

MARKET BULLETIN

From Head of Compliance (extn 6633)

Date 7 April 2006

Reference Y3784

Subject **Capacity Transfer in 2005**

Subject areas

Attachments None

Action points **None – for information**

Deadlines **None**

This bulletin sets out Capacity Markets' report on the 2005 capacity transfer season, including the auctions, bilateral arrangements, capacity offers, conversion and minority buy-outs.

If you have any queries about this report, or suggestions for any changes or additional information you would like to see in future years, please contact Jonathan Rees (telephone 020 7327 6225, email jonathan.rees@lloyds.com).

David Russell
Head of Compliance

CAPACITY TRANSFER IN 2005

1. Introduction

This report summarises activity in the 2005 capacity transfer season including:

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

The general approach adopted in 2005 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. No changes of substance were made to the rules in 2005.

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

Appendix 1	Capacity transfer 2001 to 2005
Appendix 2	Auction activity 2001 to 2005
Appendix 3	Offer summary
Appendix 4	Capacity offers in 2005
Appendix 5	Minority buy-out applications in 2005

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

2. Auction timetable

The pattern established in 2004 was followed during 2005. The three main auctions were held on 6 & 7, 15 & 16 and 27 & 28 September and followed by the Fourth Auction held on 17 & 18 November 2005.

3. Capacity transferred in 2005

In 2005 a total of £293 million of capacity was transferred for value. Appendix 1 gives a graphical and tabular analysis of the capacity transferred over the last five years.

4. Auctions

The value of capacity transferred in the auctions fell, in 2005, to a low of £263m. Appendix 2 illustrates the levels of tenders and subscriptions for each auction over the last five years together with the amount of capacity allocated in each auction.

5. Fourth Auction

The 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 ratio increased by 10% or more between 16 September and 9 November 2005
 - there was a material change in the business plan after 22 September 2005
- 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 included in the Fourth Auction and capacity was allocated with a total value of £26.4m.

The arrangements for deaths late in the year¹ were extended as in 2004 to cover deaths after the Fourth Auction. In 2005 £1.5m of capacity was transferred under this facility.

6. Bilateral arrangements

There was one bilateral arrangement in 2005 for £2m. In addition there was £172K of interaction with unmatched auction transactions.

7. Capacity Offers

Three offers were made in 2005. Two were voluntary offers that were made before applications for minority buy-outs. The third was a mandatory offer. Appendix 3 summarises the offers made in 2005 and the mandatory offer to be made in 2006. Appendix 4 gives details of the offers made in 2005.

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

8. Minority buy-outs

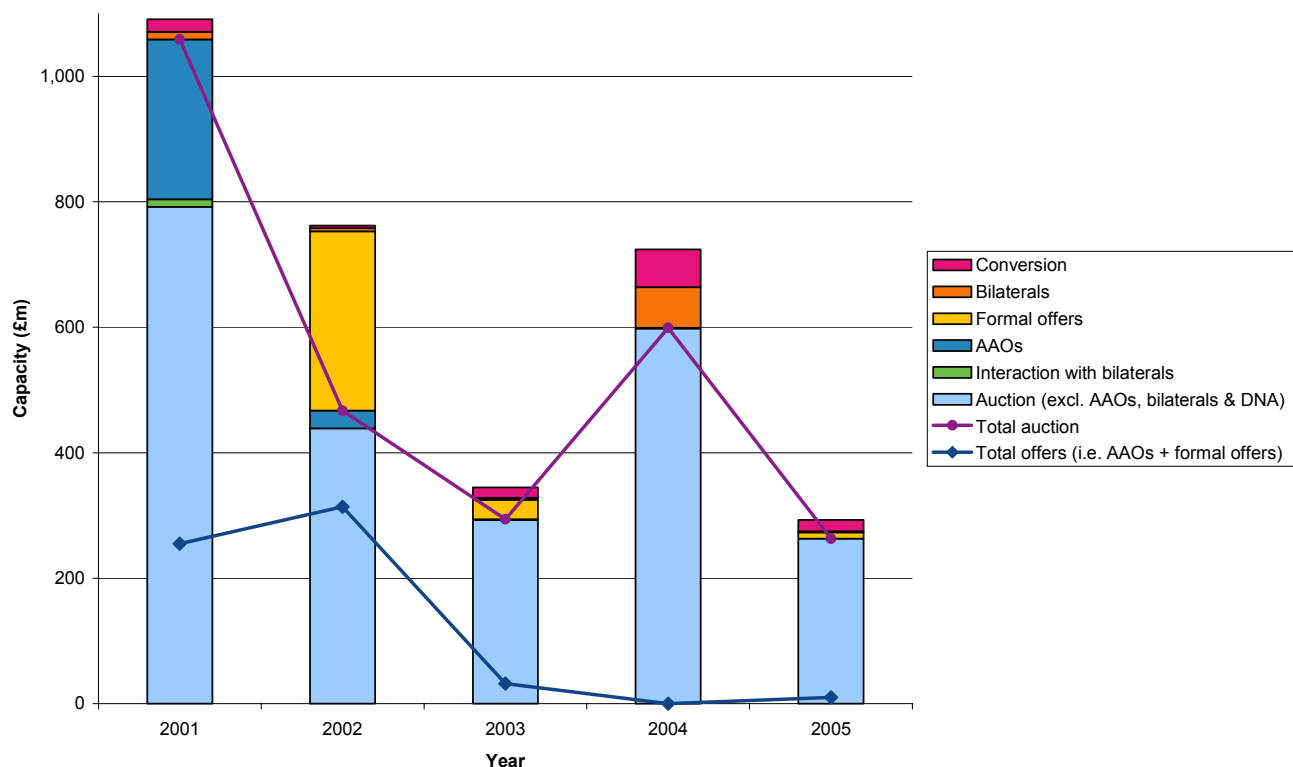
Two applications for minority buy-outs were made in 2005 (Appendix 5). Both applications were granted by the Capacity Transfer Panel.

