

Source : The Himalayan Times, May 25, 2014

Low water level in rivers shuts hydel plants

HIMALAYAN NEWS SERVICE

SINDHULIMADHI: Most of the Sindhuli-based micro hydropower projects have been closed as water levels continue to decline in the local rivers.

There are 16 micro hydropower projects in the district. Of them, 14 are operated with the investment of local communities.

According to locals, the decrease in water level has prompted most of the power plants in Amale, Bastipur, Sitalpati, Tinkanya, Kusheshwordumja, Lampantar, Bahuntipung, Ratnawi, Pokhari to shut down.

“We have been living in the dark after the projects were closed,” said Dhak Prasad Devkota of Amale.

The decline in water levels has also affected other under-construction projects. “Three Baksu River-based projects are ready for operation, but power generation will not be possible it seems, as water levels have significantly decreased in the river,” said Sandip Upadhyaya, chief of the Environment, Energy and Climate Change Department under the District Development Committee.

Water levels in the rivers will rise only after monsoon starts.

NEA upgrading Gaighat-Buipa transmission line

THT ONLINE

KHOTANG: The Nepal Electricity Authority (NEA) is upgrading the Gaighat-Buipa transmission line in Khotang district.

The NEA Khotang branch said it began upgrading the transmission line from a capacity of 11kv to 33kv, from last Sunday.

Chief of the branch Dhruba Kumar BC said the district is witnessing power outage from 6 am to 6 pm everyday owing to upgrading of the project.

Normal life has been affected due to the power outage.

It would take nearly a month to complete the task, according to the branch.

The authority is also installing new poles and wires as required.

The district is witnessing power outage from 6 am to 6 pm everyday owing to upgrading of the project.

Source : The Rising Nepal, May 25, 2014

International promoters propose for constructing 5 hydel projects

By Ramesh Lamsal, Kathmandu, May 24: The international promoters have proposed for the development of five different hydro-power projects within the next five years keeping in view of load-shedding problem in Nepal.

The promoters have proposed for forwarding the projects, which are expected to be very important at a time when the industries were not operating in full scale due to acute power crisis, according to the Nepal Electricity Authority (NEA).

The five lucrative projects aiming to sell electricity especially in the winter season include Tila-I, Tila-II, Upper Marsyangdi, Manang-Marsyangdi and Lower Arun. Brazilian Brass Power and Indian promoters have showed their interests for the construction of these hydropower projects.

The Himal Hydro is the local partner for the construction of the Tila-I (440 megawatt) and Tila-II (420 megawatt). Tila Hydroelectric Company and KSK Energy Venture have also jointly proposed for the construction of the two projects.

Similarly, different local and international companies have expressed their interest to construct the Lower Arun (400 megawatt), Upper, Manang-Marsyangdi (282 megawatt) and Marsyangdi (138 megawatt) hydel projects.

As per the proposal the foreign power promoters would sell electricity to the NEA in five months during the winter season while they would sell the power to India in the rest of the months, said Hitendra Dev Shakya, Chief of NEA Business Division. Indian Rajratna Company has also proposed for the construction two of the five projects.

However, Shakya said the promoters have demanded that the power purchase agreement (PPA) be made in the US dollar which the NEA has rejected. He said, "We are not in condition of signing the PPA in the US Dollar, and are for doing in local currency. We have been continuing the discussions in this regard for over a month."

It is learnt that the government will purchase the power at Rs 10.6 per unit as per the agreement.

At the same time, the experts in the sector have expressed their doubt whether the projects have brought such proposals just for extending their term of license for power production. RSS

Source : The Himalayan Times, May 25, 2014

Nepal is still waiting

SUJATA AWALE



KATHMANDU: Foreign investors are disappointed with the delays in Project Development Agreements (PDAs). Although the government has spoken eloquently about its commitment to solve the energy crisis within three years, get PDAs passed within months and keep inviting Foreign Direct Investment (FDI) in the energy sector, promoters of major projects are still waiting for a light at the end of the tunnel. Despite them having several rounds of discussions with Nepal Investment Board (NIB) and the Ministry of Energy (MoE) in the last four years, even one single such PDA is yet to be concluded.

Five major projects namely the Upper Karnali (900 MW), Arun III (900 MW), Upper Marsyangdi (600 MW), Tamakoshi III (650 MW) and Upper Trishuli (216 MW) are in limbo due to lack of concrete progress on PDA and Power Purchase Agreement (PPA). The total investment for these projects is more than five billion dollars.

