



**SEM Annual Capacity Exchange Rate  
2011**

## SEM Annual Capacity Exchange Rate

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### Document History

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1.0	31st August 2010	SEMO	Issued to Regulatory Authorities

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### **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 2011.

#### **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 **0.8210** for the period 1 January 2011 to 31 December 2011. The basis of this exchange rate value is the average of forward rates for 2011 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 pts	Outright
04 January 2011	0.0004	0.8204
01 February 2011	0.0004	0.8204
01 March 2011	0.0005	0.8205
01 April 2011	0.0006	0.8206
03 May 2011	0.0007	0.8207
01 June 2011	0.0008	0.8208
01 July 2011	0.0009	0.8209
01 August 2011	0.0010	0.8210
01 September 2011	0.0012	0.8212
03 October 2011	0.0014	0.8214
01 November 2011	0.0016	0.8216
01 December 2011	0.0019	0.8219
Spot rate	0.8200	
2011 average outright	0.8210	