Source: The Rising Nepal, June 20, 2014

Locals join hands for Micro hydro Project construction

Ilam, June 21: Locals of Phuyetappa in the district have constructed a micro hydropower project after power supply from central power grid was unlikely in the area despite electric poles erection around three years ago.

Some 160 users of Phuyetappa VDC, ward no 1, 2, 3 and 4 had joined their hands to generate electricity from Pawakhola rivulet on their own funding.

Project Construction Committee Chairperson Netra Prasad Adhikari said the hydropower project is on the verge of completion.

The project with 18-KW capacity costs around Rs 8.65 million including grant of Rs 3.5 million from Alternative Energy Promotion Centre, kind labour worth Rs 2 million and Rs 3 million from users' households.

Similarly, people from Aamchowk, Phakphok, Lumde, Gajurmukhi and Ektappa, among other VDCs in the western belt are using the power generated from the 22-KW local hydropower project, which was constructed on their own initiative and funding. RSS

Source: Republica, June 24, 2014

Reforming power

BISHAL THAPA

One of the greatest ironies of this century is the announcement by Nepal Electricity Authority (NEA) that it would stop signing Power Purchasing Agreements (PPA) after 2017-2018. NEA claims that it has already locked in over 2,000 MW for domestic supply, starting 2017. That supply, it believes, will be more than enough to meet domestic demand,at least for the wet season.

The irony in this situation is simply about timing. Most of Nepal will be puzzled to hear that NEA has stopped signing PPAs even as the country reels under as much as 16 hours of daily load-shedding. The fact that NEA intends to stop signing PPAs only after 2017 will be lost on the Nepali public for whom this era of darkness, at least for now, seems infinite.

Many stakeholders, including me, disagree with NEA's assessment that it has adequate future supply to meet future demand. But many, including me, challenge only the basis of the estimates upon which NEA concluded that it had enough future supply to meet future demand—we don't challenge the right of NEA to make such a decision, once it has concluded its demand and supply estimates.

Clearly, if NEA determines that it has enough future supply, then it must stop signing PPAs. More agreements in that case would simply mean opening itself up to certain bankruptcy. There would be no way to recover payments for the surplus energy it would be forced to purchase. Refusing to sign further PPAs is the least NEA can do to protect against a certain financial destruction.

The question is what happens if NEA demand estimates are wrong. What happens if in 2018 or beyond, there is still a mismatch between demand and supply and load-shedding persists? What then? How should NEA be held accountable?

Here is my simple proposal: NEA should pay a penalty for every unit of unmet electricity demand.

NEA should pick a date, say 2018, 2019 or whatever it is comfortable with and commit to a level of demand it can meet. But there should be a penalty clause in case it fails to meet that demand. For every unit of electricity demand that it is not able to meet, it must pay a penalty to the end-users affected by load-shedding. The penalty must be equivalent cost of a displaced diesel generator.

Such penalty clauses are not a novelty. They are being increasingly forced on state-owned companies to ensure better quality of service.

One of the best examples is Coal India Limited (CIL), India's state owned near-monopoly producer and marketer of coal. After years of persistent coal shortages, CIL has now signed up to a penalty clause for failure to meet contracted demand. The penalty clause is graduated: in the initial years CIL is committed to meeting penalty that comes to 65 percent of the contracted demand; in later years it is committed to meeting with penalty all of the contracted demand. Initially, independent directors of CIL's board declined to agree to such a penalty fearing the potential future liability. But a Presidential Directive forced the company to adopt the structure.

NEA could mirror that penalty clause in the PPAs it signs. It is already doing that to an extent by diluting the "take or pay" provision in its current PPAs. Nevertheless, it will probably be practically impossible to impose such a penalty on NEA. The provision could straddle NEA with a large fiscal liability because it lacks the ability to manage such risks.

The spirit of the penalty clause is not that it could be financially destructive for NEA. To the contrary, if done right, it could be the basis for sustained power sector reforms in Nepal.

