

The Kathmandu Post; 16 Feb, 2014

Face-to-Face: Dividend two years after generation



[Tuk Prasad Paudel](#) is chief executive officer of [Sanima Mai Hydropower](#) Project. The Kathmandu Post caught up with Paudel to talk about the progress made by the company and its success in the recent initial public offering (IPO). Excerpts:

Tell us about [Sanima Mai Hydropower](#) Project. What is the current status of the construction?

As of now, we have completed 85 percent of the construction work. We will start electricity generation by mid-August, 2014. Sanima Mai Hydropower Company Limited is carrying out two projects—one with 22MW capacity and the other 7MW. Within mid-August, 2015, work on the 7MW project will

also complete.

What is the project cost?

We have invested Rs 3.11 billion for the 22MW project, and Rs 1.26 billion for the 7MW. Unlike other hydropower companies, Sanima Mai went to initial public

offering (IPO) during the construction phase.

Do you think this model can be replicated by other projects as well?

It is actually the model of Chilime Hydropower Project, in which the government has a stake. Chilime's model cannot be sustainable without going public. The company needs to go public and should be managed efficiently. However, before taking the public money, the promoters should manage all the equity, and guarantee financial closure.

I think this is a sustainable model. We have followed the same. I also feel the government should have a 5-10 percent stake in PPP projects. This will help companies get cheap loans from international financial institutions, mainly EXIM banks.

What is your company planning after this project?

We are planning 54MW middle Tamor hydropower project. We have also filed an application for another 50-60 MW project.

For many under-construction projects, transmission line has emerged as the one of major problems. What is the case with Sanima Mai?

Unlike other projects, Sanima Mai does not have such problem. We are constructing an 11-km 132-KV transmission line to evacuate electricity from Sanima Mai, which will be connected with the national grid through Kabeli Transmission Line at Godhar, Ilam. The construction of Kabeli Transmission is currently under way. And, if the construction work moves at the current pace, we are hopeful it will complete in time.

One of the major problems faced by independent power producers (IPPs) is the delay in power purchase agreement (PPA). Nepal Electricity Authority (NEA) has been

reluctant in signing PPA of late, citing its weak financial health. Don't you think we need to go for a larger reform in the power sector where there will be separate agencies looking after generation, transmission and distribution?

Talks on the unbundling of the NEA have been going on for some time. It's up to the government to decide whether it wants to unbundle the NEA.

However, there is a need for a separate authority to look after transmission lines. In the current fiscal year's budget, there has been huge budget allocation for transmission lines, but nothing has happened. Currently, the NEA does everything—from electricity generation, distribution to transmission line construction. This is also a reason why it needs to be unbundled.

There was huge public interest in Sanima Mai IPO. When will your company start giving returns to shareholders?

As per our plan, we'll start giving dividend to the shareholders from the second year after generation. Within the second year, we will give five percent dividend. And in the third and fourth years, it will be around 10 percent. Within 10-11 years of the loan repayment period, we will give 15-20 percent dividend.

When will Sanima Mai move to big hydro projects?

It's difficult for private sector companies to construct reservoir-type hydropower projects.

There are many issues—one is cost and the other is resettlement. The government needs to support the private sector to go for larger projects.

My Republica; 16 Feb, 2014

Ridi Hydropower Development Company (RHDC) is floating 1.17 million units of primary shares with face value of Rs 100 each from February 16.

The company had received the go-ahead from the Securities Board of Nepal (Sebon) - the stock market regulator -- to issue shares worth Rs 117 million on February 3. The IPO will continue till February 20.

The 2.4-megawatt capacity project has been developed on Ridi River that borders Gulmi and Palpa districts. It has allocated 58,500 units of shares to three mutual funds -- Nabil Balance-1, Siddhartha Investment Growth Scheme-1 and Nagarik Yekanka Yojana - on proportional basis and 23,500 units to its employees.

According to the company, one should apply a minimum of 50 units of shares while the maximum limit has been fixed at 10,000 units. The company has appointed Civil Capital Market as the issue manager and Elite Capital as the joint issue manager.

With the issuance of primary shares, the paid-up capital of the company will reach Rs 300 million. Kuber Mani Nepal, director of the RHDC, told Republica that they were planning to utilize the money collected from the IPO to develop Iwa Khola Hydropower Project (10 MW) in Panchthar district. "The issuance of primary shares will help to change the perception that Nepal's hydropower companies are not transparent," he said, adding that the company anticipates an overwhelming response to the IPO.

Nepal said he expects the company's IPO to be oversubscribed by 10 times. "If the attraction of investors toward primary issues in recent years is anything to go by, our IPO could be oversubscribed by 20 times," he added.

