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CLIMATE ACTION
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CLIMA.C.2 – Low Carbon Solutions (II): Research & Low Carbon Technology Deployment

Innovation Fund IF26 Heat Auction

Terms and Conditions

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Authors:	CLIMA C.2 – Low Carbon Solutions (II): Research & Low Carbon Technology Deployment

TABLE OF CONTENTS

I. Background and auction objectives

The Innovation Fund is one of the world's largest funding programmes for the demonstration of innovative low-carbon technologies and processes. The Fund aims to demonstrate and commercialise industrial solutions to decarbonise and support the EU's transition to climate neutrality. It is funded by revenues from the European Union Emissions Trading System (EU ETS).

The revision of the EU ETS Directive in 2023 introduced the possibility of using competitive bidding procedures (i.e. auctions) to award Innovation Fund funding. The objectives of the competitive bidding procedures are fourfold:

- A cost-efficient way of distributing financial support. Auctions have been a significant instrument in the power sector in many Member States[1], bringing down the support costs for renewable electricity by magnitudes.
- Price discovery and market formation. Auctions can reveal the real cost of certain activities or products if there is sufficient competition. This creates valuable data points for the public sector but also helps to create markets where there are none yet, by providing vetted price points.
- De-risking projects and leveraging private capital.
- Reducing the administrative burden for both project developers and contracting authorities.

Building on the successful EU-wide auctions for renewable fuel of non-biological origin (RFNBO) hydrogen production, a first round of the heat auction was announced in the Clean Industrial Deal Communication[2] in February 2025 as a pilot for the new Industrial Decarbonisation Bank.

The 2025 auction opened for proposals in December 2025 and closed in February 2026, with 65 projects (of 85 bids) selected for grant agreement preparation and results announced on 22 May 2026[3]. These projects represented a wide range of industrial sectors and countries within the European Economic Area. Their total requested budget was EUR 397 million, of the total call budget of EUR 1 billion. Industry feedback was that the primary reason for no more than 85 proposals being submitted was the limited time for preparation of the proposals.

This 2026 auction is proposed to support innovative projects:

(1) Electrifying industrial process heat via technologies such as heat pumps, direct and indirect resistance heating, electromagnetic and dielectric heating, plasma heating.
(2) Using direct-renewable (solar thermal or geothermal) heat for industrial heat processes.
(3) Deploying small modular nuclear fission reactors for industrial heat generation only (nuclear heat)
(4) Hybrid projects of the above-mentioned technologies.

Further, the 2026 auction is proposed to have a simplified design that

(1) converts the subsidy requested in EUR/MWh into bids expressed in EUR/tonne of CO2 abated using one default emission factor.
(2) incentivises solutions which reduce pressure on electricity grids (through lowering electricity demand during peak hours) by providing a bid bonus for projects that invest in energy storage, deploy efficient heat pumps or direct renewable heat or nuclear heat. In addition, solutions not meeting these requirements will have the number of operating hours that can receive the subsidy capped.
(3) removes the need for Letters of Intent from electricity providers and heat off-takers and replaces them with a strategy description.
(4) lowers the minimum eligible temperature to 80ºC for large projects (>10MW) implementing heat pumps with COP > 1.5, direct renewables or nuclear heat.

[1] *Competitive auctions are recommended under the Guidelines on State aid for climate, environmental protection and energy (CEEAG), (2022/C 80/01)*

[2] *COM(2025) 85 final*

[3] *https://climate.ec.europa.eu/eu-action/eu-funding-climate-action/innovation-fund/calls-proposals/if25-heat-auction_en*

This auction focusses on industrial process heat because of the large cost-effective decarbonization potential in this area: process heating[4] is the single largest energy use in the European industrial sector, accounting for 47% of industrial energy demand and roughly three quarters of the CO2 emissions generated directly by industry in 2018.[5] Today in the EU, energy for industrial process heat predominantly comes from the combustion of fossil fuels (75%), while biomass accounts for 15%, district heating for 6% and electricity for only around 4%. Although viable electrification technologies for industrial process heat already exist, their widespread deployment is still lagging. This indicates that fossil-based technologies remain the base case for investments made today, despite their risk of becoming stranded assets with rising CO2 prices, given those assets' long lifetimes. The auction will address economic barriers, helping industries on their path to achieve climate neutrality by the mid-century.

Like for the Innovation Fund hydrogen auctions, the Commission offers Member States the possibility to use the auction 'as-a-Service' feature to allocate additional national funds. Through the 'Auctions-as-a-Service' (AaaS) feature, EEA countries would be able to use their own, national resources to award support to projects that bid in the auction and are located on their territory while relying on the Innovation Fund's EU-wide auction mechanism and evaluation to identify the most competitive projects. This would reduce the administrative burden for applicants who have to apply only once to benefit from Innovation Fund or national funding, as well as for Member States which benefit from an EEA-wide competitive selection of projects as well as a streamlined State aid approval process - pending compatibility assessment[6] of the final schemes with CEEAG[7]. Member States who are interested to use this instrument are encouraged to get in touch with Commission services (CLIMA-AUCTIONS@ec.europa.eu and Stateaidgreffe@ec.europa.eu through their permanent representation).

