

27 September 2011

Screening report Iceland

Chapter 21 – Trans-European networks

Date of the screening meetings:

Explanatory meeting: 5 May 2011

Bilateral meeting: 9 June 2011

I. CHAPTER CONTENT

The European Union policy concerning Trans-European networks for transport (TEN-T) and energy (TEN-E) is based on three cornerstones: the legal basis for TENs (Articles 170-172 of the Treaty on the functioning of the European Union), the regulation on TEN financial support (Regulation 680/2007) and the guidelines Decisions for TEN-T (661/2010) and for TEN-E (1364/2006). This framework sets out the objectives of EU policy for the trans-European network policy which encompasses the transport and energy networks and aims at adapting and developing networks and ensuring their interconnections and interoperability. The aim of establishing and developing trans-European networks and promoting proper interconnection and interoperability of national networks is to take full advantage of the internal market and contribute to economic growth and job creation in the European Union.

As far as **transport networks** are concerned, the trans-European network contributes to a sustainable and multimodal development of transport and to the elimination of bottlenecks. In this regard, transport networks play a significant role in ensuring a sustainable mobility, combining Europe's competitiveness with the welfare of its citizens while securing the transport of goods and passengers in Europe.

Given the level of investment needed to complete and increase the trans-European networks and bearing in mind the estimated growth in traffic between Member States - expected to double by 2020 - a list of priority trans-national projects has been defined at European level.

Trans-European **energy networks** cover the transport and storage facilities of gas as well as electricity transmission and make a significant contribution to the electricity and gas market. TEN-E responds to the growing importance for securing and diversifying the EU's energy supplies, incorporating the energy networks of the Member States and candidate countries, and ensuring the coordinated operation of energy networks in the EU and in neighbouring countries. The security of energy supply and the functioning of the internal energy market are key policy goals. This is mirrored in the Trans-European Energy guidelines 2006, aimed at the installation of an electricity and gas network. Axes for priority projects and projects of common interest have been identified in this regard.

The EEA Agreement covers the Trans-European Transport Network Outline Plan.

II. COUNTRY ALIGNMENT AND IMPLEMENTATION CAPACITY

This part summarises the information provided by Iceland and the discussion at the screening meeting. Iceland indicated that it accepts the *acquis* regarding the trans-European networks of transport and energy and that it does not expect any difficulties in implementing the *acquis* by accession.

II.a. Transport networks

The Icelandic transport network infrastructure consists of around 40 ports, several ferry routes, one international and Union connecting point¹ airport, nine regional and accessibility points²

¹ The international connecting points ensure the main links between the Union and the rest of the world. The Union connecting points provide links essentially within the Union, with extra-Union services still accounting for a small proportion of their business. The international connecting points and the Union connecting points shall constitute the core of the trans-European airport network. (Art. 14.2, Decision No 661/2010/EU)

² Regional connecting points and accessibility points facilitate the access to the core of the network or help to open up peripheral and isolated regions. (Ibid.)

airports and 3640 km of paved roads. No railway networks or inland waterways exist in Iceland. The specific geographical position and remoteness of Iceland makes it accessible only by air and by sea, which gives opportunities for the development of combined transport using only air, sea and road combinations.

Iceland informed that it has implemented Decision No 1692/96/EC on Community guidelines for the development of the trans-European transport network (TEN-T) and its amendments (Decision No 1346/2001/EC as regards seaports, inland ports and intermodal terminals as well as project No 8 in Annex III, and Decision No 884/2004/EC covering aspects such as the environment and EU enlargement and consequent expected changes in traffic flows). Decision No 661/2010/EU on Union guidelines for the development of the trans-European transport network laying down the TEN-T policy, which is primarily a recast of the Decision No 1692/96/EC and its amendments in a consolidated version, has not been yet formally translated into Icelandic national legislation. Transposition is foreseen for early next year.

The EU Regulations related to the TEN-T programme: 67/2010 laying down general rules for the granting of Community financial aid in the field of trans-European networks, 680/2007 on the same subject, and 1791/2006 on the technical aspects by reason of the accession of Bulgaria and Romania to the EU are not EEA-relevant and have therefore not yet been implemented by Iceland. Iceland stated that no difficulties are foreseen with the future implementation and that all administrative capacities and structures necessary for implementing the *acquis* related to the TEN-T programme will be in place by the date of accession.

