The Rising Nepal

Power Trade With India: A Long Way To Go

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India is indeed a big market in South Asia. Many foresee that once there is sufficient electricity generation in Nepal and cross boundary transmission interconnections, it will become an electricity exporting country to India and other South Asian countries, mainly Bangladesh. Then, Nepal will start earning good revenue, and subsequently the trade deficit will improve. But the billion dollar question is: Is it that simple?

Marginal power exchange

Power exchange (not power trade) has been practised between Nepal and India for a long time. It was in 1971 that power exchange first began between the two countries. Power exchange is taking place at more than 20 interconnection points at different voltage levels. But power exchange between the two countries is, still, marginal, which still does not allow it to go on a commercial scale.

According to the Nepal Electricity Authority (NEA) annual report, Nepal imported 1369.89 GWh (~224.41 MW) from India and exported barely 3.21 GWh to that country in 2015. Power exchange (or trade) is presumably considered to be constrained by inadequate transmission infrastructure between the countries. Is that the only reason? If India had seen Nepal as an attractive electricity market, would India not have initiated investing in sufficient transmission networks in Nepal a long time back?

Many hydropower developers are of the opinion that the lack of an umbrella power trade agreement between Nepal and India also poses considerable constraint. Political analysts are of the view that a lack of political will also adds to this issue. Many perceive that the reason is more political than technical or economical.

Nepal has undergone a long political transition. There was an absence of an elected and strong government in Nepal for a long time to initiate any meaningful dialogue with India on power trade. There is no doubt that energy trade with India is necessary in the short term to lessen the on-going power shortage, and in the long term, to earn revenue from it.

The possibility of cross border trade in electricity is mainly constrained by the cost of electricity. Electricity like any other commodity in the market should be cost effective to get a sizable market share in any business environment. Both, in the domestic and external market, the present electricity price is relatively on the higher side. Nepal's electricity prices are certainly not competitive compared to other South Asian countries to secure a competitive market advantage. Rather, they are in the mid- or high range. If further transmission charges are to be added on to the existing electricity price, then the electricity price will hardly become competitive to meet the Indian base load demand.

NEA earned 25.64 million Nepalese rupees from selling of 3.21 GWh electricity to India in 2015. From this figure, NEA is selling electricity at the rate of 7.98 Nepalese rupees per kWh to India whereas NEA's average power purchase rate is 7.52 Nepalese rupees for the same year. The average electricity tariff in India is difficult to obtain as different rates are applicable to different states and also depending on the different consumer groups with different power slabs.

For example, the lowest domestic tariff rate is 4 Indian rupees (6.40 Nepalese rupees) per kWh for baseline consumers and 5 Indian rupees (8 Nepalese rupees) for the consumers using more than 501 kWh in Utter Pradesh. Likewise, the lowest domestic tariff slab is 2.85 Indian rupees (4.56 Nepalese rupees) in Bihar, whereas the maximum is 5.3 Indian rupees (8.48 Nepalese rupees) for the consumers using more than 301 kWh.

In addition, the volume available for export and the reliability in supply also determine the feasibility of electricity trade. Unless Nepal has a certain volume of electricity for reliable export, entering into the Indian power market won't be viable and cost effective. The volume available so far from hydropower generation appears to be uneconomical to export from Nepal, especially in supplementing the peaking electricity demand in India.

Another important factor is that Indian electricity regulator's confidence in electricity trade with Nepal is still not clear. There are many regulatory issues which the Indian regulator should make clear to the Indian buyers.

Umbrella power trade agreement

In conclusion, for enhancing the power trade with India in a long-term sustainable manner, an umbrella power trade agreement with India and sufficient transmission lines are a pre-requisite. However, the real feasibility is determined by the price of the electricity that is to be paid by the buyers from India at competitive market rates for meeting their base load or supplementing their peaking demands. It is not only the government but also all the hydropower developers that should find a way to make the cost of electricity competitive to achieve full market benefit. Under the present regime, there is only possibility to have power exchange based on some political decisions, but not power trade based on market principles.

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Source: The Kathmandu Post; 25 April 2016

Locals demand revision of power line alignment

Kabeli corridor project

LABDEV DHUNGANA

Panchthar district headquarters—have objected the proposed alignment of transmission lines under the Kabeli Corridor Project, a high-priority electricity project under survey.

According to the plan, the transmission lines will pass through four wards—4, 5, 7 and 9—of Phidim municipality.

A stakeholder committee formed by 67 houses in the area dissented from the plan, saying their lands in district headquarter would be devaluated as people don't want to buy the covered by the transmission line.