II. Overview of auction design elements

It is proposed that the 2026 auction will support projects with electrified and direct-renewable (solar thermal and geothermal) and nuclear industrial process heat[8] solutions. Innovation Fund support will take the form of a fixed premium payment linked and proportional to demonstrated CO2 abatement for a period of 5 years.

The status quo of industrial process heating is predominantly based on fossil fuels consumption. Electrified technologies are increasingly available for various temperature levels and applications but support from the Innovation Fund is needed, as most electrified heat projects face a cost gap between their costs of production and current market prices for fossil-based alternatives[9]. With this pilot auction, support through the Innovation Fund will help scale-up electrified, nuclear and direct-renewable (solar thermal and geothermal) process heat technologies in industry.

The support primarily aims to reduce greenhouse gas (GHG) emissions from process heat generation. It also aims to create positive spill-over effects on other firms – including across sectors and equipment manufacturers – and thus to entail economic benefits beyond the recipients of financial support. Support will be allocated through an open competitive bidding procedure ('auction') and will directly support the financial viability of the projects. Bids will be ranked according to the cost of abating direct GHG emissions. Displacing fossil fuels use in heat with electricity/direct-renewable/nuclear heat subsidised under the instrument will reduce direct GHG emissions.

This document presents the *draft* Terms and Conditions (also called 'auction design') open to feedback through written public consultation that is held for 6 weeks.

Following the public consultation, *final* Terms and Conditions will be published. The final Terms and Conditions will be available in autumn 2026 and the Innovation Fund auction for heat (IF26 Heat Auction) call for proposals

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4 *Industrial process heat refers to the many methods by which heat is used to transform materials into useful products. E.g. heat is used to remove moisture, enable chemical reactions, create steam, treat metals, melt plastics, glass etc.*

5 *Fraunhofer ISI (2024): Direct electrification of industrial process heat. An assessment of technologies, potentials and future prospects for the EU. Study on behalf of Agora Industry,* https://www.agora-industry.org/fileadmin/Projects/2023/2023-20_IND_Electrification_Industrial_Heat/A-IND_329_04_Electrification_Industrial_Heat_WEB.pdf

6 *For more details on the compatibility assessment of national schemes, see point 1.12 'Auction-as-a-Service'.*

7 *https://competition-policy.ec.europa.eu/sectors/energy-environment/legislation_en*

8 *Whilst cooling cannot be remunerated under the auction, projects can benefit from substantial energy efficiency gains when applying cooling and heating applications simultaneously in the case of an industrial heat pump installation.*

9 *See figure 7 (based on data for Germany) in Fraunhofer ISI (2024): CO2-neutral process heat using electrification and hydrogen https://www.isi.fraunhofer.de/content/dam/isi/dokumente/policy-briefs/24-07_policy_brief_process-heat_co2-neutral_%20electrification_hydrogen.pdf*

will incorporate them. The final Terms and Conditions can already help applicants in the preparation of their bids[10].

Any questions about the draft Terms and Conditions can be sent to: CLIMA-AUCTIONS@ec.europa.eu

To ease orientation, the design elements are presented in four categories:

1. General auction design elements
2. Qualification requirements (together with section III on mandatory documents)
3. Design elements defining the auction procedure
4. Design elements defining the rights and obligations (together with section IV on rules on combination of public support)

1. General auction design elements

Table 1: Overview of design elements for the IF26 Heat Auction - general design

No.	Design Element	Implementation in the Innovation Fund 2026 Heat Auction	Proposed change for IF 2026 Heat Auction
1.0	Objective of the auction	To reduce GHG emissions in industry by cost-effectively supporting the market uptake of electrified, direct-renewable and nuclear industrial process heat.	No change
1.1	Auctioned good	Fixed premium subsidy for direct GHG abatement (expressed in EUR / t CO2 abated) achieved through technologies using electricity, nuclear heat, direct-renewable (solar thermal or geothermal) heat sources or hybrid solutions thereof to produce industrial process heat. The achieved abatement will be calculated by multiplying the volume of produced process heat (in MWh_{th}[11]) with the phase 4 ETS heat benchmark emission factor (0.170 tCO2/MWh). See point 4.6 'Monitoring, reporting and verification' for details on monitoring, verifying and reporting the volume of process heat.	Simplification of the auction design with the use of a single emission factor for all projects. This avoids the need to for complex assessments of whether fossil fuels decommissioned are relevant to the electrified capacity. It also allows fossil fuel use as a backup without disadvantage.
1.2	Budget as constraining value	The total available Innovation Fund budget for each topic is the constraining value of the auction. The Innovation Fund budget is known in advance and will be EUR 1 billion, and each of the two topics will have a dedicated budget (see point 1.9 'Auction topics/baskets'). There is also a possibility of 'Auction-as-a-Service' (see also point 1.12 'Auction-as-a-Service'). The auction will be cleared where the budget is exhausted. The number of projects and production of process heat supported/GHG abatement will be derived from the total available budget and the individual bids with their respective bid prices and volumes. In the event of under-utilisation of budget within a given topic, budget may be transferred to another topic.	No change
1.3	Support type	Output-based support (payment per MWh of heat produced/GHG abatement achieved). See also point 1.1 'Auctioned good'.	No change
1.4	Support form	Fixed premium.	No change

