

JUNE 2020

EUROPEAN COMMISSION, DIRECTORATE-GENERAL CLIMATE ACTION

# Assistance with the launch of the first call of the Innovation Fund

BACKGROUND PAPER ON AWARD CRITERIA IN SUPPORT OF  
5TH MEETING OF THE INNOVATION FUND EXPERT GROUP ON 5 JUNE 2020





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PROJECT NO.	DOCUMENT NO.				
A127107	1				
VERSION	DATE OF ISSUE	DESCRIPTION	PREPARED	CHECKED	APPROVED
1	27 05 20	Draft Background Paper	CAG	DSH	CAG



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**The information and views set out in this background paper are those of the authors and do not necessarily represent the official views of the Commission.**

## Introduction

The Innovation Fund (IF) aims at supporting the ETS industrial and power sectors to meet the innovation and investment challenges of the low-carbon transition.

This background paper summarises the current state of development of the five award criteria for the Innovation Fund in preparation for the first call for proposals to be issued in mid-2020. The five award criteria are summarized in the table below.

Award Criteria	First stage	Second stage
<b>GHG emission avoidance</b>	Absolute and relative GHG emissions avoidance	Absolute and relative GHG emissions avoidance
<b>Degree of innovation</b>	Innovative compared to the state-of-the-art	Innovative compared to the state-of-the-art
<b>Project maturity</b>	Technical, financial and operational maturity	Technical, financial and operational due diligence
<b>Scalability</b>	Not included at first stage	Impact on level of the project and the regional economy, on the sector and of the whole economy
<b>Cost efficiency</b>	Not included at first stage	EUR/t CO <sub>2</sub> -eq avoided

The background paper will feed into the virtual IFEG meeting to be held on 5 June 2020 in Brussels. It aims to provide experts with a comprehensive status of the operationalisation of the individual criteria.

# 1 Award criteria for the first stage

At the first stage of application, admissible and eligible applications shall include a description of key project characteristics, including the description of how the project fulfils the following award criteria: GHG emission avoidance potential, degree of innovation and project maturity.

## 1.1 GHG emission avoidance potential

As a general rule, the GHG emission avoidance is equal to the difference between the emissions from the project activity and the emissions from a reference scenario, e.g. the production of the same quantity of an industrial product – such as steel or chemicals – but using an existing technology or producing the same amount of conventional energy rather than renewable energy.

Applicants carry out two calculations – of absolute and relative emission avoidance.

- > The **absolute GHG emission avoidance** is calculated as the difference between the expected GHG emissions of the project and the GHG emissions in the reference scenario during 10 years after entry into operation. As a minimum requirement, the process emissions of the project must be below the EU ETS benchmark(s)<sup>1</sup> applicable at the time of the respective deadlines for submission of the applications in the first or second stage.
- > The **relative GHG emission avoidance** equals the absolute GHG emission avoidance of the project divided by the GHG emissions in the reference scenario. In case that the project activities stretch over several sectors, the divisor will only include the reference GHG emissions that are related to the activities within the specified sector.

In view of the cross-sectoral differences with regard to GHG emission avoidance potential, applicants specify a sector to which the project is allocated according to the rules described in Annex A. The calculated absolute GHG emission avoidance for the project is compared to the “best in sector”, i.e. the project with the highest value of absolute GHG emission avoidance. In case that project activities stretch over several sectors, the applicant has to choose a single sector.

With regard to projects from the **bio-economy**, the used biomass should at least meet the sustainability requirements of the Renewable Energy Directive<sup>2</sup> and

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<sup>1</sup> EU ETS product benchmarks are based on the average greenhouse gas emissions of the best performing 10% of the installations producing that product in the EU and EEA-EFTA states. Please check [https://ec.europa.eu/clima/policies/ets/allowances/industrial\\_en](https://ec.europa.eu/clima/policies/ets/allowances/industrial_en) for further details.

<sup>2</sup> [Directive \(EU\) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources \(Text with EEA relevance.\), OJ L 328, 21.12.2018, p. 82–209](#)

should in principle originate from feedstocks that are with a low risk of causing indirect land-use change.