Playing safe

Lengthy and complicated processes and slow delivery mechanisms are the main reasons for these delays. Furthermore, changes in government and lack of expertise and exposure in the government agencies and the instinct to play safe as these are the first PDAs have added to the delay. "PDA is an important document for the government and promoters. As hydropower projects are long term capital intensive projects, the document should address sensitive issues such as: cost implication, risk implication and size implication which takes time," says Rajendra Kishore Kshatri, Secretary at MoE. Citing that lenders fund projects with reference to the document, he says, "If this document does not address the risk and other aspects of the project, it could be harmful for both parties and financial closure can be difficult." Stating that financial institutions need privilege rights to step in on major issues, Kshatri adds, "We need to include these rights in this document but the government is hesitant to provide such rights and the finalisation of the entire process gets even further delayed." He states that

these being the first of their kind, government officials do not have exposure or experience in this area. "As government officials lack exposure, we hired independent consultants and experts for amending and negotiating other factors," he says, adding that even NIB lacks the required expertise to solve these issues.

What kind of commitment

Citing that a PDA generally takes time, Kshatri says, "It was immature on the government's part to commit to accomplish PDA within one year in the memorandum of understanding. When the model document of PDA itself is not finalised yet, it is not at all abnormal for the process to take more time to finalise."

Agreeing with Kshatri, Radhesh Pant, CEO of NIB, says that they are continuously working on the negotiation process to finalise a bankable PDA. "Unlike any other agreement, PDA has to address probable risk factors during pre-construction and construction phases along with hydrological risk and force majeure which needs detailed work," he states. However, according to him, the government should be more result oriented rather than process oriented to complete PDA timely. Interestingly, getting not even one project up and running will also determine the role and success of NIB which is yet to make its presence felt. To motivate investors, Pant says that the current blame game should be put to an end and should capitalise on the opportunity, one window system and modify slow paced delivery mechanism and assure political force majeure.

Paying for delays

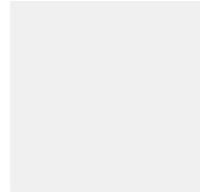
Promoters of hydropower projects have to pay a PDA processing fee at the rate of USD 1,500 per MW. Promoters have already paid fees for PDA, however, since the past few years they have got nothing but assurances. Nepal Water and Energy Development Company Pvt Ltd (NWEDC), promoter of the Upper Trishuli I Hydro-electric project, submitted USD 324,000 for PDA processing a year and half ago. They say that till date all they have got is more assurances.

"Foreign investors are disappointed with the delays in the PDA process," says Pradeep Gangol, Liaison Manager of NWEDC, adding that foreign investors are now following a policy of 'wait and watch'. Citing that foreign investors are running out of patience, Gangol warns, "Investors can change their minds and can go in search of 'greener pastures' elsewhere." According to him, "due to extended delays in the signing of PDAs, the floodgates for FDI in Nepal's hydropower development is also slowly closing."

What is the deadline

Stating that the main challenge for the PDA is to make it bankable, Gangol says, "International lenders should feel comfortable with the PDA document and the government should prepare it with care." He further adds, "We cannot afford to spend such a long time in negotiating a PDA, especially at a time, when the country is reeling under unprecedented energy crisis. The government needs to expedite the preparatory works for concluding negotiations."

The company plans to initiate power generation by 2019 and stresses the need for concluding the PDA within a few months to retain FDIs.



Agreeing that delays in PDA negotiations have a negative impact and dissuade foreign investors, Kshatri says, "If the stakeholders work with dedication on these topics then within a month the PDA can come to fruition."

On this Pant says, "We are in the last phase to conclude the PDA for the Upper Karnali and Upper Marsyangdi II projects. Hopefully, it will soon be finalised." Citing that the present political leadership is also positive on the issue, he assures that these PDA will be finalised within 2014.

So near, yet so far

GMR Nepal, promoter of the Upper Karnali and Upper Marsyangdi II projects have invested Rs 700 million in each project. A representative of GMR Nepal says that negotiation between the government and the company are in the final phase and within two months they will be signing the PDA. The company initiated negotiation with MoE way back in 2010 and it has been one and half year since the file has been handed over to NIB. The company is hoping to sign the PDA soon and initiate the process of financing closure and infrastructure development.

Likewise, SN Power, the promoter of Tamakoshi III, also started negotiations in February 2010 with MoE. From April 2013, the company is in active discussions with NIB. For this project, a Norwegian company will invest USD 1.5 billion. Sandip Shah, vice president and country director of SN Power in Nepal, says, "We are concerned about the delays in PDA negotiation. Being a multinational company we do have other options for investment but we are hopeful for a positive response from Nepal."