[10] *Only the forthcoming call for proposals and its annexes (the call documents) are binding on the Commission. The call documents will be authoritative in the event of any discrepancy with the Final Terms and Conditions.*

[11] *For projects that cannot measure the heat produced but can measure electricity consumed in the heat production unit (see point 4.6 'Monitoring, reporting and verification') the conversion efficiency from electricity to heat is assumed to be 100% for all other applications. The measured electricity consumption will then translate in the produced process heat that can be supported and is included in this formulation.*

1.5	Indexation of support	No indexation.	No change
1.6	Grant duration (disbursement period)	The grant duration will end 5 years after the Entry into Operation of the project. See also point 4.3 'Sanctions in case of non-compliance with support requirements'.	No change
1.7	Ranking of bids	Price-only ranking in EUR/tCO2.	No change
1.8	Bid components	Applicants will state: **(1) the subsidy requested per unit of produced heat** (expressed in EUR / MWh_{th}) An automatic formula in the application form will translate (1) into **(2) the bid price, i.e. the subsidy requested per tonne of CO2 abated** using the phase 4 ETS heat benchmark, expressed with two digits after the comma.[12] **(3) the nominal thermal capacity** in MW_{th} of the heat production unit that produces electrified industrial process heat, nuclear heat or direct-renewable process heat that will be installed and verified as being operational by the time of entry into operation. **(4) the volume of expected average yearly process heat** produced (see point 1.1 'Auctioned Good'), expressed in MWh_{th}. Please note that already at the application stage, subsidised heat production will be limited **to the equivalent of 70% of hours per year** at nominal capacity unless the project applies for a 'indirect emissions/flexibility' bonus (see point 1.10 'Indirect emissions/flexibility requirements'). The **maximum grant amount** is therefore calculated as: $$\left[Subsidy\ requested\ in \frac{€}{MWhth}\right] * \left[\frac{MWhth}{year}\right] * 5\ years$$ An automatic formula in the application form will translate (4) into **(5) expected average yearly volume of GHG abated (expressed in t_CO2),** using the phase 4 ETS heat benchmark (as explained in Point 1.1 'Auctioned good').	Clarification that fixed premium paid will correspond to subsidy requested per unit of produced heat (expressed in EUR / MWh_{th}). Clarification that maximum grant amount is calculated as subsidy requested in EUR/MWh_{th} multiplied by expected average yearly heat produced in MWh_{th}/year multiplied by 5 years. The 70% cap on the number of hours per year at nominal capacity applies to projects that do not claim 'indirect emissions/flexibility' bid bonus.
1.9	Auction topics/baskets	There will be two topics ('auctions baskets'): 1. a medium-temperature heat topic that covers heat produced at a metered temperature of 100-400 for with a minimum size of > 3 MW. In addition, projects with a temperature of 80-100 degrees and capacity above 10 MW and which utilise heat pumps with COP >1.5, direct renewables or nuclear heat are also eligible in this topic. With a budget of EUR 700 million. 2. a high-temperature heat topic that covers heat produced at a metered temperature of above 400°C by projects that have a size equal to or higher than 3MWth with a budget of EUR 300 million. Temperatures need to be metered according to the measurement system specified in Point 4.6 'Monitoring, verification and reporting'. If there are budget remainders, the Commission may redistribute them between the call topics.	Removal of distinction between two medium temperature baskets. Relaxation of medium temperature basket minimum temperature threshold for high-capacity projects utilising certain technologies.
1.10	Indirect emissions/ flexibility requirements	While power sector emissions overall are covered by the EU ETS, in many bidding zones, electricity consumption during peak hours is linked to high emissions from electricity generation, as well as increased system costs, such as additional capacity, grid or redispatch costs. The auction therefore aims to avoid incentivising consumption of electricity from the grid that leads to high emissions from electricity generation and higher system costs (i.e. consumption of electricity during peak hours). This is why there is a bid bonus of 25% (i.e. reduction of the bid price for the purpose of ranking only) for the projects that can prove:	A bid bonus of 25% (reduction of the bid price for the purpose of ranking) is possible for the projects that can have storage or deploy very efficient heat pump(s) or deploy direct renewable heat or nuclear heat.