The following sub-criteria and related indicators are used at the first stage to assess the GHG emission avoidance potential:

Sub-criteria	Indicators	Assessment by evaluator based on information provided by applicant
<b>Absolute GHG emissions avoidance</b>	<p>Difference between expected GHG emission of the project and the GHG emissions in the reference scenario during 10 years after entry into operation.</p> <p>Compared to</p> <p>“best in sector” – highest value of absolute GHG emission avoidance by a project in the specified sector.</p>	<p>Validation of the specified sector;</p> <p>Comparison of GHG emissions to reference scenario;</p> <p>Check of minimum requirement related to EU ETS benchmarks and biomass sustainability;</p> <p>Assessment of the quality of the calculation. In case of poor quality, the evaluator can reject the proposal, reduce the points, or correct the calculation.</p>
<b>Relative GHG emissions avoidance</b>	<p>Absolute GHG emission avoidance of project compared to GHG emissions in reference scenario.</p>	

The correctness and quality of the emission avoidance calculations are checked during the evaluation. If manifest errors are made, applications are rejected. The evaluators will check the robustness of the calculation, including the reliability and margin of uncertainty of key parameters. In case of doubts, the points may be reduced. If there are errors of a clerical nature and can be corrected, the evaluators will recalculate and advise INEA to take this corrected result into consideration when preparing the grant agreement.

The detailed methodologies for calculation of GHG emission avoidance are provided in *Annex A*.

## 1.2 Degree of innovation

Article 10a(8) of the EU ETS Directive states that the “technologies receiving support shall not yet be commercially available but shall represent breakthrough solutions or be sufficiently mature to be ready for demonstration at pre-commercial scale”. The Innovation Fund regulation defines this award criteria as “degree of innovation of the projects compared to the state-of-the-art”.



At the first stage, the assessment of the degree of innovation will focus on the question whether the proposed actions (technologies, products, business models) are innovative in relation to the state-of-the-art and go beyond incremental innovation.

The criterion and related indicator to inform the award criterion degree of innovation, including scoring at the first stage, is therefore:

	Indicators	Assessment by evaluator based on information provided by applicant
<b>Degree of innovation compared to the state-of-the-art</b>	Degree to which technology / product / business model is beyond state of the art.	Is the technology / product / business model innovative in relation to state-of-the-art?  Does the technology / product / business model go beyond incremental innovation?

The assessment of the degree of innovation is based on the description of the innovative aspects of the project.

The evaluators will apply two consecutive tests in the first stage:

**Test 1: Is the project innovative compared to state-of-the-art?**

A project is considered innovative if it consists of a first-of-a-kind commercialisation or large-scale commercial size demonstration of processes previously proven at pilot, smaller scale or large-scale demonstration plants. A second or more of a kind commercialisation can also be considered innovative in case that the relevant costs remain a significant share of total costs that prohibit commercialisation without further public support.

A proposed project activity or product is considered as innovative compared to the state-of-the-art if:

- > it differs from that normally offered by existing vendors/technology suppliers
- > it is not currently offered by multiple vendors or it is not offered as a standard product or service from a single vendor
- > its expected outcomes are innovative or distinctive compared to existing solutions
- > it is further advanced from previously conducted demonstrations.

However, this does not mean that all existing technical or business solutions are considered non-innovative, as eligible innovation may also include:

- > existing technical solution applied in one sector or in one usage field today, are applied by the project in a new sector or a different usage field
- > system integration, i.e. a combination of existing technologies not integrated today
- > a new business model for an existing technology, i.e. projects that has a business model that is able to scale up an existing technological solution further.

The following list presents examples for projects to be considered as innovative compared to state-of-the-art:

- > a new product/service that requires a new production set up/plants
- > a new product/service that requires technical adjustments in production facilities/supply chain
- > a product substitution i.e. a new product/service that eliminates the need for existing products
- > a new technology that can substitute an existing technology, or that allows the novel integrated use of existing technology
- > implementation of a known technology from one industry into another industry
- > adjustments in production facilities/supply chain that make it possible to substitute (totally or to a large extent) fossil fuel energy with renewable energy and result in GHG emission avoidance
- > a new business model.