9. Conversion

One conversion scheme was promoted in 2005. Appendix 1 (Table 1.1) shows that £18m of capacity converted in the year and this included a number of private arrangements.

CAPACITY TRANSFER 2001 TO 2005**Figure 1.1**

Capacity transfer 2001 to 2005 (from Table 1.1)

**Table 1.1**

Capacity transfer 2001 to 2005

	2001	2002	2003	2004	2005
	£m	£m	£m	£m	£m
Auction activity					
Announced auction offers (AAOs)	255	28	1	---	---
Auction (excluding AAOs, bilaterals & DNA ¹)	792	439	293	598 ²	263 ³
Interaction with bilaterals	12	---	---	1	---
Total auction	1,059	467	294	599	263
Bilaterals (excluding interaction)	12	5	3	65	2
Total auction and bilaterals	1,071	472	297	664	265
Formal offers	---	286	31	---	10
Conversion	20	4	17	60	18
Total transferred	1,091	762	345	724	293

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

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

³ This figure includes the £26.4 m of capacity transferred in the Fourth Auction.

Figure 1.2

Numbers of offers and minority buy-outs 2001 to 2005 (from Table 1.2)

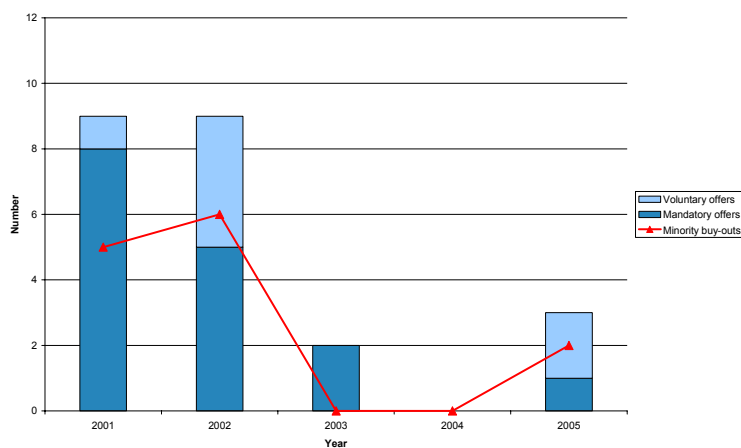


Table 1.2

Offers 2001 to 2005 – by number of offers

	2001	2002	2003	2004	2005
	No.	No.	No.	No.	No.
Voluntary	1	4	0	0	2
Mandatory	<u>8</u>	<u>5</u>	<u>2</u>	<u>0</u>	<u>1</u>
	<u>9</u>	<u>9</u>	<u>2</u>	<u>0</u>	<u>3</u>

Figure 1.3

Value of offer acceptances 2001 to 2005 (from Table 1.3)