[12] *Bid will be truncated if more than 2 digits after comma are provided.*

		○ they **deploy electricity or thermal storage** for the purpose of the project sufficient to replace the project's electricity consumption from the grid or the heat demand of the process for 4h by 20% within 1h or ○ they **deploy heat pump(s) with Coefficient of Performance (COP) of at least 1.5** or ○ **they deploy direct renewable heat or nuclear heat**. In addition, projects that claim this bid bonus can receive subsidy for up to 100% of hours per year * nominal thermal capacity. Conversely, projects that do not claim this bid bonus cannot receive a subsidy for produced heat volumes above the equivalent of 70% of hours per year * nominal thermal capacity. Claiming the bid bonus for indirect emissions/flexibility must be decided by the applicant already at the bidding stage (see point 1.8 'Bid components'). If a project claims the bid bonus but fails at the Entry into Operation to prove it implemented storage solution or a heat pump(s) with Coefficient of Performance (COP) of at least 1.5 or direct renewable heat solution or nuclear heat, it will be terminated. See also point 4.3 'Sanctions in case of non-compliance with support requirements' Beyond this indirect emissions/flexibility requirement, indirect emissions do not need to be accounted for abatement (see also point 1.1 'Auctioned good').	The 70% cap on the number of hours per year to be run on nominal capacity is kept only for projects that cannot claim the bid bonus. The 'flexible ramping' option is removed. Conditions for energy-efficient heat pumps are relaxed.
1.11	Safeguards against over-compensation	Ensuring competition through market testing, total available budget and feedback on the level of competition from one round to another. See also the rules on combined public support in Annex IV. No claw backs.	No change
1.12	Auction-as-a-Service	The Auction-as-a-Service mechanism is open to all EEA countries. Additional safeguards might be needed concerning nuclear heat or to ensure that the subsidized projects lead to net emissions savings, taking into account indirect emissions from electricity. Any exemptions to the requirements on not installing new fossil fuel-fired capacity as part of the same installation (see possible exemptions in point 2.1 'Eligibility') would need to be closely examined and monitored.	No change
1.13	Granting authority	Climate, Infrastructure and Environment Executive Agency (CINEA) or national granting authority in case of Auction-as-a-Service.	No change

2. Qualification requirements

Bidders need to fulfil qualification requirements to have their bids ranked. Qualification aims to ensure that bidders can implement the project, the project is sufficiently mature to be implemented in time, and to prevent speculative bidding. The following table lists the qualification requirements for the IF26 Heat Auction. Qualification requirements will be assessed on a Pass/Fail basis, see also section III for the mandatory documents required for the assessment of the Qualification requirements**.**

Table 2: Overview of design elements for the Innovation Fund 2026 Heat auction – qualification requirements

No.	Design Element	Implementation in the Innovation Fund 2026 Heat Auction	Proposed change for IF 2026 Heat Auction
2.0	Admissibility	Strict respect of submission deadlines, use of forms provided through the Funding and Tenders Portal, and compliance with presenting all required documentation (Application Forms and self-declarations contained therein), together with mandatory documents and supporting documents (see section III).	Minor changes in mandatory documents, see section III.
2.1	Eligibility	• Proposals must be for projects located in the EEA. There is no limitation on the origin or type (e.g. energy company, project developer, industrial player etc.) of members of the consortium. • Proposals must concern the deployment of industrial process heat: o electrification technologies (e.g. heat pumps[13], direct and indirect resistance heating, electromagnetic and dielectric heating, plasma heating) or o direct-renewable (solar thermal or geothermal) heat technologies[14] [15] o Small modular nuclear fission reactors for heat generation only (nuclear heat) o or hybrid projects of the above-mentioned technologies. • Electrolysis processes (e.g. in the aluminium sector) are not eligible. • Electric arc furnaces for steel making are not eligible. • Heat production for space heating or sale to district heating is not eligible. • Heat production for activities primarily aimed at fuel production based on non-recycled fossil feedstocks is not eligible, excluding the production of low-carbon fuels. • Projects must not install new fossil fuel-fired capacity as part of the same installation as concerns the project. Glass furnaces are exempt from this rule, as technical/safety barriers to full electrification exist. Other applications that show similar technical/safety restrictions need to provide evidence of such barriers as well as a transformation path from fossil-fuel to climate neutral fuel[16]. • The electrified or direct-renewable process heat needs to be produced by new thermal capacity (i.e. heating production units for which at the time of application start of works[17] did not yet take place), in order to ensure an incentive effect of the subsidy.	Nuclear heat allowed. Waste heat from data centers allowed to be used by heat pump technology. Removing fossil fuel producers as possible offtakers.

[13] *'Heat pump' as a category also covers mechanical vapor recompression (MVR) and thermochemical heat transformers. Heat pumps can use environmental heat or excess waste heat from industrial processes, including data centers, but not from electricity or combined heat & power generation. A direct application of fossil fuels to preheat the source of heat for heat pumps makes a project ineligible.*

[14] *Proposals that electrify or deploy direct-renewable heat only partly and alongside existing heat production unit using fossil fuels are also eligible. For avoidance of doubt, heat that is produced from fossil fuels will not be eligible for support*

[15] *For avoidance of doubt, biomass or hydrogen use for heat production is not eligible.*

[16] *For avoidance of doubt, heat that is produced from fossil fuels will not be eligible for support.*

[17] *The first firm commitment (for example, to order equipment or start construction) that makes an investment irreversible. The buying of land and preparatory works such as obtaining permits and conducting preliminary feasibility studies are not considered as start of works.*