### **Test 2: Does the project go beyond incremental innovation?**

After having evaluated whether the project is innovative compared to the state-of-the-art, evaluators test whether the project goes beyond incremental innovation.

In incremental innovation, the degree of innovation is very low as only minor changes are made to existing products, processes or business models (which result in e.g. reduction of costs or functional improvements in existing products, services or processes at low levels of uncertainty). Incremental innovation does not imply substantially new knowledge or technology. Since the Innovation Fund aims to support breakthrough innovation and projects bringing significant emission reductions, projects which are likely to deliver only incremental innovation shall be excluded.

Both tests on the degree of innovation are guided by the Commission's ambition of a climate-neutral economy in 2050:

- > The European Commission's communication - A Clean Planet for All - A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy long-term strategy (COM/2018/773 final), also referred to as the **Long-term strategy**, provides for a view on the technologies that are expected to be employed in a decarbonised European economy in 2050.
- > The **Integrated SET Plan**<sup>3</sup>, defines the new European R&I energy related agenda covering the European energy system as a whole and going beyond the 'technology silos' concept. Actions that contribute to reaching the SET-Plan implementation targets identified under the 10 actions are likely to deliver more than incremental innovation.
- > The new **Circular Economy Action Plan**<sup>4</sup>, which updates the Action Plan of 2015<sup>5</sup>, aims at scaling up the circular economy from front-runners to the mainstream economic players in order to contribute to achieving climate neutrality by 2050 and decoupling economic growth from resource use, while ensuring the long term competitiveness of the EU and leaving no one behind.

### 1.3 Project maturity

Article 11 of the Innovation Fund Regulation defines the award criterion project maturity as maturity in terms of planning, business model, financial and legal structure as well as prospect of reaching the financial close within a predefined period of time not exceeding four years after the grant award decision.

The descriptions in the application and the accompanying documentation must provide clear and solid basis for a good understanding of the projects' technical, financial and operational readiness for reaching the financial close in four years after the grant award and entering the operation shortly thereafter (e.g. in 2 to 3 years).

Applicants are required to submit, together with the application, the following mandatory supporting documents:

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<sup>3</sup> <https://setis.ec.europa.eu/actions-towards-implementing-integrated-set-plan>

<sup>4</sup> Communication from the Commission "New Circular Economy Action Plan For a cleaner and more competitive Europe", COM/2020/98 final

<sup>5</sup> Communication from the Commission "Closing the loop - An EU action plan for the Circular Economy", COM/2015/614 final

- > **Feasibility study** describing the technical standing (including the description of the TRL – technology readiness level<sup>6</sup>) and expected technology potential of the project which must include all relevant details, as known and available at the application, in particular the results of testing of the technology at preceding scale;
- > **Business plan**, describing the business model, financial standing of the applicant, and expected revenues and costs of the project, including a first rough estimate of the relevant costs, sources of financing including co-financing from other EU programmes and standing of the State aid clearance where relevant;
- > **Project implementation plan**, describing in details the envisaged project planning, its implementation milestones, their schedule, key related risks and envisaged mitigation strategy.

The assessment of project maturity criterion is structured around three sub-criteria:

- > **Technical maturity**, focusing on the evidence on the technical project design and feasibility. The description and justifications in the submitted documentation must provide a solid picture of the technical feasibility of the project, scope of the chosen technology, its operational readiness (e.g. along the TRL – technology readiness level) and environment, related known technology risks and mitigation measures proposed by applicant.
- > **Financial maturity**, focusing on the evidence on the project's business model, expected revenues and costs, financing plan and structuring, sources of financing, and overall business viability. The applicant must also describe the state of play of the commitment of potential project funders and investors or financial support of another EU programmes or a Member State if relevant and available (including description of the state of play of state aid clearance where relevant). The business plan shall also include a first rough estimate of the relevant costs in line with methodology in Annex B.
- > **Operational maturity**, focusing on the evidence on the project implementation planning, project management/team quality, project roll-out steps and procedures and required permits. The applicant shall describe the state of play and detailed planning for project implementation, including the timing for further project development, construction milestones and roll-out, state of play and strategy for permitting procedures, expected procurement and supply contracting plan and a strategy for off-take contracts with

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[https://ec.europa.eu/research/participants/data/ref/h2020/wp/2014\\_2015/annexes/h2020-wp1415-annex-g-trl\\_en.pdf](https://ec.europa.eu/research/participants/data/ref/h2020/wp/2014_2015/annexes/h2020-wp1415-annex-g-trl_en.pdf)

customers. The project implementation plan submitted together with the application must therefore address at least these elements.

