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LEGAL BRIEFING FOR INTERNATIONAL CLIENTS

Renewable Energy in Iceland

Licensing, foreign-investment rules and project development in one of the world's greenest energy systems — a guide for developers and investors.

MAGNA Legal — MAGNA Lögmenn
Attorneys at Law — Reykjavík, Iceland
2026 Edition

INTRODUCTION

One of the World's Greenest Energy Systems

Practically all electricity generated in Iceland comes from renewable sources — predominantly hydropower, with geothermal energy providing most of the remainder and wind power now emerging as a third pillar. Around nine in ten buildings are heated directly with geothermal water. This unique energy profile, combined with a cool climate and EEA market access, has attracted energy-intensive industry, data centres, and a growing pipeline of hydrogen and e-fuel projects. This briefing maps the legal terrain a developer or investor must navigate.

~100%	~90%	10 MW	EEA
of electricity generated from renewable sources	of homes heated with geothermal energy	Master Plan classification threshold for power projects	energy exploitation open to EEA-domiciled investors

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PART I — THE FRAMEWORK

The Regulatory Landscape

- **Electricity Act No. 65/2003** — the core framework, implementing EU internal-market rules: unbundling of generation, transmission, distribution and supply; licensing of power plants; and third-party access to the grid. Generation and trading are open to competition, while transmission and distribution are regulated monopolies.
- **Act No. 57/1998** on the Survey and Utilisation of Ground Resources — governs exploration and utilisation of geothermal resources and other subsurface resources.
- **Water Act No. 15/1923** and related legislation — governs rights to harness hydropower, which as a rule attach to the ownership of the relevant land.
- **Master Plan (Act No. 48/2011)** — larger power projects (10 MW and above) must be classified in the parliamentary Master Plan for Nature Protection and Energy Utilisation before they can be licensed. Categories: utilisation, on-hold, or protection.
- **Environmental legislation** — the Environmental Impact Assessment Act No. 111/2021 and the Nature Conservation Act No. 60/2013 apply to most energy projects, alongside municipal planning consents under the Planning Act No. 123/2010.
- **Wind energy** — Iceland's first utility-scale wind projects are moving through licensing under the general framework; dedicated wind-energy legislation and siting policy are under active development and should be monitored at project inception.

Resource rights follow the land

Hydropower and geothermal rights are as a rule appurtenant to land ownership. Securing land and resource agreements — and confirming who actually holds the rights — is therefore the true first step of every Icelandic energy project, before any licence is sought.

PART II — THE MARKET

Regulators, Market Actors and Grid Access

- **The Environment and Energy Agency of Iceland** (Umhverfis- og orkustofnun) — since the 2025 merger of the National Energy Authority (Orkustofnun) into a combined agency, it issues exploration, utilisation and generation licences and supervises the energy market together with the electricity regulator (Raforkueftirlitið).
- **Landsnet** — the transmission system operator; grid-connection agreements for larger projects are made with Landsnet, while local distribution companies connect smaller facilities. Transmission capacity is a live constraint in several regions and belongs on the diligence list of every project.
- **Landsvirkjun**, the state-owned national power company, is the largest generator, alongside ON Power, HS Orka and a growing group of independent developers.
- **Offtake.** Long-term corporate power purchase agreements are the established contracting model for industrial offtake — the backbone of Iceland's aluminium, data-centre and emerging e-fuels industries. PPAs are freely negotiated, typically long-term and frequently linked to product prices or indices.
- **Heating.** District heating is dominated by municipal and regional geothermal utilities; direct-use projects (greenhouses, aquaculture, industry) contract for hot water and steam under bespoke arrangements.

PART III — LICENSING

The Project Licensing Path, Step by Step

- **1. Land and resource rights** — agreement with landowners (private or public) or the state; geothermal and hydro rights generally follow land ownership. Expropriation is available for transmission and defined public-interest projects, with compensation assessed by the Appraisal Committee on Expropriation Compensation.
- **2. Master Plan classification** — required for projects of 10 MW or more; a project must be in the utilisation category before licensing can proceed.
- **3. Environmental impact assessment** — screening or full EIA under Act No. 111/2021, coordinated by the Environment and Energy Agency of Iceland, with public consultation.
- **4. Municipal planning** — the project must be accommodated in the municipal plan and receive framework/building permits; municipal cooperation is decisive in practice.
- **5. Energy licences** — exploration/utilisation licences (geothermal) and a generation licence under the Electricity Act; a separate licence is needed to construct and operate transmission-level assets.
- **6. Grid connection and offtake** — connection agreement with Landsnet or a distributor, and typically a long-term PPA.