		• A restriction on the maximum grant amount per bid applies: EUR 100 million in the medium temperature heat topic and EUR 250 million in the high temperature heat topic (see point 1.9 'Auction topics/baskets') • Minimum project size requirement applies: 3 MW_{th} (thermal output capacity of the heat production unit(s)). The newly installed capacity must be in a single location (several units can be combined together in a single location); virtual pooling of capacity is not permitted. • Minimum eligible temperature level requirements apply: Process heat below 80°, 100°C or 400°C depending on the auction topic/basket (see point 1.9 'Auction topics/baskets'), determined as the temperature of heat generated following the rules set out in point 4.6 'Monitoring, Verification and Reporting' is not eligible in this auction.	
2.2	Relevance and Quality	• The proposals will be evaluated on a pass/fail basis on relevance. • Quality, consisting of technical, financial, and operational maturity[18] is assessed based on the documents listed in section III of the Terms & Conditions and Application Form B. • Projects must comply with the applicable 'Do No Significant Harm' technical screening criteria outlined in Commission Delegated Regulations (EU) 2021/2139 ('Climate Delegated Act'). After the evaluation but before grant agreement signature, for projects invited to grant agreement preparation a financial capacity and legal entity check will be made to ensure that successful applicants have stable and sufficient resources to successfully implement all proposed projects and comply with EU exclusion situation limitations (default, prosecution, etc.).	No change
2.3	Completion guarantee	A completion guarantee covering 6% of the maximum grant amount (see point 1.8 'Bid components') will be requested from projects invited to prepare grant agreement. A letter of intent from a bank or financial institution to issue a completion guarantee will be required as part of the proposal. A template will be made available and will have to be used (no changes to the template are allowed). The completion guarantee should be in euro and issued by an approved bank/financial institution (with the following minimum rating from at least one of these rating agencies: BBB- from S&P or Fitch, Baa3 from Moody's or BBB (low) from DBRS) established in an EEA. This completion guarantee must be able to be called on first demand by the granting authority if the project (i) does not reach approved financial close within 2 years for medium temperature or 2.5 years for high temperature, or (ii) does not reach approved entry into operation within 4 years after signing the grant agreement for medium temperature or 5 years for high temperature (see point 4.0 'Maximum time to reach financial close and entry into operation'). The completion guarantee shall be issued at the latest two months after receiving the evaluation result letter inviting the selected applicants for grant agreement preparation. It shall be valid from the date of issuance until six months after the maximum time to entry into operation (see point 4.0 'Maximum time to reach Financial Close and Entry into Operation'). The duration of the completion guarantee is expected to be at least 4 years and 11 months for the medium temperature topic and 5 years and 11 months for the high-temperature topic. A template will be made available and will be mandatory. If entry into operation is reached earlier, the guarantee can be released earlier. The enforcement of completion guarantees is further explained in point 4.3 'Sanctions in case of non-compliance with support requirements.	Changes linked to longer times for the Financial Close and Entry into Operation for the projects in the high temperature basket.

[18] *For projects with capacity of 5MWth or higher, cybersecurity measures should also be described.*

3. Design elements defining the auction procedure

Table 3: Overview of design elements for the Innovation Fund competitive bidding mechanism - auction procedure

No.	Design Element	Implementation in the Innovation Fund 2026 Heat Auction	Proposed change for IF 2026 Heat Auction
3.0	Competitiveness of the process	The key rules ensuring competitiveness of the process are: • No discrimination against participants in auction. • Transparency on requirements and sufficient lead times to prepare bids. • No ex-post adjustments of auction rules or results.	No change
3.1	One-stage or two-stage auction	One-stage.	No change
3.2	Auction type	Static auction.	No change
3.3	Pricing rules	Pay-as-bid.	No change
3.4	Minimum prices	No minimum price.	No change
3.5	Ceiling prices	Ceiling price of 400 EUR/tCO2 proposed in the medium temperature baskets Ceiling prices of 800 EUR/tCO2 proposed in the high temperature basket Ceiling prices apply before bid bonuses have been applied.	Ceiling prices introduced in all baskets.
3.6	Clearing mechanism and marginal bid	For each topic, proposals that pass eligibility and admissibility assessment will be first ranked according to their bid price from lowest to highest. Bid bonus can be claimed for solution on indirect emissions/flexibility. Those proposals whose maximum grant amounts fit within the Innovation Fund basket/topic budgets (see point 1.9 'Auction topics/baskets'), and the proposals necessary to fill the reserve list, if any, will be assessed against the award criteria of 'Relevance' and 'Quality', on a pass/fail basis. Remaining proposals will be rejected. They will not be evaluated against the 'Relevance' and 'Quality' award criteria. The last proposal that exceeds the call budget will be added to the reserve list.	Bid bonus can be claimed.
3.7	Tie-breaking rules	For proposals with the same bid price after application of the bid bonus (within a topic), a priority order will be determined according to the following approach: Successively for every group of ex-aequo proposals, starting with the lowest bid price group, and continuing in ascending order: 1) Proposals with the overall smaller maximum grant amount will be preferred. 2) If this does not allow to determine the priority, proposals which have at least one SME[19] in their consortium will be preferred. 3) If this does not allow to determine the priority, proposals located in the country with fewer funds awarded (EUR) previously under the Innovation Fund will be preferred.	No change
3.8	Minimum number of bidders	The auction volume will not be adapted to the observed participation. Each topic of the auction may be cancelled if less than two proposals are submitted.	No change