At the first stage of application, the assessment of the project maturity is based on qualitative assessment of the three sub-criteria as evidenced in the application and the mandatory supporting documents.

In addition to the mandatory supporting documents, applicants are requested to disclose any relevant due diligence reports certified by a third party, if available, as part of the supporting evidence.

The following indicators are used to assess the project maturity:

Sub-criteria	Indicators	Assessment by evaluator based on information provided by applicant
<b>Technical maturity</b>	Quality of Feasibility Study	Is the project technically viable, based on an assessment of its technical scope, its operational environment, and technological risks?
	Technology / service / business model already proven to perform in a pilot scale demonstration (where available) reflecting the performance and availability levels of a larger scale project.	
	Technical due diligence report available or any other supporting technology evidence.	
<b>Financial maturity</b>	Quality of business plan and financial standing/track record of applicant	To which degree is the project financially viable i.e. fundable/bankable, based on project business plan, financial model, financial standing of applicant and commitment of other investors or public support?  Can financial support by the Innovation Fund make the project viable?  Can potential gaps in financial maturity be effectively addressed by additional project development assistance support?
	Viability of proposed project financial structure and planning; funding and revenues solidity; rough estimates of the project's total and relevant costs and how they will be covered	
	Evidence on financial support from other sources including Member States	
	Conditional final investment decision available	

<b>Operational maturity</b>	Quality of project implementation plan including the timeline for project development, construction and roll out and envisaged permitting procedures	Is the project implementation plan sufficiently developed, comprehensive and realistic? Will the project likely reach financial close in 4 years?
	Project management and applicant's operational capacity and track record	Is the project management and organisation robust, possessing the necessary skills and capacity to deliver? What is the state of preparations as regards the supply and off-take contracts? Is the project supported by the regulatory authorities?
	"Know your suppliers and customers" analysis or any other related evidence	Does the project benefits from public acceptance? Are environmental impacts during construction and operation identified and their risks assessed and mitigated, are necessary permits clearly identified and a clear strategy for obtaining them outlined?
	Evidence on permitting or other regulatory procedures	Can potential gaps in operational maturity be addressed effectively by additional project development assistance support?

The assessment determines whether the project has the potential to reach a level of maturity to be able to pass to the second stage or to be considered for project development assistance:

<b>Outcome of the assessment</b>
The project has a potential to reach financial close by 4 years since the grant agreement.
The project has the realistic potential to improve its maturity through specific Project Development Assistance.

## 2 Award criteria for the second stage

At the second stage, admissible and eligible applications shall include a detailed description of the project according to the following award criteria: GHG emission avoidance potential, degree of innovation, project maturity, scalability and cost efficiency.

### 2.1 GHG emission avoidance potential

At the second stage of application, the fulfillment of the award criterion "GHG emission avoidance potential" will be assessed based on the same sub-criteria as at the first stage (see section 1.1.1 and Annex A for more details on the calculation methodology). However, applicants will apply a more detailed methodology for the calculation of the GHG emission avoidance.

### 2.2 Degree of innovation

The assessment will build on the criteria used in the first stage but go further to assess in more depth the degree to which the project goes beyond incremental innovation:

	Indicators	Assessment by evaluator based on information provided by applicant
<b>Degree of innovation</b>	Degree to which technology / product / business model are innovative.	Degree of innovation: <ul style="list-style-type: none"> <li>• Intermediate</li> <li>• Strong</li> <li>• Very strong</li> <li>• Breakthrough</li> </ul> Check for adverse or positive effects with regards to energy efficiency, circular economy, deployments of renewable electricity, land impact and carbon removals

Building on the first-stage criteria, the assessment will focus on the impact of the innovation on achieving a climate-neutral European economy, in particular with regard to the scaling up of innovative clean technologies to commercial scale:

- > Intermediate or strong degree of innovation  
New or considerably changed technologies, processes or business models for the production or delivery of existing or new products or services.
- > Very strong or breakthrough degree of innovation  
Completely new technologies, processes or business models or completely

new products or services, which substitute existing products. Such innovation is likely to lead to significant change that transforms entire markets or industries or creates new ones and is characterised by high uncertainty.