The committee has warned of protests if the alignment is not modified. "This does not mean that we are against development," Jay Prasad Rijal, the committee's chairman, said. "We will launch protests if existing alignment s not changed."

Not only the transmission line, hydropower projects in the district are also facing problems due agitating locals. The 14.9MW Kabeli A Hydropower project is facing difficulties to complete its construction due to various demands put forth by the locals. Earlier, the locals had demanded rural electrification and road construction. An agreement to support local development was signed before the works started.

Puspa Jyoti Dhungana, executive director of the hydro project, said the locals have already received support worth thousands, but they continue to come up with new demands.

A suspension bridge built by British welfare was relocated five meter downwards to build a dam. The bridge was later damaged by a landslide. However, the locals are demanding reinstallation of the suspension bridge in the previous location. "The damaged bridge will be immediately repaired if the locals stop obstructions," Dhungana said.

The local administration has also filed charges against some locals amid increasing reports of violence in line with the conflict. The locals argue the projects like Hewa A, B, Kabeli Corridor and Kabeli B undermined indigenous communities' rights.

Meanwhile, the project promoters have accused locals of creating obstructions by putting forth unreasonable demands.

Mountain Hydro Company's Ganesh Subba blamed "wrong policies of the government" for the situation despite the project promoters' efforts to take country towards economic prosperity and root out load shedding. "Rural areas have seen different development projects supported by hydropower construction," Subba said. "The hiatus is a result of repeated demands made by locals."

Obstructions occur because of vested interests of parties and politicians, experts said. Time and again, the locals have also started conflicts in line with personal interests of political leaders.

According to pro-project stakeholders, the conflicts only end after the completion of road, electricity, water and bridge projects.

"Some issues persist because of uninformed locals, while others cause obstructions despite a clear understanding," Puroshottam Ghimire, chief district officer said. "All necessary discussions should be made before operating projects to ensure transparency."

Discussions are being held at the local administration to resolve the conflicts, Ghimire added.

Source: The Kathmandu Post; 26 April 2016

Protest delays allotment of Upper Karnali shares

BIBEK SUBEDI

The government has been putting off allotting shares of the Upper Karnali Hydropower Project to locals that will be affected by its construction due to strong opposition from regional political leaders including a cabinet minister, sources said.

The 900 MW project spread across Surkhet, Achham and Dailekh districts in western Nepal will displace about 239 households.

Last January, the Energy Ministry had presented a proposal to the Cabinet to issue shares worth Rs1.6 billion to locals as per the recommendation of Investment Board Nepal (IBN). The shares will be allocated from the 27 percent stake that the government is getting from GMR India, the project's builder.

As per the Project Development Agreement (PDA) signed between IBN and India's GMR-ITD Consortium, the Nepal Electricity Authority (NEA) will get 27 percent of the shares and 12 percent of the electricity generated free of cost. Sources said the Cabinet was undecided due to objections from a cabinet minister.

Those against issuing shares to locals say that it will diminish the NEA's say in the project as its stake would fall below 25 percent.

"A cabinet minister from the region is of the view that if shares worth Rs1.6 billion are allotted to the local people, the NEA's equity holding will drop below 25 percent, leaving it without influence in decision making," said an IBN source. "The minister also fears that GMR-India will buy back the shares from locals allowing it to increase its holdings to more than 75 percent and run the project unilaterally by passing special resolutions."

According to Company Act 2006, a shareholding of 25 percent or less is considered as a minority holding, and the holder of 75 percent or more of the shares has the right to pass special resolutions.

Section 83 of the act states that special resolutions can allow a company to make crucial decisions like increasing the authorized capital, decreasing or altering the share capital, altering the name or main objectives, amalgamating one company with another and issuing bonus shares, among others.

Meanwhile, IBN sources said that there was no need to worry about such unilateral decisions because the PDA signed with GMR protects the NEA's rights regardless of the size of its shareholding.

Meanwhile, the parliamentary Agriculture and Water Resources Committee has directed the government to immediately approve the Energy Ministry's proposal regarding the number of shares to be allotted to locals.

According to committee chairman Gagan Thapa, issuing shares to locals will keep them happy and help prevent possible disruptions at the local level. Sources at the Prime Minister's Office said that the share allotment proposal will be discussed at the next Cabinet meeting.

According to IBN, shares will be issued to locals after the project is completed. "As the project will provide jobs to more than 2,000 locals, they will be able to purchase the shares from their own earnings," said the IBN source. "Also, the government will come up with some mechanism enabling locals to buy the allotted shares."

The Upper Karnali project is targeted to be completed by 2021 at an estimated cost of Rs145 billion. It will acquire 48.85 hectares of private land and 207.75 hectares of government-owned land. An estimated 239 households will be affected.