[19] *The determining factors whether an enterprise is an SME are: staff headcount and either turnover or balance sheet total, see definitions here: https://single-market-economy.ec.europa.eu/smes/sme-fundamentals/sme-definition_en*

4. Design elements the defining rights and obligations

Table 4: Overview of design elements for the Innovation Fund 2026 Heat auctions - Rights and obligations

No.	Design Element	Implementation in the Innovation Fund 2026 Heat Auction	Proposed change for IF 2026 Heat Auction
4.0	Maximum time to reach Financial Close and Entry into Operation	A project reaching Financial Close (FC) should be able to demonstrate that all contracts are signed and conditions in them fulfilled. The financial close needs to be approved by the granting authority. o Maximum time to reach FC from Grant Agreement signature: 2 years after signing the grant agreement in the medium temperature basket and 2.5 years in the high temperature basket A project reaching an Entry into Operation (EiO) should be able to demonstrate as operational a nameplate thermal capacity and eligible temperature levels for its electrified/direct-renewable heat production unit of at least 100% of that expressed in the bid. The entry into operation needs to be approved by the granting authority. o Maximum time to reach EiO from Grant Agreement signature: 4 years after signing the grant agreement in the medium temperature basket and 5 years in the high temperature basket.	Longer periods for FC and EiO introduced for high-temperature basket
4.1	Production flexibility rules	Projects that do not claim the 'bid bonus' have to observe 70% of hours per year * nominal thermal capacity restrictions as per point 1.10 'Indirect emissions/flexibility requirements'.	Only projects that do not claim 'bid bonus' have to restriction on number of hours.
4.2	Rules on combined support	Please see Section IV Specific question for stakeholders to possibly refine the design of the auction: *A number of State aid schemes targeting electricity consumption is currently in place. Are you aware of:* • *schemes that have a relatively low impact on the bid and could be – in the final Terms and Conditions allowed to be combined with the IF auction grant while still keeping level playing field amongst the bidders? If yes, which ones?* • *schemes that have a strong impact on the bid, are not necessarily available in all Member States and could give an advantage to competing bids, so that the cumulation should continue not to be allowed to be combined with the IF auction grant. If yes, which ones?*	Clarification on cumulation with Indirect Cost Compensation Specific question for stakeholders
4.3	Sanctions in case of non-compliance with support requirements	If at application stage, a project claims to implement a storage or to deploy a heat pump with required Coefficient of Performance (COP) or direct renewable heat or nuclear heat but by Entry into Operation does not prove it is implemented, the project will be terminated and the grant amount will be recovered, as its bid expressed in EUR/t_CO2 avoided would be no longer valid. If the maximum time to reach Financial Close or Entry into Operation is exceeded, the grant agreement will be terminated, and the granting authority will call the completion guarantee see point 2.3 'Completion guarantee'. The grant agreement may be terminated, or the grant reduced if the electrified/direct-renewable industrial heat production (and consequently the GHG abatement) falls on average below 30% of the expected yearly average volume as stated in the bid for three consecutive years. This average will be calculated over a rolling 3-year period.	The use of 'bid bonus' for indirect emissions/flexibility is tied to proving that the necessary investment happens by EiO. If it cannot be proven, project is terminated and any grant paid recovered.
4.4	Payment schedules	Semi-annual or annual according to choice of applicant (every 6 or 12 months after entry into of operation) based on metered electrified/ direct-renewable industrial heat production from the new installation described in the proposal (see point 4.5 'Reporting requirements').	Choice of applicant on payment schedule
4.5	Reporting requirements	• To fulfil the call objective of price discovery and contribution to market formation, the following information will be published: (i) for successful bidders: identified bid price, name of the project and coordinator, total	No change

