



**SEM Annual Capacity Exchange Rate
2010**

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Document History

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Table of Contents

1	INTRODUCTION	4
1.1	PURPOSE.....	4
1.2	AUDIENCE	4
2	RECOMMENDATION.....	5

1 Introduction

1.1 Purpose

Under Section 4.96 of the Trading & Settlement Code, the Market Operator is required to propose the Annual Capacity Exchange Rate (ACERy). This document provides the Market Operator 's proposal for this parameter for the Trading Year 2010.

1.2 Audience

The target audience for this document is Market Participants and the Regulatory Authorities.

2 Recommendation

SEMO recommends a Euro/GBP exchange rate of **0.8586** for the period 1 January 2010 to 31 December 2010. The basis of this exchange rate value is the average of forward rates for 2010 as provided below by the SEM Bank (Danske Bank).

SEMO - EUR / GBP Annual Rate

Forecasts v Forwards

- The most suitable gauge for 'predicting' future FX rates is to use the current market forward FX rates for the period in question. While we could use forecasts, these are very much the view of one person/institution at a point in time and will differ from institution to institution. However, the current market rate is the collective bargaining of the market to reach this (spot) price and the forward points are determined by the markets forecast for interest rates, relative to the period involved. This is described below.
- There is no question that the applicable rate over the course of the year will not equal the rates described below, however it does provide the best guess-timate for the period.

Forward FX Rate

- The forward FX rate is simply the rate at which one currency can be exchanged for another currency, at any given date in the future, as at/agreed today. It is calculated using the current spot FX rate (current market price for delivery in 2 business days), and then adding or subtracting any relevant 'forward points' that may apply to the rate.
- Forward points are a measure of the difference in the underlying interest rates for both currencies, expressed as a proportion of the underlying exchange rate/price. Forward points are used to account for any benefit/disadvantage from the difference in these underlying interest rates (ie EUR interest rates are less than comparative GBP interest rates, and so there is an advantage from holding GBP until the maturity of the forward contract.)
- Generally the spot rate is far more volatile than the forward points, and as such is the key driver/determinant of the overall forward rate

EUR / GBP Forward Points & Pricing

Maturity	Fwd Points	Outright Fwd rate
SPOT		0.8580
04 January 2010	0.0000	0.8580
01 February 2010	0.0000	0.8580
01 March 2010	0.0000	0.8580
01 April 2010	0.0000	0.8580
04 May 2010	0.0000	0.8580
01 June 2010	0.0003	0.8583
01 July 2010	0.0006	0.8586
02 August 2010	0.0008	0.8588
01 September 2010	0.0010	0.8590
01 October 2010	0.0012	0.8592
01 November 2010	0.0014	0.8594
01 December 2010	0.0017	0.8597
Current spot	0.8580	
2010 Average	0.8586	