Arun III project is also in oblivion state due to delays in the signing of PDA and PPA. Indian company Sultaj Jal Vidyut Nigam is the promoter of the project.

Benefits from these projects to Nepal

- Revenue and tax from the projects
- Free energy, free equity with dividend and royalty

- Employment to thousands of people
- Growth in construction material industries
- Infrastructure development
- Market to agricultural goods
- Transfer of technology
- Access to tourism

Source : The Himalayan Times, Perspective, May 25, 2014

Economic integration through energy exchange

PRAMOD RIJAL



KATHMANDU: In the Nordic countries such as Norway, Sweden, Denmark and Finland there is a free flow of electricity and prices are determined by free interaction of supply and demand. Such has helped new players enter the market. These players in the market means lower prices and new innovation. Additionally, it has created energy security in the region.

Learning from the success of the Nordic region, countries like Rwanda, Tanzania, and Kenya which fall under the East African bloc are also reforming their energy policies so as to aid the formation of a common market for energy exchange. All this has been possible in the South Asian region because various sources of electricity are available in different countries — Nepal and Bhutan have rich hydro resources, Bangladesh has a substantial amount of gas reserve and India generates vast amounts of cheap energy from coal

Beneficial trade between neighbours

Energy exchange seems much more favourable in case of India and Nepal as there exist a complementary relationship in demand and supply of electricity in these neighbouring nations. Electricity production in Nepal is high during summer season due to maximum flow of water in the rivers and all hydropower projects except Kulekhani (92 MW) are run-of-the-river type that generate in full capacity only in the wet season. Majority of the projects which are under construction are also run-of-the-river as it requires low cost and has lesser environmental impacts. As a consequence, there is energy surplus in Nepal during the wet season. At the same time, demand for energy in India is high due to use of refrigerators, coolers, air

conditioners, and other electrical appliances that are used for lowering temperature.

The hydropower potential of Nepal is more substantial than its population size and expected needs and on the other hand, energy demand in India is growing at the rate of nine per cent due to rapid economic transformation. Therefore, electricity trade between these countries can be beneficial for both countries.

Cost effective solutions for smooth channeling

Nepal's hydropower potential which is concentrated in the far western region is difficult to harness if it is used only for domestic purpose because demand for electricity in that area is relatively low due to sparse population and less availability of industries. Lengthy transmission lines need to be constructed to bring power to the load centre. Building such transmission lines, however, is very costly and sometimes costs more than the construction of hydroelectric projects itself. Additionally, it significantly increases technical losses. In this case, it is beneficial to export power to various adjacent parts of India, including Uttarakhand, Uttar Pradesh and even Haryana which makes more economic sense. However, for the execution of such a plan, Nepal needs power trading companies that exchange electrical power in a commercial manner considering water as a market commodity instead of a political good. This mechanism will further facilitate buying and selling of electricity at different times of the day. Prices will be fixed according to market signals which is very essential for the development of hydropower.

Need for implementing bodies and promoters

Power trading companies like the Power Trading Company - India were established in India as its energy market was liberalised. It makes energy integration much easier as a power trading company is an essential body for trading power in a competitive market. Due to presence of it, power markets seek to maximise competition in generation and compete on price instead of cost. Thus, it creates value for power by discovering a market for power which is crucial for introducing innovative products according to the need of customers. Moreover, it provides a single window service to take care of all intermediate requirements like transmission agreements, metering, accounting and other necessary things.

Furthermore, integration of energy market through formation of power trading companies helps optimise existing energy resources and provides commercial outlook to the sector by catalysing investment especially from domestic and foreign private sector. It identifies and promotes opportunities for mutually beneficial cooperation projects in the power sector. The countries of Greater Mekong Sub-region (GMS) like Cambodia, Lao PDR, Myanmar, Vietnam and two provinces of China, namely Yunnan, Guangxi Zhuang have already practiced this principle.

This ushered in much needed prosperity in the region through exchange of energy and further led to integration in other economic activities.

Coming together for growth

Nepal also needs to initiate similar work by holding series of dialogues and discussions with the state governments of Uttarakhand, Uttar Pradesh, Haryana and Bihar which are neighbouring states of India as people living in this region have been suffering from acute shortage of power for a long time. It will surely bring higher economic growth with rapid industrialisation and modernisation in the region and remove people out of the vicious circle of poverty in massive numbers.

