors**

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as creditors: amounts falling due after one year.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## Notes to the financial statements for the year ended 31 March 2022

### 1 Accounting policies and critical accounting estimates/judgements (continued)

#### Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to tangible fixed assets are included in liabilities as deferred government grants and are credited to the profit and loss account on a straight line basis over the expected useful economic lives of the related assets

#### Employee benefits

The Company has no directly employed staff of their own. Amounts included in staff costs relate to costs directly charged from Mutual Energy in respect of employees performing asset management activities for the Company.

#### Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### *Critical accounting estimates and assumptions*

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are discussed below.

#### *(a) Estimate of useful economic life of assets*

The Company assesses the useful economic life of assets on an annual basis.

The remaining useful economic life of the Pipeline was determined as approximately 33.5 (2021: 34.5) years at the beginning of the year. If the remaining useful economic life had been 34.5 (2021: 35.5) years, depreciation would have decreased by £52,000 (2021: £51,000) and if the remaining useful economic life had been assessed at 32.5 (2021: 33.5) years, depreciation would have increased by £56,000 (2021: £54,000).

#### *(b) Judgements made in the implementation of IFRS 16 Leases*

The remaining useful lives of the right-of-use assets in respect of the Company's Crown Estate lease was determined to be in line with the useful life of the Premier Transmission Pipeline (as revised in the year). Extension options which are reasonably certain to be exercised have therefore been included within the lease term.

## Notes to the financial statements for the year ended 31 March 2022

## 2 Operating expenses

	2022 £'000	2021 £'000
Staff costs (note 3)	736	709
Depreciation (excluding right-of-use assets)	1,842	1,847
Depreciation of right-of-use assets	99	105
Amortisation of deferred government grants	(618)	(618)
Fees payable to the Company's auditor in respect of the audit of the Company's financial statements	13	12
Maintenance and insurance	1,069	979
Other expenses	16,749	11,778
<b>Operating expenses</b>	<b>19,890</b>	<b>14,812</b>

Other expenses include grid control costs, engineering works, IT system costs, rates and licence fees and costs payable to Gas Networks Ireland (UK) (GNI(UK)) for access to the SWOS pipeline, together with administrative costs. The increase in costs from the prior year was the result of increased engineering and gas costs charged by GNI(UK).

## 3 Staff numbers and costs

	2022 £'000	2021 £'000
Wages and salaries	611	595
Social security costs	70	65
Pension costs	55	49
	736	709

The average monthly number of employees during the year (including only directors holding contracts of service with the Company) was 14 (2021: 14). All staff perform asset management activities. Amounts included above relate to costs recharged in respect of employees of the wider Mutual Energy group which are directly attributable to Premier Transmission Limited and does not include directors emoluments as disclosed below. Premier Transmission Limited has no directly employed staff of its own.

The Company's directors were not remunerated for their services to the Company but instead received emoluments for their services to the Mutual Energy group of companies. The portion of these costs recharged to the Premier Transmission Limited are set out below:

	2022 £'000	2021 £'000
<b>Directors' emoluments</b>		
Aggregate emoluments	84	89

## Notes to the financial statements for the year ended 31 March 2022

## 4 Finance expense - net

	2022 £'000	2021 £'000
<b>Finance expense and similar expenses</b>		
Borrowings from parent undertaking	5,575	3,994
Bank charges	126	125
	<b>5,701</b>	<b>4,119</b>
<b>Finance income and similar income</b>		
Short-term bank deposits	(124)	(206)
Lease interest	(26)	(41)
Financial liabilities	(65)	(74)
	<b>(215)</b>	<b>(321)</b>
<b>Finance expense – net</b>	<b>5,486</b>	<b>3,798</b>

## 5 Taxation

	2022 £'000	2021 £'000
<b>Recognised in profit and loss</b>		
<b>Current tax:</b>		
Corporation tax on profits	-	1,293
Group relief claimed	1,504	664
<b>Total current tax</b>	<b>1,504</b>	<b>1,957</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(209)	(132)
Change in deferred tax rate	2,186	-
<b>Total deferred tax (note 15)</b>	<b>1,977</b>	<b>(132)</b>
<b>Tax on profit</b>	<b>3,481</b>	<b>1,825</b>

The tax charge in the profit and loss account for the year is different from the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are reconciled below:

