

JOINT STATEMENT FROM UK – ICELAND ENERGY TASK FORCE

The idea of an electricity interconnector between the UK and Iceland has been explored on various occasions in recent years. At a meeting between Prime Minister David Cameron and Prime Minister Sigmundur Davíð Gunnlaugsson in Reykjavík on 28 October 2015 it was agreed to explore further the possibility of an interconnector with initial discussions between the two Governments which should be concluded within six months.

Subsequently, a UK – Iceland Energy Task Force was established to carry out the discussions. The Task Force agreed that the discussions should be an early stage exploration of the issues which will inform decisions by Ministers on the extent of further work. The proposed areas for discussion between the two Governments were identified as interconnector models, regulatory treatment, financing and general impact assessment.

The objective of the UK – Iceland Energy Task Force was to consider whether further investigation of an interconnector between the UK and Iceland might have merit through identifying common ground between the two parties. It was a mutual understanding between the parties that the Task Force should conclude its work in May 2016.

Over the course of recent months, the two parties exchanged information on work already conducted, or in progress, concerning a possible interconnector between Iceland and the UK. The UK gave presentations on the UK electricity system, UK energy policy, interconnector projects, interconnector regulatory approaches and renewable support mechanisms. Iceland presented an overview of the work streams being carried out in relation to an interconnector and an overview of the Icelandic energy sector and energy policy, along with other issues related to the concept of an interconnector.

A large part of the discussions within the Task Force was on project economics, regulatory treatment and general impact assessment. Iceland presented a recent Cost Benefit Analysis and Impact Assessment, that they had commissioned on their own behalf, on an interconnector between Iceland and the UK. The UK delegation provided valuable feedback and comments on this report.

The Task Force discussed the potential mutual economic benefit for both parties in the project and the eligibility of support schemes. The Task Force acknowledged that a renewable export business model, with an appropriate support mechanism, could provide a viable business case and be compatible with a competitive market for low carbon electricity production. The interconnector's project costs could also be subject to an element of competition.

The Task Force acknowledged that the UK – Iceland interconnector concept is in many aspects different from other interconnector projects and that revised regulatory models may need to be considered as part of a further phase of work.

The Task Force agreed that a decision on whether to undertake a second phase of work is outside the scope of the Task Force. However, if a decision is taken to continue with a second phase of work, this could include further government-to-government discussions and investigation into regulatory approaches, revised regulatory models and a possible joint cost-benefit analysis to better understand the project economics and assumptions.

The Task Force is of the opinion that the work conducted in the last six months achieves the mandate of the group and should provide valuable information in order to assist in any decision making on the next steps of the potential UK – Iceland interconnector.