One way NEA could manage the financial liability of penalty-based obligation is for it to pick a modest demand it would be willing to commit to meeting at all times. NEA's current demand projections are basically just that–a very modest outlook based on what it can deliver.

With the penalty system, once NEA decides the level of demand it is willing to meet, the government must then open the market to private parties. Companies that believe there is a higher demand than what NEA has projected could bring that demand to market.

Such a structure could help create a uniquely Nepali power pool in which NEA has the right to first serve up its contracted demand. The remainder could then be served by private companies by contracting directly with the end-user.

Rather than being disruptive to NEA, this approach could be a gateway to meaningful reforms in the power sector. It would preserve NEA as the dominant player in the sector. At the same time it would slowly build a critical mass of private companies willing to participate in the entire electricity supply chain, from generation to distribution.

Most importantly, such a structure would help connect those that want electricity (demand) with those that are willing to supply it (supply). That could be the genesis of the Nepali power market.

One of the key questions concerns mechanisms that would be required to put such a market structure into operation. What kind of rules and institutions will be required?

The most important will be independent demand creation. There has to be a mechanism to identify demand beyond what NEA has contracted and is obligated to serve. In effect, there must an independent pool operation with the ability to add new transmission and distribution lines.

These mechanisms could kick-start the development of a whole set of reforms that may not entirely unbundle NEA but could instead add a layer of transparency and competition. It could, for instance, lead naturally to the creation of an independent system operator that manages demand creation, beyond NEA, to come into the system.

Many recent efforts to reform the power sector elsewhere begins with the standard model of markets—unbundled and with private participation. Nepal is also enamoured with the idea of power trading. But year after year, reform efforts continue to fail; power trading may be more a mirage than a panacea.

There is no question that Nepali power sector must be reformed and trading allowed. But rather than merely adopting glamorous international mechanisms, Nepal must recognize its limitations: the importance of NEA to the sector; the weakness of private sector, including of the financial community; and the country's singular reliance on hydro.

Reforms are not always about discarding what's broken. They are also about smarter partnerships that can repair the damage.

Source: Republica, June 25, 2014

No PPA in US dollar for the time being: Energy Minister

KATHMANDU, June 24: Minister for Energy (MoE) Radha Gyawali has said Nepal Electricity Authority (NEA) has stopped signing power purchase agreement (PPA) in US dollar.

Speaking at the meeting of Public Accounts Committee (PAC) in Kathmandu on Tuesday, Gyawali said the decision was taken after NEA incurred huge loss due to such decisions made in the past and also because of the lack of proper study on the impact of such agreements.

“We can think about signing PPA in US dollar only after conducting a detailed study on the issue,” said Gyawali.

PAC has started discussion on why NEA signed PPA in foreign currency without assessing its impact.

NEA has signed PPA in US dollar with six projects including the Bhotekoshi and Khimti hydropower projects.

Energy Secretary Rajendra Kishor Kshatri said there is lack of proper study on modality to sign PPA with power developers, especially those having foreign investment. “We need to conduct detailed study on the pros and cons of signing PPA in foreign currency,” he said, adding that the energy ministry has commissioned a study to sort out the problem. “It is natural for developers to propose for PPA in US dollar as Nepali currency is devaluating and also because they have to bring most of the construction materials and equipment from abroad.”

Speaking at the meeting, Mohan Bahadur Basnet of Nepali Congress asked the government to review PPA with Bhotekoshi and Khimti as the agreements have inflicted huge loss on NEA. “About two-thirds of NEA´s total loss of Rs 29 billion in the last 15 years was because of the PPA signed with those two projects,” he added.

As per the PPA signed with Khimti and Bhotekoshi, NEA will have to pay all taxes, including VAT, for those two projects. According to experts, the provision is gainst the norms of universal taxation policy.