RHDC would be the sixth hydropower company to issue primary shares. So far, Arun Valley Hydropower Development Company, Butwal Power Company, Chilime Hydro Power Company, National Hydro Power Company and Sanima Mai Hydropower have gone public. Similarly, Upper Tamakoshi Hydro Power (UTHP) has sought permission of Sebon to float 25.42 million units of shares, while Barun Hydropower Company has applied at Sebon to issue 243,000 units of shares to the people in the project affected area.

In recent years, IPOs have been attracting investors in droves. Anjan Raj Poudel, former president of Stock Brokers' Association of Nepal, told Republica that the investors are lured toward IPOs as the shares they bought go up once they are listed in the secondary market. "Most of these investors are from the secondary market and they invest their money with the expectations of good return in short span of time," he said.

The Himalayan Times; 17 Feb, 2014

Upper Arun development: Financing modalities

PROF. DR. KAMAL RAJ DHUNGEL

For both financing modalities, provision of equity is an essential component that works as a catalyst for many things. The citizens will be ready to invest money in equity depending on how the government plans to materialise it

Socio-economic progress in Nepal has been severely stuck because of the ever increasing deficit of electricity supply, which has almost remained stagnant. The demand for power annually is 10 to 12 per cent but the increase in electricity production has not kept pace with it. Limited hydropower projects (Chamelia and Upper Tamakoshi) are in the pipeline for boosting supply. Even after the commissioning of these projects, acute problem of short supply would continue as they will produce amount of electricity less than what the anticipated demand requires. For the last decade or so Nepal has been struggling with long hours of loadshedding. As a result, economic progress has stagnated or even declined to its minimum as an impact of power outage among other things. Low average rate of growth of economy for the last several years could not help create employment opportunities for the growing labor force which means the number of unemployed has increased. So, it has put livelihood of the great majority of people in peril.

Featured by limited viability of conventional sources such as oil, coal and natural gas for electricity generation, water resource is the only option for Nepal to rely for power development. Imported conventional sources if used to generate electricity would fill the gap between demand and supply in a very short period of time but the high costs make them unaffordable for the 80 per cent of the people in the lower rungs. Power from these sources would increase production cost thereby leading industrial entities towards closure. It would make domestically produced goods dearer in both the domestic and international markets and hence in turn work as the stimulator for higher inflation rate. Although a capital intensive and relatively time consuming for construction, hydropower is the only option that Nepal should take initiative in earnestly. That can be the drive for Nepal's prosperity.

Nepal is enriched by over 6000 rivers and rivulets among which Arun river with length of 510 km and average flow of 58 cusecs, originates in Tibet and meets Sunkoshi to become a part of the Koshi River. Some experts claim that variation in water flow is minimal in the dry season as compared to the same for the rest of the rivers. Experts further reckon that Upper Arun Hydropower Project (UAHP, 650 MW), UAHP I (350 MW) and UAHP II (600 MW) are highly feasible projects in terms of water availability, height from which the water falls, geological conditions, cost effectiveness and environmental impact.

Generally, the average cost of production of a KW of power has been estimated to be between \$1500 to \$1700. However, the cost of UAHP is slightly more than the half of this average. The same for UAHP I and II is higher than the cost of UAHP but less than other already commissioned hydropower projects in Nepal. UAHP among others could become a boon for Nepal's development but yet they haven't really come to the fore in the real sense. An Indian power developer, Sutlez, bagged license of Arun III (900 MW). The rest are waiting for an action to be fertile but efforts, commitments and investment matter. Experiences from the two representative hydropower projects - Chilime and Upper Tamakoshi - prove that investment through internal resource is more cost effective.

Modality one: NEA itself can develop UAHP through internal resource mobilization. Liquidity of some financial institutions has been increased with the increased numbers of contributors over the year to invest in UAHP. Employees Provident Fund (EPF) and Citizens Investment Trust (CIT) along with others are capable of providing the required loans at reasonable interest rate if NEA commits to implement it.

Modality two: seeking the private sector (domestic and foreign) investment. Resource constraint and issue of governance, corruption, political uncertainties and pessimism is restraining them from making investment in hydropower projects. Alternatively, at a reasonable rate of power purchase agreements with comfortable subsidies resource rich institutions such as EPF, CIT, insurance companies etc. themselves can undertake the construction of UAHP under their joint investment and management. The assurance and prompt action from the government in matters related to security concerns, access road and transmission line construction and benefit sharing are vital and

mandatory.

For both the modalities, provision of equity is an essential component that works as a catalyst (i) to mobilize private sector capital; (ii) to convert household savings into investment; (iii) to create positive attitude towards the implementation of project (iv) to increase people's participation in development ventures; and (v) to work as a mediator to settle negative debates if any in the course of project implementation. Equal proportion of loan and equity will help power developer to mobilize capital from organized and unorganized sources. The citizens will invest money at a call for equity depending how the government plans to materialise it. If the government with effective measures among other things commits to act for the development of hydropower, it would certainly work.

