



## World Wind Energy Association

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### **Abrupt Introduction of Renewable Energy Auctions threatening Pakistan's Renewable Energy market**

The talks of introducing RE auctions/competitive bidding have been doing rounds in the policy circles of Pakistan for some time now. National Electric Power Regulatory Authority, in its call for intervention to announce a new wind tariff, has asked for whether to determine a new upfront tariff or a benchmark levelised tariff for competitive bidding.

WWEA is concerned in general about the current international trend towards auctions as this tool has not yet proven to contribute to accelerated cost reduction nor to accelerated renewable energy deployment. Rather the opposite, the introduction of auctions seems to reduce competition by reducing the variety and number of participants in the market. In particular smaller, domestic and local investors and communities investing in renewable energy are systematically discriminated by most auction systems as they cannot afford to take the risks usually involved in bidding processes. However, particularly in developing countries, such smaller investors do create substantial additional value for their community and for their country as these type of investors, different from international corporations, typically re-invest their profits in the local or national economy.

All such trends must be analysed carefully before fundamentally changing the current legislation in Pakistan. The main question arises here: how would auctions mechanism effect the wind power market and the wind power sector of Pakistan, especially if introduced immediately? In addition, there are technical requirements which need to be in place before an auction system can start – while the implementation of the FIT can be done easily.

With regard to the impact of auctions, WWEA sees that their instantaneous implementation could be detrimental, particularly, in five ways to the wind industry in Pakistan which took ten years to gain momentum. Firstly, it favours experienced and big investors hence, marginalising local and small developers. Secondly, it would negatively impact domestic finance, which already plays a limited role in wind power project development in Pakistan, by further reducing it. Thirdly, it could have adverse effects on projects which are at different stage of their development without compensating them. Fourthly, it can be costly for both organising agency and participants. Availability of finance is already a challenge to the wind market growth in Pakistan. Lastly, it could force investors to use substandard and unreliable equipment which does not allow full utilization of wind resource.

Recent bidding by Pakistan Power Infrastructure Board (PPIB) for Regasified Liquefied Natural Gas can be quoted as an example where lack of preparation for structuring, transactions and project risks attracted very few investors and bids were higher than expected. To avoid this kind of situation in the future, government must come up with a judicious plan by taking all relevant stakeholders on board and formulate a comprehensive policy on RE . These policies should also cover other areas which are still detrimental for the renewable energy sector in the country. With regard to the costing aspect, WWEA recognises and understands the concerns that power prices should be kept as low as possible. This objective must still allow investment in power generation infrastructure in order to fill the existing generation gap.

WWEA suggests that instead of a complete change in the support system, government of Pakistan should consider to start a dialogue with the renewable energy sector in the country on how and how far the current FIT could be adjusted and overall cost reduced. For this purpose, WWEA is willing to play an active role and collect further input from the private sector. A dedicated event could be arranged in which all relevant stakeholders, from public as well as from private sector, come together to explore such options and get a better mutual understanding.

Previous two studies analysing wind market growth in Pakistan, published by WWEA, figured out barriers to growth and proposed policy solutions to overcome those barriers which are still relevant. It was suggested that the government should mobilise financial resources for grid construction and reinforcement including new funding streams through the Green Climate Fund; standardize operating procedures in government agencies and enforce them; ensure applicability of incentives and keep them unchanged for 3-5 years; address capacity building needs of government officials through engaging bi and multilateral partners. One positive trend which WWEA has observed is that the access for finance has improved, when we compare the situation of 2014 and 2015. However, this is due to the fact that the financing institutions and the investors themselves have become familiar with the support schemes. Changing this fundamentally would create an uncertainty worse than that of five years ago when investors were struggling with uncertainties how to implement the existing framework and there was practically no investment in wind power in Pakistan.

To address lack of institutional capacities in both public and private sectors, WWEA, in cooperation with Alternative energy development Board and Heinrich Böll Stiftung, Pakistan, is implementing a project. A policy paper, discussing in detail the capacity building requirements and overcoming lack of capacities in the areas of RE integration, better understanding of RE cost and tariff determination and financial modelling techniques, will be published in October 2016 followed by a training workshop with the help of multilateral institutions in November 2016.

Yours sincerely,



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