		volume electrified/direct-renewable heat produced, total volume of carbon abatement to be achieved, nominal capacity of the electrified/direct-renewable heat production unit(s), product of the use of heat and sector where heat is applied and possible other information, (ii) for unsuccessful bidders, anonymized overview of statistics such as: bid price, total volume electrified/direct-renewable heat produced, total volume of carbon abatement to be achieved and nominal capacity of the electrified/direct-renewable heat production unit(s), products of the use of heat and sectors where heat is applied. Additional data and analysis may be published where anonymization is guaranteed. • Until entry into operation projects will have to report annually on their progress in project implementation. • After entry into operation, projects will report periodically alongside their requests for payment (i.e. for every 6 or 12 months of operation). Reports will concern the electrified/nuclear/direct-renewable heat production and resulting abatement, see point 1.1 'Auctioned good', as well as the temperature level of the produced heat. o In these reports, projects will also have to confirm that rules on combination of support are respected. • If relevant, proof of installation of energy storage, sufficient coefficient of performance for heat pump, direct renewables or nuclear heat if claiming a bid bonus (see point 1.10 'Indirect emissions/flexibility requirements') will be required at Entry into Operation. • Reporting on DNSH principle application at the end of project's monitoring period.	
4.6	Monitoring, reporting and verification (MRV)	(Industrial) process heat production needs to be monitored, reported, verified by an independent third party every six months or 12 months (see section 4.4) after Entry into Operation so that grant payments can be made. Payments are proportional to volume of process heat produced. Therefore, the correct monitoring, reporting and verification of produced process heat is crucial. To claim payments under this auction, projects must monitor and measure the produced process heat with an EMAS or ISO50001 compliant management system. Meters such as heat flow meters and thermometers need to be calibrated accordingly. There are two possible measurement approaches: • Direct measurement of process heat or • Indirect measurement of process heat. All technologies are required to follow one of the two approaches as specified below. Both process heat volume and temperature levels will have to be measured. ***Approach 1: Direct measurement of process heat*** • If the heat production volume can be measured directly by monitoring a heat flow, projects are required to do so. All applications of heat pumps[20] , and direct-renewable heat technologies are required to follow this approach. • The heat flow must be measured by a heat meter in a heat transfer medium such as steam, hot air, water, oil, liquid metals or salts, transported through identifiable pipelines or ducts. The temperature level of the process heat is determined by a temperature measurement of the heat transfer medium after it has passed the source of heat increasing the temperature of the heat transfer medium, such as the heat exchanger of the heat pump. The temperature level needs to be monitored simultaneously with or as part of the measurement of the heat flow. Process heat production of one reporting cycle can be funded if the weighted average temperature lies within the limits of the corresponding temperature basket (see points 1.9 'Auction topics/baskets' and 2.1 'Eligibility'). To calculate the weighted average temperature, the average temperature of every hour is multiplied with the average heat flow of every hour. The sum of products of all hours is divided by the total heat flow in the	Clarification that that fixed premium paid will correspond to subsidy requested per unit of produced heat (expressed in EUR / MWh_{th}). Removal of 95% assumed efficiency for indirect heat measurement. Clarification that for Approach 2 also *weighted* average temperature is verified

[20] *Including mechanical vapor recompression and thermochemical heat transformers.*

		monitoring period. Subject to the data processing system, hourly values may be substituted by other time intervals, as appropriate. ***Approach 2: Indirect measurement of process heat*** • If heat flow cannot be measured directly, projects must determine heat production based on the electricity consumption of the heat production unit. All applications of resistance heating (e.g. furnaces, boilers), electromagnetic and dielectric heating (e.g. melters, ovens), shockwave heating and plasma heating are required to follow this approach. The process heat production is determined by multiplying the hourly average electricity consumption by 100% for all applications[21]. Subject to the data processing system, hourly values may be substituted by other time intervals, as appropriate. • The temperature level of the process heat must be measured with an adequate measurement approach. Thermometers already used for process monitoring and process control can be used. The temperature level needs to be monitored simultaneously with the electricity consumption. Process heat production of one reporting cycle can be funded if the weighted average temperature of all such measurements lies within the limits of the corresponding temperature basket (see points 1.9 'Auction topics/baskets' and 2.1 'Eligibility'). To calculate the weighted average temperature, the average temperature of all such measurements of every hour is multiplied with the average electricity consumption of every hour. The sum of products of all hours is divided by the total electricity consumption in the monitoring period. Subject to the data processing system, hourly values may be substituted by other time intervals, as appropriate	

[21] *I.e. assuming standard efficiencies.*

III. Mandatory documents necessary for the assessment of qualification requirements

- Application forms A, B and C/extended form C
- Detailed budget table/calculator ('financial information file' with the bid calculation)
- Participant information
- Timetable/Gantt chart
- Feasibility study

The feasibility study is a stand-alone mandatory document that should contribute to assess the maturity of the proposal at the moment of application. Applicants can draft it using the template available on EU Funding and Tenders Portal, but other formats are allowed.

Main sections of the feasibility study should be:

• Project description and requirements, including aspects such as objectives, resource availability, equipment (listing the main items and their cost, substantiated by quotes from suppliers when possible), location, situation of regulatory requirements.
• Technology readiness, expected project output (in terms of heat production) and impacts.
• Project Organization, staffing and schedule.
• Risks analysis and management.

Proposals implementing storage and claiming the indirect emissions/flexibility bid bonus will have to include in the feasibility study a credible justification of their ability to meet the requirements of the Terms & Conditions concerning electricity or thermal storage (see point 1.10 'Indirect emissions/ flexibility requirements' (e.g., by providing quotes and technical specifications by suppliers).

- Permits, licences and authorisations strategy

The proposal should present a credible strategy to obtain the relevant permits (e.g., environmental permits, construction permits, grid connection) from the competent national or regional authorities.

The strategy needs to include a clear description of all the relevant permits needed to build and operate, as well as the process of obtaining the said permits from the relevant authorities. Furthermore, the strategy should present a clear timeline, demonstrating the ability to obtain in a timely manner the necessary permits. Particular attention should be given to the requirement of providing the environmental and construction permits (where applicable) at Financial Close.

The documentation provided will be assessed considering the national context, which should also be described in the application.

When the project assumes the use of electricity from the grid, the proposal should provide a credible strategy including any additional capacity needed.

The submitted documents must prove in a credible manner that the power grid connection will be secured by the Entry into Operation.

The documentation provided will be assessed considering the national context, which should also be described in the application.