The author is a research associate at Samriddhi, The Prosperity Foundation and can be reached at pramod@samriddhi.org Samriddhi is an independent research and educational think tank based in Kathmandu. For more information, visit Samriddhi.org

Source : The Kathmandu Post, May 26, 2014

IBN on a mission to educate local people

[Motilal Paudel](#)

SURKHET, MAY 25 -

Investment Board Nepal (IBN) has initiated consultations with local residents, political party leaders and lawmakers to ensure the implementation of the 900MW Upper Karnali Hydropower Project.

Although most of the political parties are positive on the development of the project by India's GMR, the CPN-Maoist has been opposing the government's move to hand over the project to an Indian company, stating it would increase India's influence in Nepal.

The IBN's move to hold consultations at the local level is aimed at creating a conducive environment for the implementation of the project before signing the Power Development Agreement (PDA).

A team led by Under-secretary Khagendra Prasad Rijal has been holding discussions with the locals. IBN CEO Radhesh Pant is also soon leaving for the project affected districts. Pant said their main objective was to educate the people about the project and the PDA, understand their concerns and incorporate their issues in the PDA.

"Although a memorandum of understanding (MoU) has been signed with GMR, we working to include local people's concerns, such as taking measures to improve their livelihood, while signing the PDA," he said, adding they were also trying to take the CPN-Maoist into confidence.

At the time of the MoU signing on January 24, 2008, GMR had agreed to provide 27 percent equity and 12 percent energy to Nepal for free, which has been considered an attractive offer. GMR will have to hand over the project to the government after 25 years from the date of the completion.

The IBN is on a mission to take consent from the stakeholders based in Surkhet, Dhailekh and Accham districts which will be affected by the mega project. According to Rijal, they have planned to hold six interactions in three districts. The project will affect the people from 10 VDCs of the three districts. These include Sattala, Layativindrasaini, Nepa, Naule Katuwal and Khadkavada VDCs of Dailekh; Pokharikanda, Chhapre and Salkot VDCs of Surkhet; and Bhairabsthan and Rahaf VDCs of Accham.

An estimated 48 hectares private land and 207 hectare of public lands will be acquired for the project. Also, 239 households will be affected, while 46 of them will have to be rehabilitated.

As per plan, a power house will be constructed in Bhairabsthan VDC of Accham and a 2,200m tunnel will also be built to channelize the water from the Karnali River to the powerhouse.

Pant said the PDA negotiations with GMR will complete soon as there has been general understanding on risk calculation and jobs of the government and the developer.

According to an IBN official, market and technical risks would largely be borne by the developer. The government has also asked the company to take the responsibility of land acquisition, assuring of help if needed. "The government will, however, assure the approval process will be completed timely," said the official.

Rijal said they could sign a PDA agreement with GMR within the next two months. The construction work on the project is expected to begin in 2017 and complete in 2025. The total project cost has been estimated to be Rs 140 billion.

'Rs 55b needed yearly to end power cuts'

POST REPORT

KATHMANDU, MAY 25 -

Energy Minister Radha Gyawali has said Rs 55 billion is needed annually to rid the country of power-cuts within the next three years. Inaugurating the regional office of Nepal Electricity Authority in Pokhara on Sunday, Minister Gyawali said the current annual budget of Rs 26 billion was not enough to load-shedding in the country.

The inability to end power outage is affecting the country's development efforts, she added. Gyawali stressed the need to focus on alternative energy sources in order to balance the gap between power supply and demand.

Power trade agreement should top agenda: Experts

POST REPORT

KATHMANDU, MAY 25 -

As the country is expected to produce surplus electricity within the next few years following the completion of a few mega hydropower projects, experts have said the signing power trade agreement with India should be one prime agenda of Prime Minister Sushil Koirala's visit to the southern neighbour.

Koirala is scheduled to visit India on Monday to take part in the swear-in ceremony of Prime Minister-designate Narendra Modi. A power trade agreement enables two countries to trade in power as any other commodities. Both the countries will be able to export energy when they have excess generation and import during deficit.

As per the Nepal Electricity Authority's (NEA) projection, Nepal will have excess power after 2017 during non-peak hours.

Experts said the PTA would also help encourage investors to invest in the hydropower sector by eliminating fears about demand. "Since India is soon getting a new government and Nepal too has got an elected government, it's high time for pushing the PTA agenda," said former Finance Minister Shankar Prasad Koirala at an interaction here on Sunday.

The mega 456MW Upper Tamakoshi Hydropower Project and a few other projects being developed by Nepal Electricity Authority and some private sector projects are expected to be completed in 2016. "There is only one market, besides Nepal, where we can sell electricity, and that is India," said Koirala, who is also former energy secretary.