To assess the degree of innovation of the project, the evaluators will consider its impacts across all elements of a climate-neutral economy, including the following aspects:

**Energy efficiency** is a main objective of the EU and the first building block of the Long-term Strategy. **Circularity** is a further essential part of a wider transformation of industry towards climate neutrality and long-term competitiveness. Applicants should demonstrate that their actions contribute to energy efficiency and circular economy objectives as defined in the new Circular Economy Action Plan for a cleaner and more competitive Europe<sup>7</sup>. See Annex A on GHG emission avoidance methodology for further explanation of what could constitute an action contributing to the energy efficiency and circular economy objectives.

The shift to **renewables and increased electrification** is crucial to achieve carbon neutrality by 2050. The share of electricity produced by renewable energy sources is expected to grow from 25% to more than 50% by 2030. At the same time, electricity must also be produced and delivered in sufficient quantities when there is no wind or sun. The Electricity Market Design Regulation<sup>8</sup> contributes to the EU's goal of being the world leader in energy production from renewable energy sources by allowing more flexibility to accommodate an increasing share of renewable energy in the grid, by attracting investment in resources, like energy storage, that can compensate for variable energy production, by providing the right incentives for consumers to become more active and to contribute to keeping the electricity system stable. Therefore,

- > projects that propose to use electricity from the grid are encouraged to demonstrate that they are using electricity of renewable origin and that they are adding to the renewable deployment as defined in the GHG emissions methodology (See *Annex A*);
- > projects that propose to feed electricity into the grid shall consider the relationship with the electricity market and how to match the demand of electricity from the grid.

The **EU Biodiversity Strategy for 2030 - Bringing nature back into our lives**<sup>9</sup> aims to halt the loss of biodiversity and ecosystem services in the EU and worldwide. It makes biodiversity considerations an integral part of EU's overall

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<sup>7</sup> Communication from the Commission "A new Circular Economy Action Plan For a cleaner and more competitive Europe" COM/2020/98 final

<sup>8</sup> [https://ec.europa.eu/energy/topics/markets-and-consumers/market-legislation/electricity-market-design\\_en](https://ec.europa.eu/energy/topics/markets-and-consumers/market-legislation/electricity-market-design_en)

<sup>9</sup> [https://ec.europa.eu/environment/nature/biodiversity/strategy/index\\_en.htm#stra](https://ec.europa.eu/environment/nature/biodiversity/strategy/index_en.htm#stra)



economic growth strategy. The **Bioeconomy Strategy**<sup>10</sup> aims to accelerate the deployment of a sustainable European bioeconomy so as to maximise its contribution towards the 2030 Agenda and its Sustainable Development Goals (SDGs), as well as the Paris Agreement.

- > Projects should aim at more climate-friendly land use compared to a reference scenario. This is particularly important for projects involving biomass feedstocks.

Projects that are found likely to have negative impact on the aforementioned EU policy objectives will receive less points in the evaluation.

The Long-term strategy recognises the need to develop carbon removal technologies to compensate for sectors that will not be able to reduce emissions entirely.

- > Actions that are expected to deliver **carbon removals** as proven through the GHG emission avoidance potential calculation can receive additional points in the evaluation.

## 2.3 Project maturity

The assessment at the second stage is based on thorough analysis of detailed evidence and justifications provided by the applicant, in a depth similar to the due diligence undertaken by investors or lenders. Moreover, applicants are required to provide further detailed explanations in the application, related to the project technical, financial and operational risks and related mitigation strategy, in view of project's ability to reach financial close within four years after the grant award and enter into operation shortly thereafter (e.g. in 2 to 3 years). The evaluation indicators and questions outlined in the table in chapter 1.3 are also valid in the second stage. However, the structure of the application form enables the applicant to provide detailed and more substantiated information compared to the one provided at the first stage.