- Completion guarantee letter of intent (template will be provided and will be mandatory to use)
- Other annexes: Equity supporting evidence, Equipment procurement supporting evidence, Electricity sourcing strategy, Heat off-taker strategy.

IV. Rules on combination of support under the auction with other public support

Please note dedicated question for stakeholders in point 4.2 'Rules on combined support'

This section describes the rules for combining the support awarded through this auction with other public support in the form of: either State aid (both notified e.g. under the CEEAG[22] or the IPCEI Communication[23] and not notified e.g. under the GBER[24]) or funding from EU programmes (e.g. Innovation Fund, Horizon Europe, Connecting Europe Facility, InvestEU).

Cases of combination of support marked **X** are not allowed. A self-declaration will be required as part of the project application, stating that by the time of grant agreement signature the project will not be in any excluded cases of combined support.

Cases marked **V** are allowed.

For all cases of allowed combination of support (under the IF auction), please also note that there are also rules on combination of support that have to be respected coming from State aid requirements (e.g. in some case of funding gap assessment under CEEAG/IPCEI).

For avoidance of doubt, general measures such as general tax reduction measures applicable to all economic operators, when they are *not* State aid, fall outside the scope of this section.

[22] https://competition-policy.ec.europa.eu/sectors/energy-environment/legislation_en
[23] https://competition-policy.ec.europa.eu/state-aid/legislation/modernisation/ipcei_en
[24] https://competition-policy.ec.europa.eu/state-aid/legislation/regulations_en

Table 5: Overview of rules on combination of support

Entity	Cases of combination of support that are not allowed	Cases that are allowed
Project signing Grant Agreement for an Innovation Fund auction grant ('IF auction project')	X Combination with public support for project's CAPEX or OPEX is *not* allowed except if explicitly allowed in the column on the right. X For avoidance of doubt, reductions from levies or taxes which reflect part of the cost of providing electricity to the beneficiaries, e.g. reductions from network charges or from charges financing capacity mechanisms or reductions in electricity taxes (not covered by point 403 of CEEAG or equivalent points under other State aid frameworks) cannot be combined when they are State aid.	V Combination with previous public support for early project development stages such as: research, feasibility studies or FEED studies preceding the commercial operation is allowed. V Combination with previous public support for capacity development that is *not* part of the bid is allowed[25]. V Combination with compensation for Indirect Emission costs provided under the ETS State aid Guidelines[26] is possible under conditions[27]. V Combination with public support for energy infrastructure[28] connected to the project (e.g. Connecting Europe Facility support) is allowed, provided that the energy infrastructure is not infrastructure dedicated to this project ('non-dedicated infrastructure'). V Combination with reduction from levies on electricity consumption which finance energy and environmental policy objectives (as described in section 4.11 of CEEAG or equivalent measures under other State aid frameworks)[29] is allowed[30], even if these measures qualify as State aid.
Electrified/direct-renewable heat equipment manufacturers from whom IF auction project will purchase equipment		V Public support provided to the manufacturers supplying equipment for the IF auction project is allowed.
Electricity installations from which IF auction project will source electricity		V Public support provided to the electricity installation from which the IF auction project will source electricity is allowed.
Off-takers to whom IF auction project sell their products (glass, metals, paper etc)		V Public support provided to the off-takers to whom IF auction project sell their products is allowed.

[25] *E.g. if a previous project stage of 5MWe of capacity has received public support, and a 15MWe capacity extension is bid into the auction, that bid is eligible. A combined 20MWe bid, comprising 5MWe previously supported would, however, not be allowed.*

[26] *Communication from the Commission – Guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading post-2021, 2020/C 317/04.*

[27] *Project cannot combine IF auction grant and the Indirect Cost Compensation support for the same volume of electricity consumption. The following specific cases can be thus identified:*
1. If project is to deploy direct renewable technologies (solar thermal or geothermal), then the installation can receive the full amount of ICC in addition to the IF auction grant (i.e. no restriction on cumulation).
2. If project is to deploy an electrified heat technology and to claim ICC compensation using the ICC fall-back electricity consumption benchmark, then the volume of electricity used by the electrified heat technology cannot be covered by both the IF auction grant and the ICC compensation.
• At IF auction application stage, a project needs to provide explanations how this rule will be fulfilled and state the intention to respect it. The IF Grant agreement will stipulate how this rule will be controlled during the project operation. If conditions on non-cumulation are breached, grant agreement might be terminated.
• Dedicated metering of electricity consumption of an electrified heat production unit will be necessary.
• If proportional reduction of ICC claims is too difficult, an installation can forgo the entire ICC claim for the 5 years when project is funded by the IF.
3. If project is to deploy an electrified heat technology and to claim ICC compensation using the ICC product benchmarks, then the full amount of ICC compensation linked to the product output can be claimed in addition to the IF auction grant (i.e. no restriction on cumulation).

[28] *As defined in CEEAG (point 36 of section 2.4 Definitions).*

[29] *Measures notified that fall under point 403 and section 4.11 of CEEAG or similar measures, for example those that fall under Article 44 of GBER.*

[30] *Allowed for the 2026 auction round. If further auction rounds follow, this case of combined support may not be allowed.*