

Source: Kathmandu Post; 10 March, 2014

## HIDCL gets into gear, signs Rs 2b loan deals

Hydroelectric Investment and Development Company Limited (HIDCL) has been gradually moving towards making investments in [hydropower](#) projects two and a half years after its establishment. The state-owned company was set up to generate resources and invest them in [hydropower](#) development amid a crippling power crisis in the country. So far, it has signed agreements with four [hydropower](#) projects to provide them consortium loans by working with other banks and financial institutions.

Among the projects in which the company is putting money are the 42 MW Mristi Khola, 30 MW Khani Khola, 27 MW Dordi Khola and 23.5 MW Solu Khola projects. HIDCL is making a total outlay of Rs 2.06 billion.

“We are holding negotiations for possible investment in two other projects with capacities of 24 MW and 25 MW,” said Deepak Rauniyar, chief executive officer of the company. “A consortium led by Prime Bank and

Nepal Investment Bank are preparing to lend to those two projects,” he added.

As it is a new company with no experience in [hydropower](#) development and investment, Nepal Rastra Bank has told it to invest in [hydropower](#) projects only in consortium with other banks and financial institutions for the time being. So it has been lending to projects where there is already a consortium of banks ready to invest in the project.

Meanwhile, HIDCL is also handling the lending arrangement for the US\$ 40 million provided by the World Bank to a 37.6 MW project being developed by Butwal Power Company. It holds a 14 percent stake in PTCN, the company which is building and managing the cross-border transmission line on the Nepal side.

“There is growing demand for investment from us, but we only invest in projects which we find feasible and provide good returns,” said Rauniyar.

The Mristi Hydropower Project in Myagdi is the first scheme which HIDCL has pledged to finance. Its rate of return on

equity has been projected at 24.04 percent.

HIDCL has promised to provide 23.26 percent of the loans in the Nabil Bank-led consortium. This is equivalent to Nabil’s committed investment. Nepal Investment Bank, Nepal Bank, Laxmi Bank, Siddhartha Bank and Ace Development Bank are the

other consortium partners for this project.

Dolakha-based Khani Khola project’s return on equity has been projected at 35.52 percent and Prime Bank is the leader the consortium financing this project. Prime and HIDCL each have promised to invest an amount equal to 19.23 percent of debt financing. Other lending partners are Civil Bank, Century Commercial Bank, Machhapuchchhre Bank, Siddhartha Bank, Global IME Bank, Nepal SBI Bank and Siddhartha Development Bank.

Lamjung-based Dordi Khola’s return on equity has been projected at 18.29 percent. The leader in the consortium financing is Prime Bank. It will have a 26.6 percent stake among the consortium partners while Nabil Bank and HIDCL each will have a 16 percent stake. Commerz and Trust Bank, Civil Bank, Machhapuchchhre Bank, Nepal Credit and Commerce Bank and Siddhartha Bank are the other consortium partners.

Likewise, Solu Khola, which is one of the super six projects that received a construction licence on free competition basis, is receiving loans from Laxmi Bank, HIDCL, Nepal Investment Bank, NMB Bank, Everest Bank, NIC (Asia) Bank, Bank of Kathmandu, Machhapuchchhre, Civil Bank, Janata and Commerz and Trust Bank. Here, Laxmi Bank is the leader of the consortium and it will provide 13.03 percent of the total lending while HIDCL will have a 6.51 percent stake. The project is being built in Solukhumbu district.

As far as Kabeli is concerned, the World Bank is providing US\$ 40 million through HIDCL where it will have the responsibility of lending the money, managing the funds and reporting the project's progress.

"We are not charging any fee for managing the funds, but a certain percentage of the cost of human resources will be made available," said Rauniyar. As Kabeli will be getting the loan in US dollars at the labour rate of 2 percent (the interest rate fixed in the London money market by the London Bankers' Association and which works as the global standard), it will have to bear the risk of fluctuations in exchange rates.

Rauniyar said that HIDCL had been asked informally to invest 1 percent of the local component, but negotiations on the matter have not taken place. The project is located in the border region of Panchthar and Taplejung.