Applicants are also required to update, where necessary, their mandatory business plan, feasibility study and the project implementation plan submitted in the first stage in case factual or market/business evolution of the project occurs between the first and second stage of application.

In addition to the mandatory supporting documents, applicants are requested to disclose any relevant due diligence reports certified by a third party, if available, as part of the supporting evidence. The reports should indicate in the introductory summary chapter the main risks and their mitigation strategy and the residual risks. They are also allowed to submit up to three additional supporting documents

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<sup>10</sup> Communication from the Commission "A sustainable Bioeconomy for Europe: Strengthening the connection between economy, society and the environment" COM/2018/673 final

of applicant's choice as a further evidence for the fulfillment of the project maturity criterion. These documents are taken into account during the evaluation.

The assessment is structured around three sub-criteria:

### **(1) Technical due diligence**

The assessment includes the technical design and scope of the project, its readiness and feasibility in the proposed operational environment, its technology risks and proposed mitigation measures. The assessment is based among others on the (updated) feasibility study, which should include a detailed plan for technology operation, or any other relevant technical information underpinning the application.

### **(2) Financial due diligence**

The assessment includes the financial viability and solidity of the project. The evaluators analyse in detail whether the project is fundable/bankable based on project's (updated) business plan, financial model and financing plan, its total and relevant costs as well as expected revenues and how solidly they are secured. The evaluators check whether the applicant has sufficient own resources to co-finance the investment, whether there is robust evidence of the commitment of other investors or public support (including the state of play of any state aid clearance where relevant), or any relevant investment decisions already taken or planned. The evidence should also include the description of the financial standing of contractors and their track record and credit rating of off-takers. The evaluators analyse whether financial risks of the project throughout its duration are well identified, fully understood and sufficient mitigation strategy is proposed by the applicant.

### **(3) Operational due diligence**

The assessment includes the analysis of the project's potential to reach financial close and to enter into operation shortly thereafter; based on the (updated) project implementation plan and any other supporting documents. The project market risks and solidity of contractual relations with suppliers (their track record main contractual terms), customers (solidity of off-take contracts and their main terms) or any relevant third parties important for the project construction and roll-out, and risk mitigation strategies (warranties & insurances) proposed by the applicant are evaluated. Evaluators will also assess the quality of the proposed project management and the applicant's track record.

The applicant shall also provide detailed analysis of the project's environmental impacts during construction and operation, its public acceptance, and related risks and mitigation measures. Finally, the applicant is required to describe a strategy for effective management of permitting procedures, what permits have already been obtained, and how related risks will be addressed.

## 2.4 Scalability

Article 11 of the Innovation Fund regulation defines the award criterion scalability as the technical and market potential for widespread application or replication, or future cost reduction.

The fulfillment of the scalability criterion is only assessed at the second stage. The assessment is structured around three sub-criteria:

- > Impact on the level of the project and the regional economy;
- > Impact on the level of the sector;
- > Impact on the level of the whole economy.

The evaluators assess the fulfillment of the sub-criteria for scalability based on their sector knowledge and the information provided in the application. For this purpose, the scalability both with regard to the transition phase as well as a climate-neutral economy by 2050 and beyond is taken into consideration. This allows differentiating between the project's market potential to be scaled up during the transition period and its market potential in a fully decarbonised economy as outlined in the Long-term Strategy.

Besides the project's decarbonisation potential in its own sector, the evaluators assess its potential positive impacts on broader markets e.g. at cross-sectoral level, potential to create new value chains or reinforce and diversify existing ones, such as the creation of a circular or hydrogen economy from regional over sectoral to economy-wide level.

The market potential and impact at sectoral and economy wide-level should take into account the expected market size, the extent to which the technology can be applied within the sector but also across the economy, the potential for cost reductions, the resource limitations, and its impact on the creation and strengthening of supply chains for innovative clean technologies within the EU.

Applicants are required to describe the scalability of their projects by using, to the extent possible, qualitative and quantitative indicators (e.g. number of installations where the technologies can be applied and resulting emissions avoidance) that best reflect the scalability potential of the project, and to provide explanatory text. In addition, applicants are allowed to submit up to two supporting documents.