Nepal could be a good source of electricity for energy-hungry India, he said. "India hasn't been able to make proper utilisation of thermal plants and hydropower projects in Assam and Arunachal, while Nepal is in a perfect place to help India distribute power to its northern belt," said Koirala.

Although a draft of the PTA had been exchanged between the two countries a few years ago, there has not been much progress on this front. The PTA will replace the existing Power Exchange Agreement between the two nations which caps electricity trading.

According to Koirala, the government has sent a PTA draft to India which has focused mainly on transmission lines for ensuring Nepal-India connectivity, tariff fixation and joint institution management.

Rajendra Dahal, press advisor to the President, said big hydropower projects may not take off without ensuring the market. He said that if the country is developing projects that can produce surplus energy, signing of a trade agreement on energy with India is a must.

Source : The Himalayan Times, May 27, 2014

Economic thrust: Energy is key

PROF. KAMAL RAJ DHUNGEL

Lower volume of investment limits the creation of additional job opportunities. It means people have limited availability of gainful work for their survival that is to say high rate of unemployment persists. It begets social unrest that can disturb social harmony

Accelerated development is a prime indicator of the economic boom. Investors come forth to pour their money in the economy. Investment of any size is the basis for making the economy prosperous. It can create numerous job opportunities which in turn increase the level of income that leads to uplift the general living standards of the people. A significant portion of increased income of the people is consumed, and the remaining makes up the saving for further investment. This process continues so far as the investment is forthcoming for the development activities. This is technically referred to as the forward linkages of multiplier effect.

Let us assess the situation of the lack of sufficient power as Nepal has been experiencing it for the last couple of decades. Nepal is a fossil fuel resource poor country, therefore, it has to depend on the development of hydropower to fulfill its commercial energy needs. The development of this sector hinges on various factors that delay its pace of development. The lack of power or power outage retards socio-economic development. National plans, targets, programs and priorities have remained unworkable or rather unachievable largely because of the power crisis.

The private sector is becoming pessimistic as regards making investments in the economy because of the lack of adequate and reliable supply of electricity. Power outage puts the returns of their investment at known and unknown risks. Increased volume of investment in different sectors of the economy from the national and international investors can be expected only when the supply of electricity meets the demand for it. But Nepal's ground reality is that it lacks adequate power. This lowers the attraction for investment in the economy. Lower volume of investment limits the creation of additional job opportunities. It means people have limited availability of gainful work for their survival that is to say high rate of unemployment persists. It begets social unrest that can disturb social harmony and finally push the country towards uncertainty.

Uncertainty discourages the investors. It not only kills the willingness to invest but also limits the ability to invest. A lower level of investment cannot help the mass production of goods or provide services. It means it lowers the size of production. Small scale production faces a number of problems of externalities. Produced goods and services using small scale production method cannot compete in both the domestic and international market. It is because of higher cost of production. The high cost of production makes goods and services expensive on the one hand and is likely to deteriorate the quality of the products on the other. This ultimately creates an uncompetitive situation for domestically produced goods and services in the market. The implication is that it lowers the income or revenue of the firm. Lower income means lower profit. Lower income/ profit reduces the ability to further invest in the economy.

Low investment is low output or income. It limits the creation of additional employment opportunities. A large number of people remain unemployed. It reduces the income of the people and hence lowers the savings which is the pillar of investment.

The average annual growth rate of the Nepali economy has remained low (3-4 per cent) since the last several years. Development activities have been halted not only because of the low investment capacity but also because of the shortage of power. The movement from lower end (3%) to higher end (4%) of the average growth rate depends primarily on the performance of the agriculture sector. For instance, CBS has estimated 5.15% growth rate for the current fiscal year which is the highest since 2008. The primary sector is responsible for this expected growth rate. The growth rate of this sector is expected to stand at 4.61 per cent. It is because of the favourable monsoon this fiscal year. The growth rate of secondary sector primarily is dependent on power is disappointing. A mere 2.67 per cent is being expected. The tertiary sector is expected to witness a moderate growth rate of 6.13 per cent. It indicates that the growth rate is primarily based on the primary sector which consumes negligible units of electricity. However, power shortage is the responsible factor for disappointing economic growth rate of the secondary sector.

The implication of power shortage is obvious. Foreign and private sector investment requires adequate and reliable supply of electricity. Without welcoming their investment, a country like Nepal with poor resources cannot attain economic prosperity.