The Kathmandu Post; 20 Feb, 2014

Managing Forex Risk in Hydropower



FEB 20 - Hydropower Industry requires huge initial investment compared to other industries. It is obvious that domestic investment alone is not sufficient to cater to the investment needs of hydropower development. Therefore, the Nepal government's Investment Year 2012-13 was aimed at attracting foreign direct investment (FDI) into Nepal's hydropower development as well.

At present, FDI-funded hydropower projects that are at advanced stages of implementation are Arun III (900MW), Upper Karnali (900MW), Tamakoshi-III (650MW), Upper Marsyangdi -2 (600MW) and Upper Trishuli-1 (216MW). The Upper Trishuli-1 will meet the domestic energy demand, whereas the four others are basically export-oriented projects.

The importance of FDI in economic development cannot be under-estimated. It is a risk-free investment. It enables the government to invest in other sensitive areas like health, education, poverty alleviation and social welfare. It is also a reliable source to increase foreign currency reserves. The sector has the potential to attract the largest amount of FDI into Nepal. The experience of South Asian economies tells us that FDI can be extremely useful for emerging economies, if used strategically.

Nowadays, we frequently read news about the merits/demerits of signing Power Purchase Agreement (PPA) in foreign currency terms with FDI-funded developers. It is very much surprising and such news saps the confidence of foreign investors. As discussed above, we definitely need FDI to compliment the development efforts of the government. Once we make policy to attract FDI in hydropower development, we must have policies and Acts and regulations that are investor friendly. It is natural that foreign investors would like to receive profits in terms of the currency that they invest in. Assets, liabilities and cash flows are affected when changes or fluctuations occur in exchange rates between two currencies. Therefore, ways and means should be found out to manage the foreign exchange risks.

In the case of hydropower projects built by the public sector, either funded by foreign grant or foreign loan, the government usually bears the foreign exchange risks during the repayment of loan and is not passed on to the utility and subsequently to the consumers.

However, when private sector builds a hydropower project, either funded by foreign equity or foreign loan, the developer cannot absorb such risks. Thus, the foreign exchange risk is passed on to the utility which buys power and subsequently to its consumers.

One school of thought is that the government is responsible for the overall management of the national economy and therefore it is the duty of the government to see that its economy is stable and its currency is strong. However, a counter argument to this school of thought is that there are various players over which the government cannot have control and therefore it has limited role in strengthening the economy and subsequently the national currency. If the government is taking foreign exchange risks, it means it is subsidising the electricity price. Therefore, on the basis of "users pay" principle, the consumers should bear such foreign exchange risks.

One counter argument to this argument is that there are other secondary benefits, besides power, like access roads, school buildings, health posts, trails, rural electrification, employment generation, income generation and local shares, among others, that are being generated by the project during the construction and operation and are not reflected on the electricity price.

Moreover, the whole plant will be owned by the government, free of cost, after the expiry of the concession term. By positively contributing to the national economy, these secondary benefits are ultimately generating additional revenues (from the power to run industries and carry out business activities to reducing petroleum imports) to the government. Considering these indirect benefits, the government therefore should share the risks.

Regarding the allocation of risks to investors, they naturally will expect a higher rate of return on their investment as compensation for bearing foreign exchange risk. Typically, an investor will attempt to achieve this higher rate of return by demanding higher tariffs. Consumers, or the government, may question whether they are getting “good value” from such an arrangement, when the exchange risk is allocated to investors, if they can bear the risk at a lower cost.

One option might be that the risks may be insured. However, commercial insurance companies willing to bear such risks might not be available in the market, and even if available, the high premium rate in such cases will make this option impractical.

Therefore, taking into account both the inability of the investors to take up such risks and affordable electricity price for the consumers, the government and the consumers should share the foreign exchange risks.

This sharing of foreign exchange risks may be from the beginning of the operation period till the end of the concession period or one may bear the foreign exchange risk during one part of the operation period while the other may bear it for the rest of the period. While passing down the risks to the consumers, only “capable” consumers should be selected, who can afford to absorb such risks like commercial entities, corporate houses and factories, among others.

Such sharing mechanism may be reasonable and logical as long as the hydropower project serves the domestic market only. In the case of export-oriented projects, power importing country will receive more secondary benefits, and therefore, sharing of foreign exchange risk should be limited to projects that supply power to the domestic markets only.

Another way to minimise the foreign exchange risk and eventually reduce the burden on national economy is to arrange financing of hydropower projects

from domestic financial markets as much as possible, particularly for projects supplying power to the domestic market.