Besides investing in [hydropower](#) projects, the company also plans to finance transmission lines if viable proposals are submitted. Rauniyar said that the company was working to bring international investors into the [hydropower](#) sector by creating private equity firms.

source: karobar; 10 March, 2014

## **PDA with Upper Karnali within a month**

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The Investment Board (IB) is set to sign Project Development Agreement (PDA) with the promoter of Upper Karnali Hydropower Project, GMR Energy Limited of India, within a month. It will be easier for other projects to move forward after signing PDA for this project.

IB plans to sign the PDA within a month as the two parties are near agreement on the majority of issues, according to Chief Executive Officer of IB Radhesh Pant, while Finance Minister Dr Ram Sharan Mahat has also stated that it will be signed within a month. “The issue of tax discount will also be resolved now. There is no problem to sign the agreement within a month,” Pant said. He reasoned that it will be easier to sign PDA with promoters of other projects like Arun III and Upper Marsyangdi II as Upper Karnali will provide the breakthrough.

The Upper Karnali project is being developed in build-own-operate-transfer (BOOT) model. GMR has already guaranteed 39 percent free stake to Nepal providing 27 percent of free equity and 12 percent of free electricity after the project is completed. GMR will provide free energy of 109 MW—building a project of that capacity costs around Rs 11 billion—to the government from the 900 MW project that will cost over Rs 100 billion. GMR and Italian Thai Development Company Limited (ITD) of Italy have jointly invested in the project. GMR Energy Limited of India is looking to sell its 49 percent stake in the Upper Karnali Hydropower Project to Electricite de France SA (EDF). The two companies are currently holding discussions for transfer of ownership. The International Financial Corporation (IFC) under the World Bank has also showed interest to invest in it. IFC has already signed a memorandum of understanding (MOU) to invest in Upper Marsyangdi II (600 MW) project, also being developed by GMR.

The Finance Ministry has also made preparations to provide tax discounts for four big projects to be constructed with foreign investment. The ministry has expressed commitment to take initiative to address the issue after the foreign promoters during talks with IB for signing PDA demanded discounts on income tax, value-added tax (VAT), and customs duty. The new government has taken initiative for tax discount for these projects with a combined installed capacity of 3050 MW. IB says the government should soon

make decisions on the discounts on income tax, customs duty and VAT as it has to be documented in PDA.

Similarly, the contradictory acts related to royalty and bonus also need to be integrated. Ministry officials state that the act should be amended for income tax discount through the parliament even though customs duty discount can be provided. The ministry is thinking about the alternative way for VAT discount as it cannot be provided directly and has to be done through grant or refund. The task force formed under Joint Secretary at the Energy Ministry Keshav Dhvaj Adhikari has already prepared report about the alternatives for VAT discount.

GMR and other promoters have demanded that the current income tax provision should be maintained and VAT discount be provided on cement, rods and other construction materials. A study by IB also showed that the internal rate of return of promoters will rise by three percent by merely providing VAT discount on materials for civil construction. There is also problem in forming the basis for income tax as the law has not spoken anything about the issue of income tax discount after 2019. The government has provided full waiver of tax for 10 years and half discount for five years for the projects that will be finished by 2015. While the projects that will be completed four years later will be given complete waiver for seven years and half discount for three years.

The Nepal Electricity Authority (NEA) has also offered to buy electricity from the export oriented projects during the winter. It has determined the base price to buy it at Rs 10.60 per unit during the winter.

Source: karobar; 11 March, 2014

## CWE proposes dialogue for West Seti

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The CWE Investment Corporation of the China Three Gorges Corporation has proposed for dialogue after finding the reservoir based 750 MW West Seti Hydropower Project financially lucrative.