The country must welcome foreign direct investment (FDI) for primarily the development of two sectors –hydropower and tourism. Policies, programs, priorities, and investment policies should be formulated with confidential commitment to implement them for their development. Positive attitude, consensus and forethought are necessary from all the stakeholders for the development of hydropower.

The tourism industry also relies heavily on adequate availability of electricity to prosper. Therefore, power is complementary to developing the tourism industry. It all starts from hydro power generation.

Source : The Rising Nepal, May 27, 2014

Rs. 125 million spent in kavre micro hydro projects

Banepa, May 26: A total of Rs. 121,004,763 has been invested in micro hydro projects constructed in Kavre district. Of the total investment, the Alternate Energy Promotion Centre gave Rs. 61.9 million, District Development Committee Rs. 4.7 million, VDCs Rs. 20.4 million and local labor mobilization worth Rs. 32.8 million, said the Energy and Environment Section of Kavre DDC.

Of them, 25 are built through DDC Kavre, and 12 by local NGO Rimrek, said the Section. Some 699.62 kw of power has been produced and some 6, 602 households are benefited from them.

The projects are across Mahabharata hills of Kavre, and across the Koshi river, including Pokharichauri, Majhifeda, Dhusani Shibalaya, Banakhu, Salmechakal, Ghartichhap, Budhakhani, Gokule and Falametar.

They were completed from 2054 BS to 2070 BS and remote villages are illuminated from them. We have demanded more projects and some are in the process, said DDC Kavre Energy Section Chief Sanjiv Kumar Lal.

Source : The Kathmandu Post, May 27, 2014

Entities to fast-track, watch hydro projects to be set up

[SANJEEV GIRI](#)

KATHMANDU, MAY 26 -

The Ministry of Energy (MoE) is preparing to establish two mechanisms to fast-track energy projects and monitor them. One will look after coordination with other line ministries particularly the Home Affairs, Finance, Land Reforms and Environment ministries. The other mechanism will study the seriousness of the developers who have obtained survey licences to develop their potential projects. "The mechanisms are being established to make development work more efficient," said Rajendra Kishore Kshatri, secretary at the MoE.

The formation of the first mechanism is expected to help inter-ministerial coordination against a backdrop of issues encountered by hydropower projects like land acquisition and obstructions by the Environment Ministry over possible environmental damage. For instance, in January 2011, the construction of a tunnel for Kulekhani Hydropower Project III was delayed as the government did not permit it to cut down around 150 trees in the surrounding areas of Audit No 2 at Bhainse VDC.

"Once the mechanism is established, it will simplify dealings with other ministries and also make the issues clearer," Kshatri said.

Regarding the second mechanism, Kshatri said that it would keep track of survey licences and monitor the seriousness of the developers who have obtained them.

The Department of Electricity Development (DoED) issues survey licences which are valid for five years.

While a few companies who have received survey licences actually visit the site to conduct field studies, many have been accused of being more interested in holding on to the permits with the intention of selling them to actual developers for a hefty mark-up. In a bid to stop this tendency, the DoED one and half years ago increased the licence fee.

According to Kshatri, the tenure of a survey licence was fixed at five years since it was difficult for developers to visit the project sites due to the state of internal war in the country then.

"The situation is not the same now. Developers can conveniently carry out research," said Kshatri. The mechanism will make field visits to the survey sites and observe the tasks that have been completed and also partially regulate them, he added.

Source: Republica, May 28, 2014

As they please

RUDRA PANGENI

Energy pricing

Nepal Electricity Authority procures black file-cases that cost peanuts at market price. But purchase of billions of rupees worth of electricity from developers is decided without any market price assessment. Moreover, vital information on Power Purchase Agreements (PPA) is never made public. This underhand practice has been taking place for the last 30 years.

The documents of PPA that directly affect taxpayers or electricity users are stuffed into black file cases and kept secretly, as if making the information public would damage national sovereignty and security. Notably, a difference in a paisa or a decimal point in price calculation makes a huge difference in the valuation of PPA.

But who make such questionable decisions? A small group of engineers and administrative officials at NEA's headquarters in Ratnapark, it is said, secretly evaluate cost of projects and decide PPAs, adding about 15 percent profit for self benefit. Decision-makers obviously use their discretionary authority to pay developers. Had they followed due process, why would they fear to make relevant documents public?