Lending activities of the Hydroelectricity Investment and Development Company Limited (HIDCL) established to invest capital, as either debt or equity in hydroelectricity generation, transmission and distribution projects, might be a modest attempt towards seeking to reduce financial burden to the government from foreign exchange risks. The revenue received as capacity and energy royalties can be used as fund for equity and loan investment.

Similarly, the proposal of the International Finance Corporation (IFC) to issue around \$500 million worth of local currency bonds in Nepal will go a long way in mitigating the foreign exchange risks from foreign direct investment in projects ranging from infrastructure, banking and telecommunications to agro-business and tourism, among others.

The sharing of foreign exchange risks between the government and the consumers seems to be a workable solution. The sharing of such risks by the government will prod the government to put the economy in “good shape” and make the domestic currency stable which will eventually minimise the foreign currency risks. The sharing of risks by selective consumers will help in the judicious use of electricity by the consumers.

When the country is reeling under an unprecedented energy crisis, the best option is to generate more electricity so as to end load-shedding at the soonest time possible. Therefore, power purchase agreements to be signed with foreign developers in foreign currency terms will attract more investors to develop Nepal's hydropower projects. It is high time the Nepal government work out a clear cut mechanism regarding the sharing of foreign exchange risks.

(Gangol is a hydropower Engineer. He can be reached at prdpgl@gmail.com)

Karobar ; 20 Feb, 2014

'GMR to sell 49% stake of Upper Karnali to EDF'

GMR Energy Limited of India is set to sell its 49 percent stake in the 900 MW Upper Karnali Hydropower Project to Electricite de France SA (EDF). The two companies are currently holding discussions for transfer of ownership.

GMR is likely to keep the majority stake of 51 percent, Mint and the Wall Street Journal of India has reported attributing unnamed top official of GMR. The report claims that EDF has already agreed to procure partial ownership of Upper Karnali. The website states that GMR's spokesperson refused to comment on the issue. Mint reports that it did not receive response to its queries sent to EDF on January 28 and GMR on January 30. GMR is selling stake of the project though it is financially lucrative as the company is in financial crisis. Mint writes that implementation of the project has been delayed due to political uncertainty despite huge untapped hydropower potential of Nepal.

EDF is interested in the Indian energy sector, according to the report, and has already entered the sector through its earlier investment in [ACME Solar Energy Pvt Ltd](#). It is also preparing master plan for transmission line in Nepal. GMR is a Bangalore-based infrastructure conglomerate while EDF is a French government-owned power utility. GMR and Italian Thai Development Company Limited (ITD) have jointly acquired license for the Upper Karnali Hydropower project. The then Ministry of Water Resources, now Energy Ministry, had awarded the project to GMR in build-own-operate-transfer (BOOT) model after the company expressed commitment to provide free energy and equity to the government during an international free competition.

The ministry and GMR signed agreement on January 24, 2008 for export of electricity to India. The Nepal Electricity Authority (NEA) and GMR signed joint investment agreement in February, 2008, the Ministry of Industry gave permission for foreign investment in April, 2008, and the company was formed in the same month. GMR had submitted the Detailed Project Report (DPR) in May, 2010. While the license was initially issued for generation of 300 MW it was later upgraded to 900 MW.

GMR has agreed to provide 108 MW (440 million units a year) of free electricity to Nepal from the day the project comes into operation and free equity of 27 percent for the run of the river project. The cost of

constructing a project of that capacity at the current market price is over Rs 10 billion. The estimated cost of the project is Rs 140 billion. The Investment Board (IB) is holding talks with the Indian power developer for signing power development agreement (PDA) which has not been signed as agreement is yet to be reached on the issues of income tax, value-added tax (VAT), bonus and others.

Nepal will earn US\$ 2.80 billion during the contract period and billions of rupees from royalty. NEA can procure additional 10 percent of electricity apart from the free electricity from the project that originally planned to export electricity to India. The project lies in Dailekh and Achham districts in Far West. The BOOT period for the project is 30 years after which the company must hand over the project at an operational state to the government for free. GMR is also preparing to construct Upper Marsyangdi II (600 MW) project through Himtal Hydropower Company. The International Financial Corporation (IFC) under the World Bank will invest in it, and GMR and IFC have already signed a memorandum of understanding (MOU) to that regard.

Mint reports that GMR Group has sold many of its energy, road and airport projects in India. GMR, according to Mint, currently has 15 power generation projects, of which eight are operational and seven are being built. It also has nine road projects, of which seven are operational.

GMR Infrastructure Ltd had consolidated debt of IRs 401.39 billion as on September 30, 2013, according to Mint. The group's loss increased to IRs 4.41 billion in the quarter ended December.