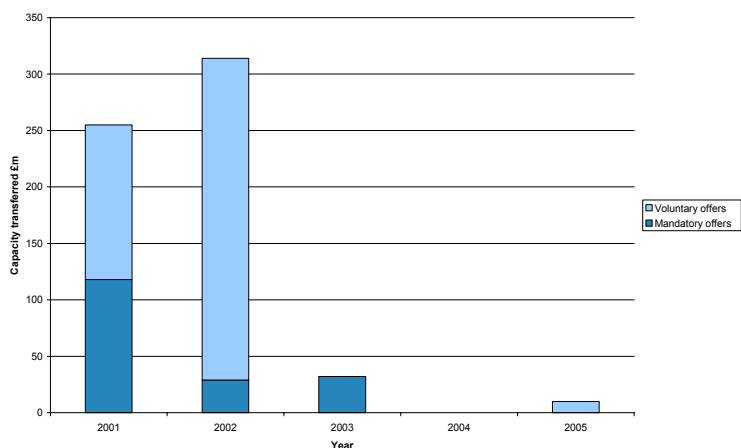


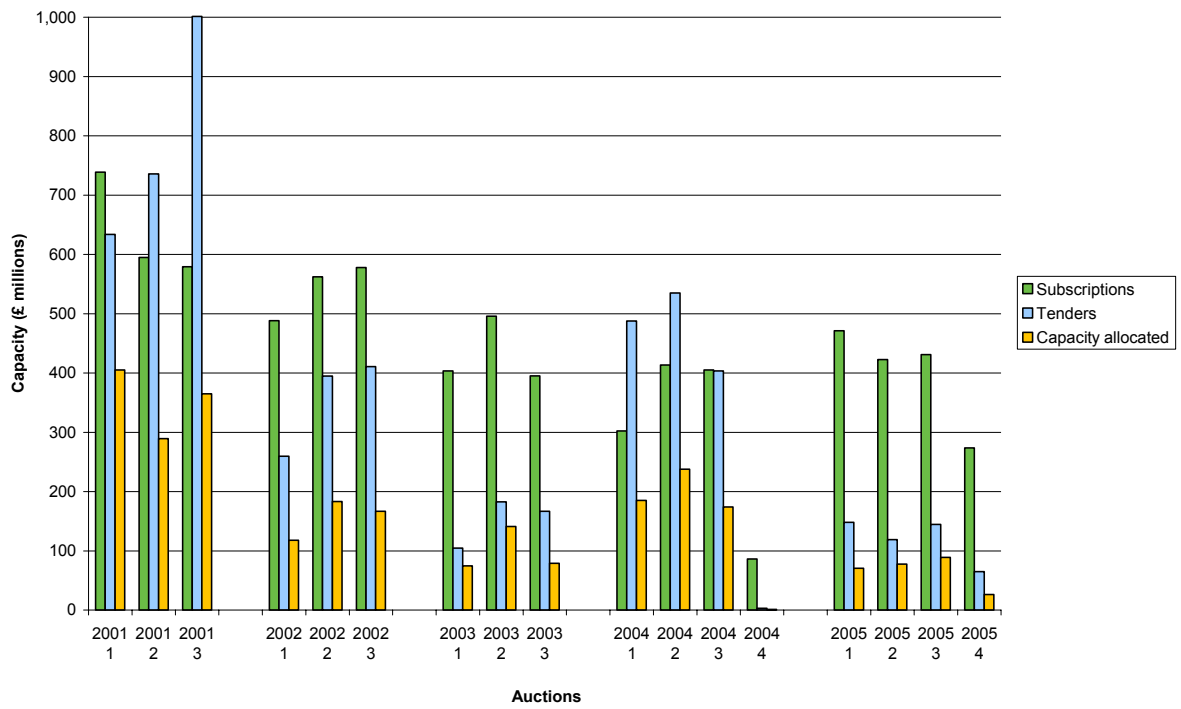
Table 1.3

Offers 2001 to 2005 – by value of acceptances

	2001	2002	2003	2004	2005
	£m	£m	£m	£m	£m
Voluntary	137	285	0	0	10
Mandatory	<u>118</u>	<u>29</u>	<u>32</u>	<u>0</u>	<u>0</u>
	<u>255</u>	<u>314</u>	<u>32</u>	<u>0</u>	<u>10</u>

AUCTION ACTIVITY 2001 TO 2005

Figure 2.1
Summary of auction activity 2001 to 2005



Note: the DNAs held in 2001, 2002 & 2003 are not included

OFFER SUMMARY**1. Mandatory offers deferred from 2004 and made during 2005**

<u>Syndicate</u>	<u>Agent</u>	<u>Status</u>
44	Canopus	Obligation satisfied by AAO in auction 1

2. Voluntary offers made in 2005

<u>Syndicate</u>	<u>Agent</u>	<u>Status</u>
1084	Chaucer	Formal offer made in June 2005
1221	Navigators	Formal offer made in July 2005

3. Mandatory offer obligations incurred and satisfied during 2005

None

4. Mandatory offer obligations incurred during 2005 and deferred to 2006

<u>Syndicate</u>	<u>Agent</u>	<u>Status</u>
623/2623	Beazley Furlonge Limited	Obligation incurred in Auction 3

5. Syndicates currently in postponement

780 (Advent)

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

None

CAPACITY OFFERS IN 2005

Offeror	Managing Agent	Syndicate	Offer price	Offer type Formal / AAO ¹	Offeror's (and associates) capacity pre-offer	Amount under offer	Capacity surrendered under the offer	Offeror's (and associates) capacity exclusively as a result of the offer
			pence		% of stamp	£m	% of offer	% of stamp
Canopus	Canopus	44	2.6	AAO	86.2	0.4	nil	86.2
ALIT	Chaucer	1084	25.0	Formal	98.0	7.9	85.1	99.7
Navigators	Navigators	1221	35.0 ²	Formal	97.5	3.4	89.4	99.7

¹ AAO: Announced Auction Offer

² The offer was priced at 25.0 pence and subsequently revised to 35.0 pence per pound of capacity

MINORITY BUY-OUT APPLICATIONS IN 2005

Managing Agent	Offeror	Syndicate	Buy-out price	Capacity under managing agents control pre-offer	Capacity acquired under the offer	Controlled capacity prior to buy-out application	Application granted or refused
			pence	% of stamp	% of offer	% of stamp	
Chaucer	ALIT	1084	25.0	98.0	85.1	99.7	Granted
Navigators	Navigators	1221	35.0	97.5	89.4	99.7	Granted