

Source: Kathmandu Post 3 January, 2014

GMR refutes news, says it is not exiting from upper Marsyangdi-2 project

The Indian Construction Company, GMR, has reiterated its commitment to build the [Upper Marsyangdi-2 Hydropower Project](#) .

GMR stated in a press release on Wednesday that it has recently executed a Joint Development Agreement (JDA) with the International Finance Cooperation (member of World Bank Group) for inducting them into Upper Marsyangdi Hydropower Project only, which is an important step towards implementing the project in an accelerated manner.

Through the press release it also refuted the news disseminated from different Indian media about the GMR's depart from the project was just a speculation. The press statement reads, "The news appearing in the media about our exiting from the Upper Karnali Project is totally unfounded and any news other than this is a matter of speculation and we do not want to comment on such speculation."

Source: The Himalayan Times 3 January, 2014

PDA negotiations on Upper Trishuli-1 to begin on January 14

Kathmandu, January 1

Himalayan News Service

The project being developed by NWEDC is estimated to cost around \$550 million

Negotiations on signing of a crucial agreement required for development of the \$550million Upper Trishuli-1 hydroelectric project will begin within the next two weeks.

The Ministry of Energy will start holding talks on drafting the project development agreement (PDA) with Nepal Water and Energy Development Company (NWEDC), the developer of the 216MW hydroelectric project, from January 14.

"We hope to conclude the negotiations within March following which contractors will be hired to begin construction works," NWEDC liaison manager Pradeep Gangol said.

The PDA is a crucial document for developers of hydro projects as it sets out obligations of the government as well as project developers and protects the interests of both the parties until projects developed under Build, Own, Operate, Transfer (BOOT) model are handed over to the government. Financial institutions in the country and abroad extend loans to build hydro projects based on content of the PDA.

"By the time PDA negotiations are complete, we hope to sign power purchase agreement with Nepal Electricity Authority as well," Gangol said. "Then in April we are planning to officially hand over engineering, procurement and construction, and operation and maintenance contracts."

NWEDC obtained the survey licence for the run-of river type Upper Trishuli-1 project in January 2006.

"We then submitted the survey report within the stipulated five-year period while applying for generation licence, but the government said some of the documents were missing, which created a delay," Gangol said.

The project then got dragged to court, with filing of a public interest litigation that sought revocation of the survey licence issued to the project developer claiming the company had failed to come up with a survey report within the deadline.

The Supreme Court, in August 2012, then ruled that

there was no need to issue a stay order in the case, which paved the way for the project developer to continue its work. Then in October 2012, the government signed the contract agreement with NWEDC, which paved the way for commencement of PDA negotiations.

However, PDA negotiations could not begin due to a controversial provision in the government's PDA Working Procedure issued in January that made it mandatory for shareholders to show net-worth equivalent to 50 per cent of their stake in the project.

Although the provision did not affect foreign investors, it troubled Nepali investors, as they could not show possession of properties worth hundreds of millions of rupees. The government in October changed the condition, allowing shareholders to show collective net worth equivalent to only 25 per cent of their share in the project.

Following this, the government renewed the contract agreement with project developer in November.

However, another public interest litigation has recently been filed at the Supreme Court demanding that the government roll back its decision to renew contract agreement as 'the apex court is yet to deliver final verdict on case filed in August 2012'.

"Despite these hurdles, we have been meeting most of the deadlines set by the government," Gangol said. As of now, NWEDC has completed environment impact assessment study, completed detail design works, started constructing 15km access road at a cost of \$19 million, started carrying out initial environmental examination to build transmission lines, and signed connection agreement with Nepal Electricity Authority.

The project is 50 per cent owned by South Korea's state-owned Korea South East Power Company. Likewise, South Korea's Daelim Industrial Company and World Bank's International Finance Corporation own 15 per cent stake each. The remaining 20 per cent stake is equally owned by Kyeryong Construction Company and Nepali investor Bkesh Pradhananga.

Source: The Himalayan Times January 3, 2014

PDA negotiations on Upper Karnali hydro project 80pc complete

Negotiations on Project Development Agreement (PDA) with developers of 900MW Upper Karnali hydropower project is almost 80 per cent complete, with deals on financial and local benefit packages remaining to be concluded.

"If we move ahead at this pace, we will sign the PDA with developers of Upper Karnali project within a few months," joint secretary at the Investment Board Nepal, which is leading the negotiations on behalf of the government, Mukunda Prasad Poudel said.

PDA is a crucial document for developers of hydro projects as it sets out obligations of the government as well as project developers and protects interests of both the parties until projects developed under Build, Own, Operate, Transfer (BOOT) model are handed over to the government. Financial institutions in the country and abroad extend loans to hydro projects based on the content of the PDA.

"Once the PDA is signed, construction work will begin immediately," he said.

The Upper Karnali project is being developed by a consortium comprising GMR Energy, GMR Infrastructure and Italian-Thai Development Project. Although it is an export-oriented project, the project developer is giving away 12 per cent of power generated by the project and 27 per cent stake in the company that is building the project free of cost to the government. Also, the project has to be handed over to the government for free within 30 years of the date of commencement of power generation.

"Despite these advantages, we have not been able to conclude PDA because of the delay in striking a deal on the financial package presented by the company," Poudel said. The bone of contention here, according to Poudel, is the demand by the project developer on income tax concession.

As per the Financial Ordinance, companies involved in commercial hydropower generation and distribution need not pay income tax for the first 10 years from the date of commencement of power generation and need to pay only 50 per cent of the income tax thereafter for the next five years. But this condition only applies to firms that start construction work within August 23 and start commercial operation by mid-April 2019.

Likewise, companies that start commercial operation within mid-April 2019 are entitled to 100 per cent income tax discount for the first seven years from the date of commencement of power generation, and 50 per cent discount thereafter for the next three years.

"Since the project developer cannot start commercial operation within mid-April 2019 it is asking for extension of the deadline so that it gets income tax holiday for the first seven years," Poudel said. "Likewise, the project developer is also asking for value added tax discounts and one per cent customs duty on imports of construction material and equipment as being offered by the government on imports of penstock pipes." The government currently slaps one per cent customs duty on imports of penstock pipes.

The Ministry of Finance has taken these requests seriously. "But we cannot do anything right now as amendments need to be made to Financial Ordinance," joint secretary at Finance Ministry Rajan Khanal said. "We will try to address these issues through new Financial Act which will be introduced along with the annual budget at the start of the next fiscal year."

Along with this, negotiations are also being held on local benefit packages which include creating job opportunities for locals and building of schools, health centres and vocational schools in the vicinity of the project site. "We will have extensive talks on these matters when we hold the next meeting on January 12-13," Poudel said.

Source: The Himalayan Times January 3, 2014

Power outage hours up

Nepal Electricity Authority has stated that the weekly load-shedding in the Kathmandu Valley would increase from 63 hours to 80 hours with effect from January 5. As per the revised load-shedding schedule announced by the NEA on Thursday, the power supply will be cut for 12 hours a day for three days of the week beginning Sunday and 11 hours a day for the remaining four days. However, the industries run by the private sectors will have 14 hours of power outage a day, while it will be just nine hours for the industries run by the government