The TEN-T policy is currently being revised, with a proposal for revised Guidelines on the development of the TEN-T foreseen to be adopted by the Commission in autumn 2011. Iceland has been invited to participate as observer to the TEN-T Guidelines Committee, the main venue for consultation between the Commission and the EU member states on the preparation of the Commission proposal for the revision of the TEN-T policy guidelines.

The Strategic National Transport Plan (12 years, revised every four years) and the National Transport Plan (4 years, revised every two years) cover the development of all State transport infrastructure projects in Iceland. They are prepared by the Transport Council under the Ministry of Interior³, in cooperation with agencies under the Ministry. The Parliament finalises the process by adopting a resolution. All the transport modes, road, air and maritime, are designed according to these two national plans and to an Environmental Impact Assessment. Funding of infrastructure projects vary as maritime infrastructure is mostly funded by direct contributions from the State and Municipalities, while roads and airports are financed with a combination of State contributions and user charges. Each year the Parliament decides on expenditure for each project, as well as other expenses such as maintenance, when passing the State budget.

Iceland underlined that the existing legal framework for environmental protection, market competition and public procurement applies to all infrastructure projects across all modes of transport. Iceland stated that it has transposed Directive 2001/42 on the assessment of the effects of certain plans and programmes on the environment (Environmental Impact Assessment) by Act No 105/2006 and Regulation No 1123/2005 on the same subject.

³ In January 2011, the Ministry of Justice and Human Rights merged with the Ministry of Transport, Communications and Local Government into the Ministry of the Interior.

II.b. Energy networks

Iceland is currently not implementing Decision No 1364/2006/EC on TEN-E Guidelines. The TEN-E policy is currently under revision in the EU⁴. Iceland is invited to participate in the technical work to prepare for the implementation of the new policy.

There are no projects or legal framework as regards electricity or gas interconnectors, and there are no plans or agreements on electricity and gas exchanges or network interconnections with neighbouring countries or regions. The Icelandic Government has for the last 20 years been conducting surveys on the possibility of connecting Iceland to other parts of Europe with a submarine electricity cable. Additional research is foreseen for at least 2 to 3 years before any decisions are made concerning such an undertaking. Preparation and construction time would be at least 8 to 10 years. The competent body for energy issues and related topics is the Icelandic National Energy Authority under the Ministry of Industry, Energy and Tourism. In 2007, it concluded a preliminary study on the feasibility of connecting the electricity system of Iceland with that of the Faeroe Islands, but with no practical implications so far.

Iceland has no gas production, pipelines or other natural gas infrastructure for general use. There are no cross border connections. District heating utilities operate extensive networks of pipelines, each within their geographical territory, for the delivery of hot water from geothermal power stations to final customers. The investment plans for the heating sector are mostly based on increased population in areas served by district heating utilities and renovation of systems in operation. Investment needs could depend on whether oil exploration and production in the Dreki Area, north east of Iceland, materialise. There is no special regulatory framework regarding gas as there is no gas transmission network operated in Iceland and the EU Regulation for access to the gas transmission networks (1775/2005) has not been implemented by Iceland. The previous Regulation for access to the network for cross-border exchanges in electricity (1228/2003) has been incorporated into the EEA Agreement and is implemented by Iceland. Regulation 1228/2003 has been repealed by Regulation 714/2009 which has not yet been incorporated in the EEA.

Iceland is energy independent as the majority of its final energy consumption (67%) and primary energy production (80%) comes from renewable resources. There are no interconnections in Iceland and the electricity market is an isolated one. The electricity sector is regulated by the Electricity Act and Regulations established on the basis of this Act, which transpose Directive 2003/54 concerning common rules for the internal market in electricity. The Act fully opened the Icelandic electricity market to competition in January 2006 and introduced third party access for transmission and distribution networks. As regards the country energy situation, Iceland informed that the electricity transmission system consisted of 3 171 km high voltage lines and around 70 substations and transformer stations. The number of the delivery points is 77. During the last 15 years, due to the expansion of existing power intensive industries and the commissioning of a new one, the Icelandic electricity system has expanded considerably and the production capacity has increased from 1,049 MW to 2,579 MW and the generation from 4,976 GWh to 16,835 GWh. This has involved considerable investments in the transmission system.