Timeline realism

For a 10 MW+ greenfield project, the Master Plan, EIA and planning stages together typically span years, and decisions at each stage can be — and regularly are — challenged before appeal boards and the courts. Building legal strategy into the project schedule from day one is not optional; it is the schedule.

PART IV — INVESTMENT & OPPORTUNITIES

Foreign Investment Rules and Where the Market Is Going

Foreign investment restrictions — plan structure early

Under Act No. 34/1991 on Investment by Non-Residents, the right to harness hydropower and geothermal energy for other than personal use — and enterprises engaged in such exploitation — is limited to Icelandic citizens and to individuals and legal entities domiciled in the EEA/EFTA area.

Investors from outside the EEA therefore typically participate through EEA-incorporated vehicles, and transaction structures should be assessed for compliance and any screening/notification duties at an early stage. Ownership of energy companies with public participation is subject to additional rules.

Current opportunities

- **Wind power** — Iceland's first utility-scale wind farms are moving through licensing, and dedicated wind-energy legislation and siting policy are under active development, creating a first-mover window for experienced developers.
- **Green hydrogen and e-fuels** — abundant renewable power and industrial ports support electrolysis, e-methanol and ammonia projects aimed at maritime and export markets.
- **Data centres and energy-intensive industry** — renewable baseload power, natural cooling and strong connectivity continue to attract international operators.
- **Geothermal expertise** — district heating, direct-use and carbon-mineralisation projects (such as CO_2 injection) offer partnership models with Icelandic utilities.
- **Grid investment** — Landsnet's build-out of the transmission system, including new high-voltage lines, creates construction, supply and land-rights work across the country.

PART V — SELECTED EXPERIENCE

Landmark Energy and Land-Rights Litigation

MAGNA's lawyers have acted in some of the defining Icelandic energy and land-rights proceedings of recent decades. The publicly reported matters below illustrate the practice.*

Energy, natural resources and regulatory matters

- **Landsvirkjun — Kárahnjúkar hydropower project** — acted as counsel to Landsvirkjun, the National Power Company of Iceland, in the landmark water-rights compensation proceedings for the Kárahnjúkar hydropower project (Jökulsá á Dal) — one of the largest water-rights valuations in Icelandic legal history.
- **Landsnet — transmission infrastructure** — acted for Landsnet, the national transmission system operator, in expropriation and compensation proceedings for major high-voltage transmission projects, including Suðurnesjalína 2 (220 kV) and Sultartangalína 3 (420 kV). Most recently, in Supreme Court Cases No. 41/2025 and No. 66–68/2025, the Court rejected landowners' challenges and upheld the lawfulness of the expropriation of rights for the construction of Suðurnesjalína 2.
- **Water rights and land use for power projects** — lead counsel roles in the preparation of major construction and energy works, including negotiating water-rights and land-use agreements with landowners for project development.
- **Regulatory litigation against the State** — MAGNA partners acted as counsel in Supreme Court proceedings in which the Icelandic State was ordered to repay unlawfully levied public charges to several companies with full default interest — precedent directly relevant to regulated industries.
- **Sector appointments** — the firm's partners hold and have held appointments on public rulings committees, including the chairmanship of the Rulings Committee for Electronic Communications and Postal Affairs.

References available

Detailed case references and CVs of the responsible partners are available on request; client-specific matters are disclosed only with the client's consent.

* Certain matters were handled by MAGNA's partners at the firm's predecessor offices (Lögmenn Höfðabakka and Málflutningsstofa Reykjavíkur), which merged to form MAGNA Lögmenn in 2019.

PART VI — HOW WE CAN ASSIST

Your Icelandic Legal Partner

MAGNA Legal (MAGNA Lögmenn) advises international clients across the full life cycle of an Icelandic investment — from first market analysis to operations, expansion and exit. We work in English and Icelandic and coordinate seamlessly with foreign counsel, tax advisers and technical consultants.

Project Development & Licensing

Master Plan, EIA and planning processes; exploration, utilisation and generation licences; challenges to and defence of administrative decisions.

Land & Resource Rights

Water-rights and land-use agreements; expropriation and compensation proceedings; easements and access; dealings with landowners and municipalities.

Transactions & Contracts

Acquisitions and joint ventures; EEA investment structuring; power purchase agreements; grid-connection agreements; construction contracts (including FIDIC-based); project finance security.

Energy Disputes

Litigation and arbitration across the sector — licensing, land rights, construction, PPAs and regulatory charges — at all court levels.

Contact

MAGNA Legal — MAGNA Lögmenn
Höfðabakki 9, 5th & 6th floor
110 Reykjavík, Iceland

T +354 571 5400
E logmenn@magna.is
W www.magna.is