Prevailing laws say the PPA rates for projects of installed capacity above 25 MW should be decided through negotiations. At the same time, the PPA rate for the projects below 25 MW is fixed at Rs 8.40 for dry season (Mid December to Mid April) and Rs 4.80 for the rest of the months (wet season). However, there are also other equally important factors like price escalation and compensation issues (how NEA compensates in case of supply failure). Take the cases of PPAs of Sanjen and Khare Khola projects respectively. The kind of price escalation witnessed in the two projects is clarified in the table alongside.

Only in Nepal are decisions of such import made secretly. In India and other countries PPA decisions are made after due diligence audit (DDA). Moreover, the electricity regulatory commissions make public all details of proposed PPA rates and conduct public hearings on the issue.

Former Energy Secretary Bishwa Prakash Pandit had tried to come clean at a press meet three months ago by saying there is no global practice of public hearings on PPAs. But in other countries, DDA is conducted and energy pricing and rate of return closely investigated. But our Electricity Tariff Fixation Commission is merely a rubber stamp to approve electricity tariffs and has not been mandated to look into PPA rates. For no one cares why the sole electricity utility is facing annual loss of billions of rupees. NEA increased electricity prices in 2011 by as much as 20 percent, but still NEA books last year showed Rs 4 billion worth of annual loss.

PPA in dollar

The cases where PPAs are in foreign currency are even more problematic in terms of how risks are analyzed. With the prevailing trend of constant devaluation of Nepali currency against US dollar, signing PPA in dollar has come into limelight. Cash-intensive hydropower construction demands foreign investment, particularly mega projects, and PPA in foreign currencies are natural as investors want secure rate of return. But such decisions affect NEA badly. The bitter reality is that NEA pays about 40 percent of its annual revenue to Khimti and Bhotekoshi hydropower companies for a combined 100 MW (total installed capacity is around 770 MW); in both cases, PPAs were signed in US dollar in 1990s. They have now become a big burden for NEA.

With this experience, settling PPAs should not be taken for granted. The ideal would be sharing risk or inviting hedging companies which can take risks with fluctuating exchange rates. Likewise, making PPA proposal public after the technicians finalize the rates and making final decision only after public hearing can also make officials more accountable.

Taxpayers have a right to know and to have their say in deciding PPA rates as taxpayers. We adopt free market rules while awarding other projects, but strangely not when it comes to signing PPAs.

	Sanjen Jalbidyut Company Limited Hydroelectric Project (42.5 MW)		Khare Khola Hydroelectric Power Project (24.1 MW)	
	Wet Season	Dry Season	Wet Season	Dry Season
PPA rates per KWh (Unit)	Rs 4.80	Rs 8.40	Rs 4.80	Rs 8.40
PPA rates in the fifth year with three percent annual price escalation	Rs 5.56	Rs 9.47	Rs 5.52	Rs 9.66
PPA rates in the tenth year with three percent annual price escalation	Rs 6.45	Rs 11.29	Rs 5.52 (No price escalation beyond five years)	Rs 9.66 (No price escalation beyond five years)

NEA officials decline requests for relevant PPA documents, saying they are confidential. However, they never clarify why they should be confidential. Will this government, which set the norm of making public any financial decision of Rs 5,000 or above prior to implementation, bring the PPA into its purview? If not, these norms would be no more than part of a publicity stunt.

Conflict of interest

There are at least four hydropower projects including Upper Tamakoshi being promoted by NEA. Troublingly, NEA staffs own big shares in those projects. There is a clear case of conflict of interest here. To protect public enterprise from such conflict of interest, either NEA officials as well as their family members should be barred from investing in these projects, or their decision making role in settling PPAs should be taken away. I wonder why the CIAA has been mum on the issue so far.

The projects where NEA officials have invested have shown good progress, whereas delay, cost overruns and mismanagement mar the projects where NEA officials don't have any shares.

Again going back to our earlier examples, Sanjen Jalbidhyut Company Limited has been developing Sanjen Hydroelectric Project of 42.5 MW capacity. It is a subsidiary of Chilime, a company in which NEA has 51 percent share and its staffs hold significant shares too. In comparison, Khare Hydroelectric Power Project in Dolakha is developed by private sector.

The PPA rate for Sanjen (see table) breaches NEA norm of negotiations for a 25-MW (or above) project. The principle is that higher the installed capacity, the lower the project cost. But while Sanjen paid shareholders for 10 years of price escalation and compound interest, Khare could pay for only five years of escalation and simple interest.

If Khare produces equal annual energy as Sanjen, the income gap between these two projects due to varying PPA rates in the tenth year will hover around Rs 248 million and the difference reaches a whopping Rs 4.96 billion by the 30th year, or the last year of concession period.