With regard to the scalability at project level, the applicants are required to explain the plans for extension, cooperation with other actors, and the knowledge sharing strategy. The provision of a planning document related to the expansion of the project and cooperation at the regional level as well as the quality and the extent of the knowledge sharing plan will be taken into account during the evaluation.

The fulfillment of the award criterion scalability will be assessed based on the following sub-criteria and indicators:

Sub-criteria	Indicators	Assessment by evaluator based on information provided by applicant
<b>Project level and regional economy</b>	Transition (short and medium term)	Further expansion at project site, including sector coupling, cooperation with other actors of the regional economy, strategy on knowledge sharing.
	Climate-neutral economy (long-term)	
<b>Sector</b>	Transition (short and medium term)	Expected emissions avoidance at sector level, taking account of supply and demand conditions, such as expected cost reductions and resource constraints.
	Climate-neutral economy (long-term)	
<b>Economy-wide</b>	Transition (short and medium term)	Expected emissions avoidance across economy, taking into account the results of the assessment of the sector and expected emissions avoidance in other sectors of the economy.  Impact on competitiveness and supply chains within EU.
	Climate-neutral economy (long-term)	

## 2.5 Cost efficiency

Article 11 of the Innovation Fund regulation defines the award criterion cost efficiency as efficiency in terms of the relevant costs of the project minus any contribution to those costs from the applicant, divided by the total projected amount of greenhouse gas emissions to be avoided in the first 10 years of operation.

Article 5 of the Innovation Fund regulation defines the relevant costs as the additional costs that are borne by the beneficiary as a result of the application of the innovative technology related to the reduction or avoidance of the greenhouse gas emissions.

Article 5 further clarifies that the relevant costs have to be calculated as the difference between the best estimate of the total capital expenditure, the net present value of operating costs and benefits arising during 10 years after the entry into operation of the project compared to the result of the same calculation for a conventional production with the same capacity in terms of effective production of the respective final product. Where conventional production does

not exist, the relevant costs have to be calculated as the best estimate of the total capital expenditure and the net present value of operating costs and benefits arising during 10 years after the entry into operation of the project.

The calculation of relevant costs is fundamental to the calculation of the maximum grant amount, which, in line with the fourth sentence of the third subparagraph of Article 10a(8) of the EU ETS Directive, cannot exceed 60% of the relevant costs.

In case that the contribution by the applicant – be it from private resources or public support – exceeds 40% of the relevant costs, applicants are encouraged to request less than the maximum grant amount derived from the relevant cost calculations to improve their scoring in the cost-efficiency criterion.

For the purpose of calculating the relevant costs, the applicants are requested to follow the methodology provided in *Annex B*.

The fulfillment of the award criterion is assessed based on the cost efficiency ratio that is defined over a range from 0 EUR / t CO<sub>2</sub>-eq. to 600 EUR / t CO<sub>2</sub>-eq.:

	Indicators	Assessment by evaluator based on information provided by applicant
<b>Cost efficiency ratio</b>	<p>Relevant costs of the project minus any contribution to those costs from the applicant, divided by the total projected amount of greenhouse gas emissions to be avoided in the first 10 years of operation [EUR / t CO<sub>2</sub>-eq]</p> <ul style="list-style-type: none"> <li>• 0, if cost efficiency ratio &gt; 600 EUR / t CO<sub>2</sub>-eq</li> <li>• <math>10 - (10 \times (\text{cost efficiency ratio} / 600))</math>, if Funding cost per GHG emission avoidance &lt; 600 EUR / t CO<sub>2</sub>-eq</li> </ul>	<p>Quantitative assessment.</p> <p>Assessment of the quality of the calculation. In case of poor quality, the evaluator can reject the proposal, reduce the points, or correct the calculation.</p>

Applicants are required to submit audited statement on the calculations of the relevant costs. The evaluators also assess the correctness and the quality of the calculations. In case of manifest errors, applications are rejected. If doubts with the robustness of the calculation, including the reliability and margin of uncertainty of key parameters, the score may be reduced. If errors are of a clerical nature and can be corrected, the evaluators will recalculate and advise INEA to take this the correct result into consideration when preparing the grant agreement.