“It has proposed dialogue sending a letter after the financial and technical reports have come positive,” Chief Executive Officer (CEO) of the Investment Board (IB) Radhesh Pant said. “We are confident that the project will be constructed in time as CWE is positive about taking the project forward,” he added and revealed that the financial analysis of the project will be revealed soon. Joint Secretary of IB Mukunda Prasad Poudel said the date and place for dialogue have yet to be decided. He revealed that CWE has raised the issues of PPA, transmission line for the project, and resettlement of the affected locals and land acquisition. The estimated financial analysis of CWE states that the rate of PPA should be 5.40 cents during the rainy season and 9.50 cents during the dry season for the project to be financially lucrative. The rates are lower than that determined by the government.

CWE has concluded that the annual inflation should be three percent, and loan period 18 years out of which six years have to be grace period for the project to be financially viable. Agreement on the issues including PPA will be decided only through a bilateral dialogue despite CWE completing financial analysis. The Nepal government, meanwhile, is determining a rate of return of 18 percent for the promoters of reservoir based projects. A report prepared by the Ministry of Energy has proposed that the rate of PPA for reservoir based projects during the dry season five years later should be 10.66 cents.

The Memorandum of Understanding (MOU) states that CWE will help in construction of transmission line but the Nepal government should invest in it. Stating that resettlement of affected locals and land acquisition will be challenging it has proposed that the Nepal government should lead the processes. Its technical proposal states that constructing the transmission line will cost around US\$ 404.80 million. CWE and IB had signed an 18-point MOU at the end of August incorporating the directives of the then parliamentary committee on natural resources and means. The Snowy Mountain Engineering Corporation (SMEC) of Australia had estimated the cost of the project to be US\$ 1.60 billion excluding construction of transmission line around 17 years ago. The project will be built in Public Private Partnership (PPP) model. The locals will be provided up to 10 percent shares in the project that will have 65 percent shares of CWE and 25 percent of Nepal government, according to the MOU. The MOU further states that study will be started to make the project multi-purpose without affecting electricity generation and returns, and making

arrangements for resettlement of the locals who will be displaced as per the prevailing laws and paying attention to the humane and security aspects.

IB will assist in security, getting government permission, land acquisition, resettlement, and environmental impact assessment (EIA) for the project that will be built in Doti, Dadeldhura and Bajhang districts of the far west region. The project's 150 MW energy will be spent in economic development of the far west region and a joint company will be established for construction of the project as per the MOU.

Source: The Kathmandu Post; 12 March, 2014

## 3 design options given for 600 MW Budhi Gandaki

A [French power consultant Tractebel Engineering](#) has proposed three different design options to build the planned reservoir-type Budhi Gandaki Hydropower Project in Dhading.

In a report submitted to the Budhi Gandaki Hydropower Project Development Committee on March 1, the consultant to the 600 MW project has suggested design options consisting of damsite powerhouse, short tunnel and long tunnel.

The committee said that it would select one of the designs within the third

week of March and proceed to conduct a detailed project report (DPR).

Under the first option (damsite powerhouse), the powerhouse will be constructed alongside the dam. The report has stated that the powerhouse should be around 2 km downstream from the damsite and above a place where the Budhi Gandaki joins the Trishuli.

Under this option, a regulating dam will be constructed to control the flow of water during power generation during peak hours. As per the report, if the project is constructed under the first option, it will take at least 77 months to be completed.

The two dams will be linked by a tunnel where one more sub-project can be constructed. However, a study on the cost of the sub-project and its capacity has not been conducted.

Under the second option (short tunnel), the powerhouse will be constructed at Benighat which is 1.5 km downstream from the dam. Under this option, the project will take at least 71 months to be completed. As per the third option (long tunnel), the powerhouse will be built 8 km from the dam at Fisling.

“We will select one of the three options after which the DPR process will start,” said Laxmi Prasad Devkota, executive chairman of the committee.

The consultant company has suggested constructing a sub-project while implementing any one of the three options. “So far, the first option seems to be the best one. The consultant company is also of the same view,” Devkota said.

The report has mentioned that if the height of the dam is increased from 520 m to 540 m, the plant’s capacity can be increased from 600 MW to 630 MW. The project capacity can be increased to 945 MW by upgrading the dam, the report said.

“The inundation area will not increase much if we increase the height of the dam,” said Devkota. “The cost, however, will increase.”

