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This bulletin sets out Capacity Markets' report on the 2004 capacity transfer season, including the auctions and bilateral arrangements, capacity offers, conversion and minority buy-outs.

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Capacity Transfer in 2004

1. Introduction

This report summarises activity in the 2004 capacity transfer season including:

- the auctions
- bilateral arrangements
- capacity offers
- minority buy-outs
- conversion schemes

The general approach adopted in 2004 by Capacity Markets was, as in previous years, to make as few changes as necessary to the rules governing capacity transfer, on the basis that the arrangements now in place since 1999 or earlier are both effective and well understood. Such changes as were made to the Auction Rules and to the Capacity Offer Rules are summarised in paragraphs 5 and 7 below.

The appendices to this report present tabular and graphical information on the transfer of capacity as follows:

Appendix 1	Capacity transfer 2000 to 2004
Appendix 2	Auction activity 2000 to 2004
Appendix 3	Offer summary

The data in this report has been compiled with the assistance of the Members' Services Unit.

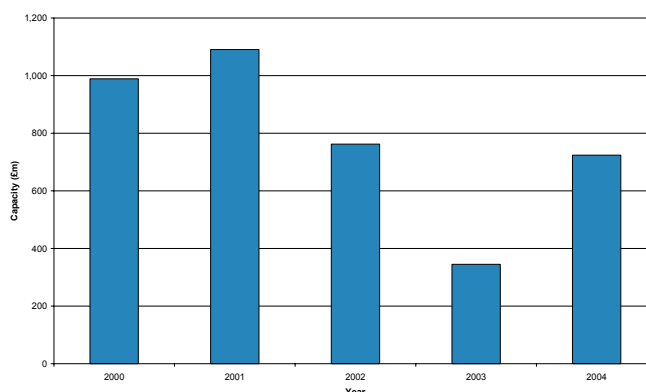
2. Auction timetable

Following the introduction in 2003 of the new franchise business planning process, market participants and other interested parties were consulted on the proposed interaction between the business planning process, the auctions and the coming into line timetable. As a result, it was agreed that the 2004 auction season would be made up of three auctions to be held on 7 & 8, 15 & 16 and 28 & 29 September, augmented by, for the first time, a Fourth Auction to be held on 18 & 19 November 2004.

3. Capacity transferred in 2004

In 2004 a total of £724 million of capacity was transferred for value, a doubling of activity from the previous year. Figure 1 shows the capacity transferred over the last five years:

Figure 1
Capacity transferred 2000 to 2004



The information in Figure 1 is analysed in greater detail in Figure 1.1 and Table 1.1 in Appendix 1.

The increase in 2004 is particularly marked given that there were no capacity offers in 2004.

Appendix 1 includes in its analysis a category “Auction (excluding AAOs, bilateral & DNA)” which graphically highlights that 2004 saw the largest amount of activity in that category since 2001.

4. Auction transactions

The value of capacity transferred in the auctions rose, in 2004, to a three year high of £599m. Of this 67%, some £402m, were purchases by corporate members aligned with the managing agents of the relevant syndicates.

Appendix 2 illustrates the aggregate supply and demand for capacity in the auctions over the last five years together with the amount of capacity allocated each year.

5. Fourth Auction

The new Fourth Auction was restricted to:

- disposals of any additional capacity that arose from a syndicate’s approved business plan’s capacity exceeding the capacity in its syndicate business forecast (SBF)
- capacity in syndicates where:
 - the indicative risk based capital (RBC) ratio increased by 10% or more between 22 September and 8 November 2004
 - there was a material change in the business plan after 24 September 2004
- transactions previously admitted to the Deceased Names Auction (DNA), including any undertaken in an attempt to correct administrative errors.

In the event capacity on 21 syndicates was eligible for inclusion in the Fourth Auction and there were transfers of capacity on 16 of the relevant syndicates with a total value of £1.4m.

As the DNA was, in previous years, held in the second week of December, the arrangements for post-DNA deaths¹ were extended in 2004 to cover deaths after the Fourth Auction. £1.2m of capacity was transferred under this facility.