Iceland informed that the development plans for the electricity transmission network envisage, with regard to the general market, the strengthening of the 132 kV transmission systems to Vestfirðir (Northwest Iceland), as well as the strengthening/renewing of the network. With regard to the energy intensive industries, strengthening of the 132 kV transmission systems from Blanda (near Blönduós) to Akureyri for a new factory in Akureyri is foreseen, and as

⁴ Adoption of Commission Proposal is foreseen in autumn 2011

regards power plants, a new 220 kV transmission system in the Southwest to strengthen the connection from existing and expanding geothermal power plants in Svartsengi and Reykjanes to the main transmission grid. A possible aluminium smelter in Helguvík will also require those new lines. A new connection from the existing geothermal power plant at Nesjavellir to the main grid is needed. Investment intentions are not monitored or forecasted on a medium and long term basis by the Government. The Transmission System Operator (TSO) and the Distribution System Operators (DSOs) make investment plans for the general market. The TSO makes a 5 year development plan, which is updated annually.

The main legal and technical framework for authorisation of networks is set out in the Electricity Act, implementing regulations and the TSO's Grid Code, which lays down fundamental rules, guidelines and standards for the electricity system's development and use. Act No 106/2000 on environmental impact assessment transposes the EIA Directive (85/337/EEC as amended) into Icelandic law. The TSO has the exclusive right to construct new transmission facilities. The National Energy Authority (NEA) is the competent authority for granting licenses for installing lines transmitting electricity at 66 kV or higher. The NEA also grants licenses to construct and operate a distribution system in a specific distribution zone, and to cease such operation. Mandatory conditions may be attached to the licence (for example in order to strengthen security of supply), as well as conditions in relation to environmental protection and land use. The State Planning Agency provides an advisory opinion on the environmental impact assessment of a project and the fulfilment of all legal requirements. On the basis of this opinion the issuer of the licence, the relevant municipality, decides whether or not to grant a licence for the project.

III. ASSESSMENT OF THE DEGREE OF ALIGNMENT AND IMPLEMENTING CAPACITY

Overall, Iceland has reached a satisfactory level of alignment particularly as regards the trans-European transport networks *acquis*. Iceland has not yet aligned its legislation with the trans-European energy networks *acquis*. It should be noted that both policies are now undergoing a major revision at EU level, including the *acquis* related to the implementation of the TEN-T and TEN-E Programmes. Both Programmes can only be implemented in practice by accession. The administrative capacity will need to be reinforced for the effective implementation of the two EU policies.

III. a. Transport networks

Iceland has achieved a good level of alignment with the *acquis* on trans-European networks in the field of transport. The TEN-T Guidelines have been from the start designated as legislative text with EEA relevance, and the first TEN-T Guidelines of 1996 included a map of the TEN-T network in Iceland. Iceland is invited to participate in the technical work of the revision of the TEN-T policy in order to prepare for the implementation of the new policy.

Regarding the administrative capacity, further strengthening will be required to deal with future duties arising from the implementation of the *acquis*.

III. b. Energy networks

A large proportion of EU legislation on energy matters has been incorporated into the EEA Agreement, and the Icelandic legislation is broadly in line with the EU energy *acquis*. However, some exceptions exist due to Iceland's unique energy mix, specific geographical position, and isolated electricity system. Iceland has not developed any TEN-E related policy so far. It will have to consider aspects of this policy that are relevant to its particular energy system, including an outline of its possible plans for future interconnections to countries of the EU and the EEA.

Iceland is invited to participate in the technical work of the revision of the TEN-E policy in order to prepare for the implementation of the new policy.

Regarding the administrative capacity, further strengthening will be required to deal with future duties arising from the implementation of the *acquis*.