The report said that if the project is developed with a capacity of 630 MW, the cost of the project would be around Rs 209 billion. On this basis, the project will be able to generate 2,430 GW per hour on average per year, and the electricity generation will cost Rs 6.33 per unit.

If the project is constructed with a capacity of 945 MW, the cost will increase by Rs 14 billion to Rs 223 billion.

The plant will generate 2,524 GW per hour on average per year. However, the cost of the electricity generation is not stated.

Devkota said that even if the capacity is increased, there won’t be much increment in energy generation. “However, if we need more electricity during peak hours, it would be better to go for a capacity of 945 MW.”

According to him, if the project is built with a capacity of 630 MW, it will be easier to upgrade it to 945 MW in the future.

Devkota said that a decision would be taken on which model to follow after going through wide consultations with the Ministry of Energy, experts and other concerned stakeholders.

The committee has been given eight months to conduct the DPR after finalizing the design options. Devkota said that the tendering process will be completed within nine months after the completion of the DPR.

Source: Karobar; 13 March, 2014

## **India may not buy electricity only in rainy season**

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### **" NEA and many projects may be affected "**

The Power Trading Corporation (PTC) India Limited has hinted that it will not procure electricity from Nepal only during the rainy season.

PTC has showed such intent after Patel Energy Resource of India proposed to sign power purchase agreement (PPA). Patel Energy is preparing to develop 130 MW Budi Gandaki A and 260 MW Budi Gandaki B through Naulo Nepal Hydroelectric Company. Patel Energy had proposed to sell electricity to PTC after the Nepal Electricity Authority (NEA) refused to sign PPA. "PTC during discussions expressed intention to not procure electricity only during the rainy season. It has hinted to buy only if it is supplied round the year," manager of the project Ananda Chaudhary said. He, however, clarified that PTC has not made written response to that regard. "We have found that it is not in mood to buy electricity only in one season," he added and reasoned that PTC may have hesitated as the rate of electricity in India during the rainy season is low.

The attitude of PTC is not set to affect just Patel Energy but NEA and others who wish to sell electricity only during the rainy season. "The promoters exporting to India must look for alternatives. There is also need for power trade agreement (PTA) between the two countries," he opined. But India has not agreed to sign PTA though Nepal has been proposing since four years. There are also other companies for mediating power trading in India including Tata, Bihar Electricity Board, Uttar Pradesh Board and others apart from PTC. He claimed that other companies may agree to buy even if PTC were to refuse.

Many export-oriented projects will face problems if electricity cannot be sold only during rainy season. Promoters of five projects have proposed to sell electricity to NEA during the five months of dry season and are depending on export to India for the rest of the year. He expressed fear that it has raised possibility of the projects not being constructed at all. Banks and financial institutions invest on projects only after signing PPA.

Only five projects with combined installed capacity of 1724 MW have submitted proposals when NEA had sought proposals from export-oriented hydroprojects to address the energy demand during the dry season six years from now. Over two dozen foreign promoters have taken license for construction of hydropower projects in Nepal but big renowned companies have not showed interest.

Proposals have been submitted by 440 MW Tila I and 420 MW Tila II, developed jointly by KSK Energy of India and SC Power, Nepal, 282 MW Manang Marsyangdi, 182 MW Upper Marsyangdi, and 400 MW Lower Arun to be developed by Brass Power, Brazil. They have demanded that PPA should be signed to buy electricity in US dollar until completion of the payback period.

NEA, on the other hand, has projected that around 800 MW of electricity will be wasted after 10 in the night to six in the morning from the rainy season of 2018 even though load-shedding will continue during the dry season as almost all the projects are run of the river (ROR) types. NEA has projected that electricity will be wasted for six months during the rainy season even though demand were to rise to 2000 MW after four years. But NEA is not looking for a market even though such a huge quantity of electricity will be wasted. Nepal is currently importing 200 MW from India to limit load-shedding to 12 hours a day.

NEA has already determined a base rate for the first time to procure electricity from export-oriented projects at up to Rs 10.60 per unit during five months of the dry season (December to April). Such base rate has been set for the first time by NEA.