6. Bilateral arrangements

There were two bilateral arrangements in 2004 totalling £65m (£51m and £15m) which was the highest level of such activity since 1999 (£199m). There was also £1.1m of bilateral interaction with unmatched auction transactions, the first since 2001.

7. Capacity Offers

2004 is the only year since capacity offers were first permitted in 1996 in which no such offers were made. During the season Canopus Capital Limited became obliged to make an offer, deferred to 2005, for capacity on syndicate 44. Appendix 3 summarises the offers made and to be made.

The Capacity Offer Rules 2004 included two new rules. Rule 1(7)(ca) provided that once an offeror has made an offer for a syndicate, it may not in the same year acquire further capacity in that syndicate at a higher price. Rule 1(17)(c) required a managing agent seeking to effect a minority buy-out to have closed its offer by 31 August 2004 in order to allow time for the minority buy-out application to be considered by the Capacity Transfer Panel.

8. Minority buy-outs

Since there were no offers made in 2004, no applications for minority buy-outs were made to the Capacity Transfer Panel.

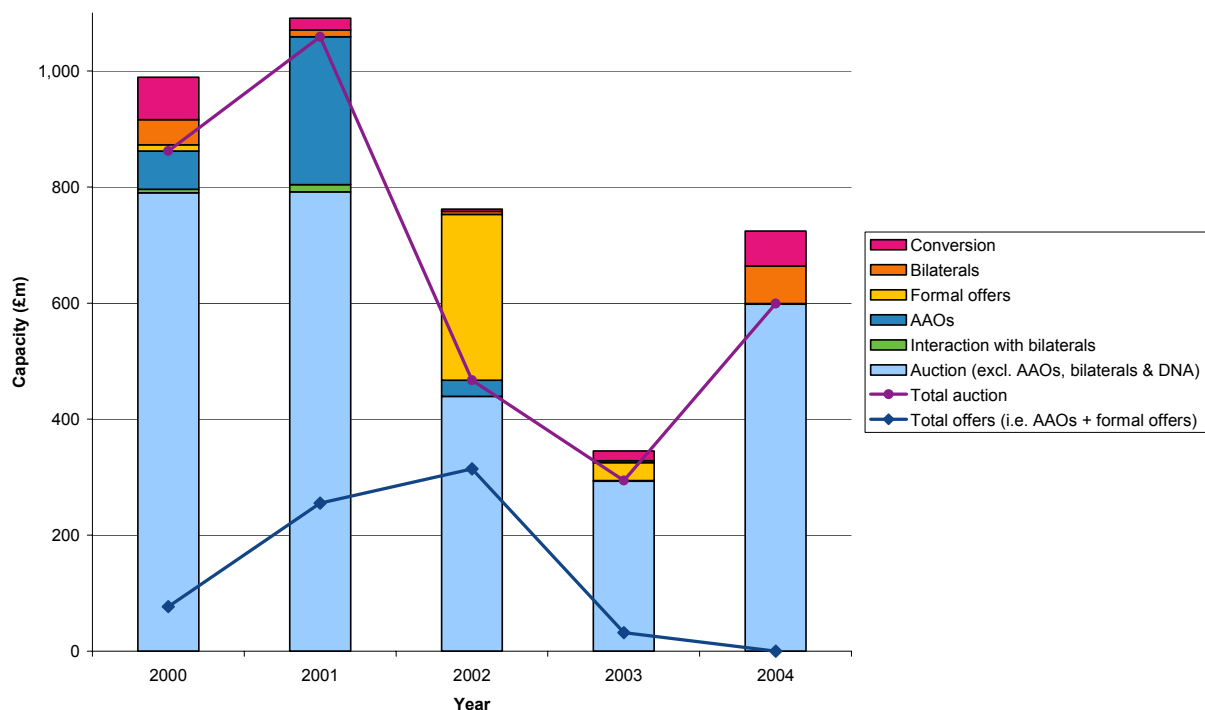
9. Conversion

No conversion schemes were promoted in 2004. A number of private arrangements took place and are included in the figures in Appendix 1 (Table 1.1).