These examples constitute only tip of the iceberg. There are many projects getting favorable PPAs (as decided by NEA staffs), whereas others like Khare are without any privileges. PPA decisions vary from project to project without a good reason, indicating that PPA decision-makers do not decide independently and ethically.

Even independent power producers (IPPs) concede that they have to grease the hands of NEA decision-makers, otherwise their projects are unnecessarily delayed, resulting in big cost overruns. There were delays in PPAs for the Super Six projects which the government had sold through open competition. Officials know delays result in big losses, but they still use delaying tactics to extract something from IPPs. IPPs, meanwhile, fondly talk of projects like Sanjen.

The author is associated with Republica's Business Bureau

rudra.pangeni@gmail.com

Source : The Kathmandu Post, May 28, 2014

Govt mulls VAT subsidy on hydro construction materials

[SANJEEV GIRI](#)

KATHMANDU, MAY 27 -

The Ministry of Energy has proposed the Finance Ministry to provide subsidy on value added tax (VAT) for the construction materials purchased by the hydropower projects based on Rs 10 million per megawatt.

Energy Minister Radha Gyawali on Tuesday revealed that her ministry made such proposal with a view to including it in the next budget in order to encourage the private sector investment in the power sector.

Speaking at the inaugural session of a workshop on Hydropower Sustainability in Nepal, organised jointly by the International Hydropower Association and Nepal Hydropower Association, Gyawali said the move is seen as an incentive to the private sector for more investment in hydropower, more so at a time when the country has been facing energy crisis.

Although the government had announced providing such subsidies based on Rs 1 million per megawatt, it had failed to implement the policy.

According to a senior official of the finance ministry, despite the subsidy announcement in the previous budget, lack of allocation of resources for the purpose prevented them from implementing the facility.

The government, in response to the proposal, has formed a three-member committee led by a joint secretary of the ministry to study on whether it would be appropriate to provide the subsidy as demanded. The committee comprises a representative each from the finance ministry and Investment Board.

A finance ministry official said the government will then decide on whether to provide VAT subsidy based on the recommendation of the committee. "We have expect the recommendation soon since we are preparing to introduce the budget for next the fiscal year within the next three weeks," said the official.

The private sector is optimistic towards the government's initiative to provide VAT subsidy. Khadga Bahadur Bisht, president of Independent Power Producers Association of Nepal, said they were hopeful that the subsidy policy would be implemented this time around. "We have had several discussions with the government on this issue, and based on the response we got during the discussion we look forward to the government's position," said Bisht.

According to Senior Energy Specialist at World Bank Rabin Shrestha, Nepal has energy deficiency of 44 percent, which is far higher compared to other South Asian nations including Pakistan (30 percent), Bangladesh (26 percent), India (11 percent) and Sri Lanka (10 percent).

A World Bank report states that Nepal falls short of \$13-18 billion in order to bridge the investment gap in infrastructure between 2011-2020, however, the biggest gap remains to be the energy sector.

Source : The Rising Nepal, May 29, 2014

Chachalghat Hydropower project starts generating power

Baglung, May 28: The Chachalghat Hydropower Project constructed at Jajjala VDC in Baglung district has been brought into operation.

The 100-KW capacity hydropower project constructed targeting Jaljala, Ransinghkitenu and Gwalichour VDCs started producing electricity.

Project Secretary Amrit Kumar Shrees said that locals of three VDCs are benefited from the project.

The construction works of the project were completed at the investment of Rs 34.248 million. The Alternative Energy Promotion Centre provided Rs 14.225 million and the government Rs 2.5 million as grant for the construction of the project. Similarly Rs 9.9 million was collected from locals.

Secretary Shrees said that each household provided Rs 25,000 and contributed voluntary labour for 100 days for the same.

After the operational of the project, locals of remote areas, who were compelled to live in darkness for years, are happy.

The Alternative Energy Promotion Centre has been providing support in constructing hydropower project in different districts of western region including Baglung with the financial support of different foreign donor agencies.

Minister for Energy, Radha Gyawali, had inaugurated the project on Monday. RSS

Agreement for loans for hydel signed

Kathmandu, May 27: The Garjang Valley Hydro Power Ltd. has signed agreement for loans today for the Chakekhola Small Hydro Electricity Project.

The 2.83 mw project will need Rs. 470 million. Company Secretary Suraj Dhungel said Clean Energy, Janata and Yeti Development Banks will provide the loans.

The project located at Chuchure VDC in Ramechhap district is aimed at completing within April, 2015. The power generated by the project will be connected to the Jiri Substation of Nepal Electricity Authority (NEA).