	2022 £'000	2021 £'000
<b>Reconciliation of effective tax rate</b>		
<b>Profit on ordinary activities before taxation</b>	<b>6,868</b>	<b>9,516</b>
Tax calculated at the UK standard rate of corporation tax of 19% (2021: 19%)	1,305	1,808
<b>Effect of:</b>		
Tax exempt revenue	(18)	(14)
Non-deductible expenses	58	31
Impact of change in tax rates	(50)	-
Change in deferred tax rate	2,186	-
<b>Tax on profit</b>	<b>3,481</b>	<b>1,825</b>

## Future tax changes

The Finance Act 2021 confirmed that the corporation tax rate will be increased to 25% on 1 April 2023. This was substantially enacted on 24 May 2021 therefore deferred tax has been calculated at the rate at which the balances are expected to be settled, based on tax rates that have been substantively enacted at the balance sheet date (see note 15).

## Notes to the financial statements for the year ended 31 March 2022

## 6 Tangible assets

	Pipeline £'000	Plant and machinery £'000	Office equipment £'000	Right-of-use assets £'000	Total £'000
<b>Cost</b>					
At 1 April 2021	133,412	170	48	3,501	137,131
Additions	-	93	-	-	93
Disposals	(186)	-	-	-	(186)
<b>At 31 March 2022</b>	<b>133,226</b>	<b>263</b>	<b>48</b>	<b>3,501</b>	<b>137,038</b>
<b>Accumulated depreciation</b>					
At 1 April 2021	72,476	36	48	194	72,754
Depreciation charge for the year	1,831	11	-	99	1,941
Disposals	(102)	-	-	-	(102)
<b>At 31 March 2022</b>	<b>74,205</b>	<b>47</b>	<b>48</b>	<b>293</b>	<b>74,593</b>
<b>Net book value</b>					
<b>At 31 March 2022</b>	<b>59,028</b>	<b>209</b>	<b>-</b>	<b>3,208</b>	<b>62,445</b>
At 1 April 2021	60,936	134	-	3,307	64,377

Tangible assets include the Company's gas transmission pipeline, related plant and machinery and office equipment, along with leased assets that do not meet the definition of investment properties. The right-of-use assets relate to Premier Transmission's Crown Estate Lease.

Depreciation expense of £1,941,000 (2021: £1,952,000) has been fully charged to net operating expenses. The borrowings of the Company's parent undertaking are secured on all of the tangible assets of the Company.

## 7 Investments

	Other investments £'000
<b>Cost and net book value</b>	
At 1 April 2021 and at 31 March 2022	2

Other investments represent an amount the Company invested in PRISMA European Capacity Platform GmbH, at a cost of £1,988. The Company's shareholding is less than 1%.

The investments are held at fair value which equates to the cost paid.

## Notes to the financial statements for the year ended 31 March 2022

## 8 Debtors

	2022	2021
	£'000	£'000
Trade debtors	2,865	3,682
Prepayments	1,389	281
Accrued income	4,243	270
Other debtors	3,408	3,145
Amounts owed by group undertakings	49,483	42,557
	61,388	49,935

Amounts owed by group undertakings are unsecured, interest free and are repayable on demand.

## 9 Stocks

	2022	2021
	£'000	£'000
Spares	57	113

## 10 Financial assets

	2022	2021
	£'000	£'000
Cash deposits	28,777	26,539

Deposits earn interest at a range from Bank of England base rate less 0.65% to Bank of England base rate plus 0.93%.

## 11 Cash and cash equivalents

	2022	2021
	£'000	£'000
Cash and cash equivalents	11,168	14,332

Cash and cash equivalents earn interest at a range from Bank of England base rate less 0.65% to Bank of England base rate, or nil if higher.

## 12 Called up share capital and share premium account

	2022	2021
	£'000	£'000
Allotted, called up and fully paid		
860,928 ordinary shares of £1 each	861	861

The holders of ordinary shares are entitled to receive dividends, as declared from time to time by the Company and are entitled to one vote per share at meetings of the Company.

	2022	2021
	£'000	£'000
Share premium account	14,012	14,012



## Notes to the financial statements for the year ended 31 March 2022

## 13 Profit and loss account

	£'000
At 1 April 2020	29,860
Total comprehensive income for the financial year	7,691
At 31 March 2021	37,551
Total comprehensive income for the financial year	3,387
At 31 March 2022	40,938

Included in the profit and loss account reserves is an amount of £1,874,000 (2021: £1,874,000) which the Company has agreed with the regulator will be applied to costs of future EU compliance projects.