¹ *Deaths Late in the Year and Value*, Regulatory Bulletin 070/2000, 14 September 2000.

Capacity Transfer 2000 to 2004**Figure 1.1**

Capacity transfer 2000 to 2004 (from Table 1.1)

**Table 1.1**

Capacity transfer 2000 to 2004

	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m
Auction activity					
Announced auction offers (AAOs)	66	255	28	1	---
Auction (excluding AAOs, bilaterals & DNA ¹)	790	792	439	293	598 ²
Interaction with bilaterals	6	12	---	---	1
Total auction	862	1,059	467	294	599
Bilaterals (excluding interaction)	43	12	5	3	65
Total auction and bilaterals	905	1,071	472	297	664
Formal offers	11	---	286	31	---
Conversion	73	20	4	17	60
Total transferred	989	1,091	762	345	724

¹ Capacity transferred through the DNA (and not included in the analysis given in Table 1.1) was: £7m in 2000; £4m in 2001; £27m in 2002; and £6m in 2003.

² This figure includes the £1.4m of capacity transferred in the Fourth Auction.

Figure 1.2

Numbers of offers and minority buy-outs 2000 to 2004 (from Table 1.2)

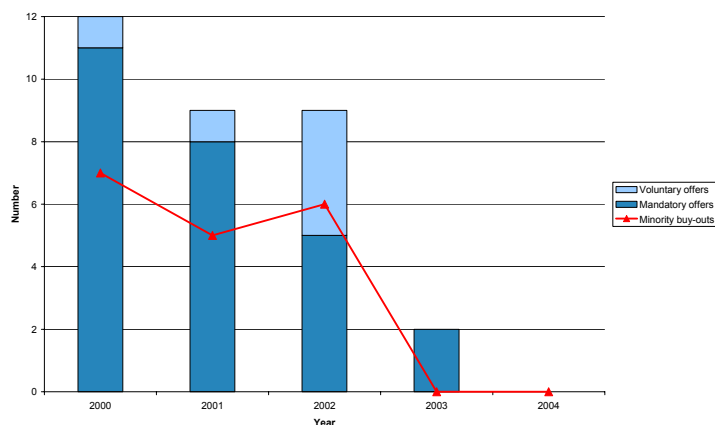


Table 1.2

Offers 2000 to 2004 – by number of offers

	2000 No.	2001 No.	2002 No.	2003 No.	2004 No.
Voluntary	1	1	4	0	0
Mandatory	<u>11</u>	<u>8</u>	<u>5</u>	<u>2</u>	<u>0</u>
	<u>12</u>	<u>9</u>	<u>9</u>	<u>2</u>	<u>0</u>

Figure 1.3

Value of offer acceptances 2000 to 2004 (from Table 1.3)

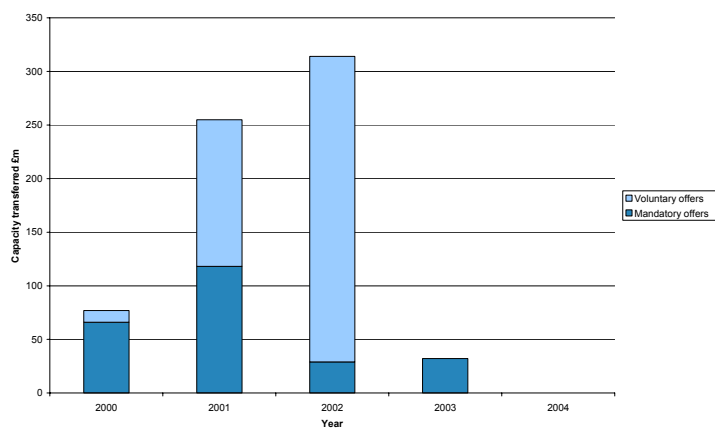


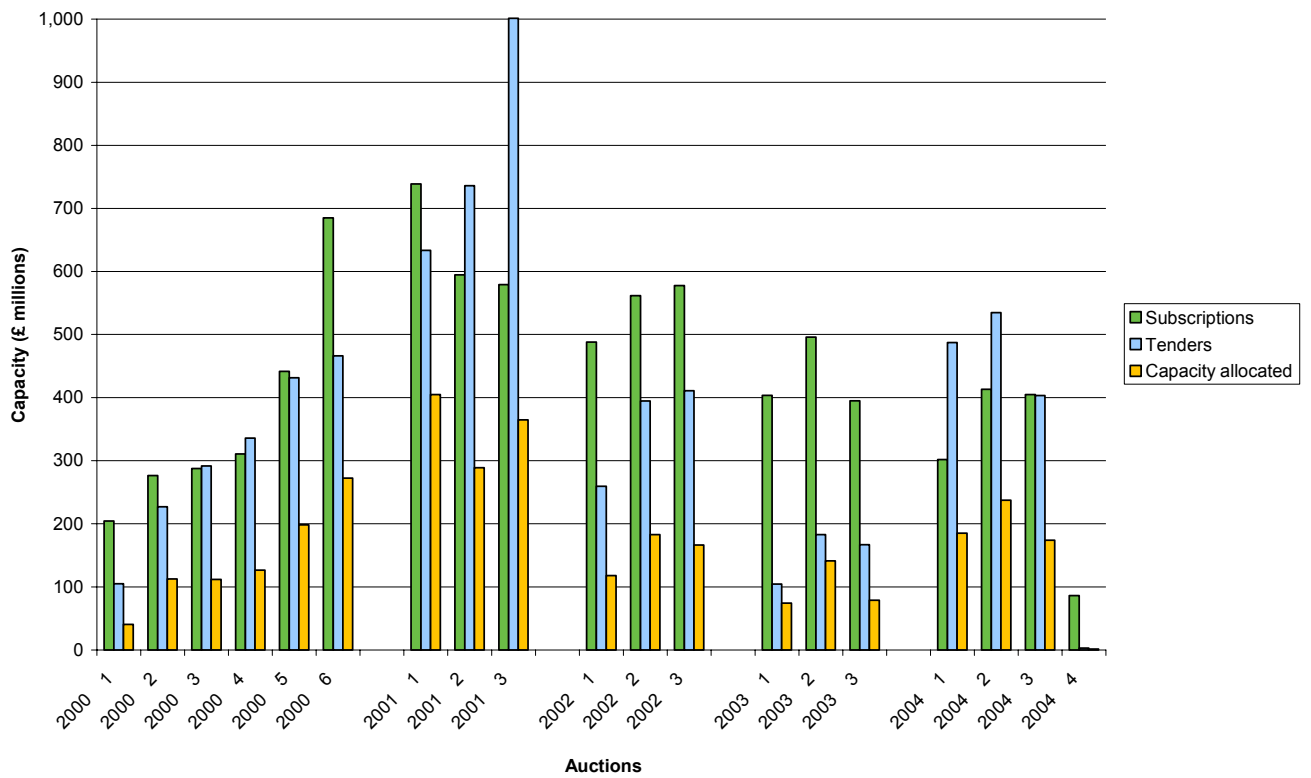
Table 1.3

Offers 2000 to 2004 – by value of acceptances

	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m
Voluntary	11	137	285	0	0
Mandatory	<u>66</u>	<u>118</u>	<u>29</u>	<u>32</u>	<u>0</u>
	<u>77</u>	<u>255</u>	<u>314</u>	<u>32</u>	<u>0</u>

Auction Activity 2000 to 2004

Figure 2.1
Summary of auction activity 2000 to 2004



Offer Summary

1. Mandatory offers deferred from 2003 and made during 2004

None

2. Voluntary offers made in 2004

None

3. Mandatory offer obligations incurred and satisfied during 2004

None

4. Mandatory offer obligations incurred during 2004 and deferred to 2005

<u>Syndicate</u>	<u>Agent</u>	<u>Status</u>
44	Canopus Managing Agents Ltd	Obligation incurred in Auction 1

5. Syndicates where the mandatory offer obligation has been waived by the members

None