## 14 Creditors: amounts falling due after one year

	2022 £'000	2021 £'000
Amounts owed to group undertakings	63,603	61,250
Financial liabilities (note 17)	179	235
Lease liabilities (note 18)	3,035	3,145
Government grant (note 19)	19,482	20,100
	86,299	84,730

The amounts owed to group undertakings relate to a 2.953% (2021: 2.953%) index linked (linked to the Retail Price Index) unsecured loan from the Company's parent undertaking. The borrowings are repayable in full on 31 March 2030.

## 15 Deferred tax liabilities

Movement in deferred tax during the year:

	Deferred tax £'000
At 1 April 2020	7,055
Recognised in profit and loss	(132)
At 31 March 2021	6,923
Recognised in profit and loss	1,977
At 31 March 2022	8,900

Deferred tax relates to accelerated capital allowances.

## Notes to the financial statements for the year ended 31 March 2022

**16 Creditors: amounts falling due within one year**

	2022	2021
	£'000	£'000
Trade creditors	4,307	299
Other creditors	188	1,031
Accruals	5,218	3,653
Deferred income	-	2,180
Amounts owed to group undertakings	1,876	1,535
VAT	453	792
Financial liabilities (note 17)	56	65
Lease liabilities (note 18)	110	111
Government grant (note 19)	618	618
	<b>12,826</b>	<b>10,284</b>

Amounts owed to group undertakings are unsecured, interest free and are repayable on demand.

**17 Financial liabilities**

	2022	2021
	£'000	£'000
Financial guarantee	235	300
Less current portion	(56)	(65)
Non-current portion	179	235

The financial guarantee represents the amortised cost of issuing a financial guarantee to a 3<sup>rd</sup> party in respect of borrowings by the Company's parent undertaking.

**18 Lease liabilities**

	2022	2021
	£'000	£'000
Lease liabilities	3,145	3,256
Less current portion	(110)	(111)
Non-current portion	3,035	3,145

Lease liabilities represent future payments in respect of non-cancellable Crown Estate leases and anticipated extensions (see note 20).

**19 Government grant**

	£'000
At 1 April 2020	21,336
Amortised during the year	(618)
At 31 March 2021	20,718
Amortised during the year	(618)
At 31 March 2022	20,100

The government grant was provided to the Company for the purpose of its expenditure on its tangible assets. All obligations in respect of this grant have now been met. The current portion of the government grant is £618,000 (2021: £618,000) and the non-current portion is £19,482,000 (2021: £20,100,000).

## Notes to the financial statements for the year ended 31 March 2022

## 20 Leases

The Company holds a Crown Estate lease, entered into in 1996, which gives exclusive right to use and maintain the pipelines which are on or under the seabed. The lease runs to 30 September 2035 but allows for further extension, with terms to be agreed upon extension. The Company is reasonably certain these contracts will be extended in line with the useful life of its pipeline and costs for this extended term have been assumed in line with the current costs. The lease provides for uplifts on rent payments every 3 years in line with changes in the Producer Price Index. The Company is restricted from entering into any sub-lease arrangements in relation to these leases.

The Company does not hold any short-term or low value leases for which right-of-use assets and lease liabilities have not been recognised.

Information about leases for which the Company is a lessee is presented below.

*Right-of-use assets*

The right-of-use assets, as presented in tangible assets (see note 6), relate to the Crown Estate leases noted above.

*Amounts recognised in the profit or loss*

The following amounts have been recognised in profit or loss for which the Company is a lessee:

	2022 £'000	2021 £'000
Depreciation expense in respect of right-of-use assets	99	105
Lease liabilities interest income	(26)	(41)

*Amounts recognised in statement of cash flows*

	2022 £'000	2021 £'000
Total cash outflow for leases	85	85

## 21 Ultimate controlling party and ultimate parent undertaking

The ultimate controlling party of the Company are the members of Mutual Energy Limited.

The immediate parent undertaking is Premier Transmission Financing plc, a company incorporated in Northern Ireland and whose registered address is First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH. Group financial statements for this company are prepared and are available to the public from First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.

The ultimate parent undertaking is Mutual Energy Limited, a company incorporated in Northern Ireland and whose registered address is First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH. Group financial statements for this company are prepared and are available to the public from First Floor, The Arena Building, 85 Ormeau Road, Belfast, BT7 1SH.

## 22 Subsequent events

There are no events after the reporting date requiring adjustment or disclosure in the financial statements.