Another lawmaker Prem Bahadur Singh urged the government to utilize all unspent budget in hydropower projects. Similarly, Dhanaraj Gurung of Nepali Congress said the government should make big investment in hydropower projects to check outflow of funds from the country to buy petroleum products and generators

Source: The Kathmandu Post, June 25, 2014

Manufacturing down, energy sector looks up

KATHMANDU, JUN 24 -

Even as Foreign Direct Investment (FDI) commitment to the manufacturing sector has declined significantly, the energy sector has witnessed a rise in such commitment in the first 10 months of the current fiscal year.

Nepal has attracted Rs 18.59 billion in FDI commitment, slightly up from Rs 18.42 billion during the same period last fiscal, thanks largely to massive commitments to the energy sector. According to the Department of Industries (DoI), FDI commitment in the manufacturing sector in the period stood at Rs 1.46 billion which is around 60 percent less compared to the same period last fiscal. The sector attracted Rs 3.64 billion in FDI commitments in the review period last year. The number of projects in the manufacturing sector too has witnessed a sharp comedown, slipping coming down to 29 from 66 the last fiscal. On the other hand, thanks to some big pledges from India and China FDI commitment to the energy sector has recorded a sound growth. Commitments amounting to Rs 11.18 billion have been made in the first 10 months of the current fiscal year, up from Rs 2.65 billion in the same period of fiscal 2012-13. Federation of Nepalese Chambers of Commerce and Industry (FNCCI) President Pradeep Jung Pandey pointed out lack of political instability and conducive environment for investment such as labour disputes and load-shedding as major reasons behind the decline in FDI commitments to the manufacturing sector.

With the situation hardly showing signs of progress, Pandey is concerned whether the pledged commitment translates into actual investment. “The lack of conducive business enviroment means a majority of investment pledges have failed to translate into actual investment,” he added.

Besides the manufacturing, the tourism sector has also witnessed a downfall. The DoI data shows 64 companies have committed just Rs 948,000 this year, down from Rs 3.49 billion by 65 companies last fiscal.

In the first 11 months of fiscal year 2012-13, 77 companies had made FDI pledge worth Rs 7.32 billion in the service sector but has now come down to Rs 3.9 billion from 76 companies. The agro and forestry followed the energy sector, reporting more investment commitments over the period.

The commitment in the agro and forestry sector reached Rs 828 million, up from Rs 219.39 last year.

Source: The Himalayan Times, June 25, 2014

Govt to extend cash incentive

Plans to provide Rs 10 million on every MW of power generation

RUPAK D SHARMA

KATHMANDU: There is good news for hydropower investors! The government may soon start extending cash incentive of up to Rs 10 million on every megawatt of hydroelectricity generation to lure investors towards the power sector, which is facing a severe crisis.

A high-level committee formed under Krishna Hari Banskota, secretary at the Office of the Prime Minister and Council of Ministers, has recommended that the government extend cash incentive to hydroelectric project developers to compensate the cost involved in paying value added tax (VAT) levied on construction materials, especially cement and steel.

“We have proposed that cash incentive of close to Rs 10 million be extended for every megawatt of electricity generation, regardless of the type of project (run-of-the-river or storage),” Banskota said, adding, “I have already forwarded the proposal to the Ministry of Finance. Hopefully, the finance minister will make some announcement in this regard through the budget speech.”

If the cash incentive of Rs 10 million is extended as proposed, the cost of building every megawatt of hydroelectric plant would come down by around six per cent, considering the cost of building per megawatt of plant at Rs 170 million.

Private sector power developers have long been demanding that construction materials be exempt from VAT citing almost all of the hydroelectric projects are built under the Build, Own, Operate, Transfer (BOOT) model and have to be handed over to the state for free within 30 years of official launch.

To address their demand, the Ministry of Finance, in 2011, had agreed to extend cash incentive of Rs one million on every megawatt of hydroelectricity generation.

However, private sector hydroelectric project developers had refused to accept the offer citing the amount was too low.

Since then the negotiations on VAT rebate has been going on. But the latest proposal of the committee formed under Secretary Banskota, which also comprised senior officials of the Ministry of Finance and the Ministry of Energy, has also tickled the fancy of the private sector.

“We would be more than happy if the government extends cash incentive of Rs 10 million on per megawatt of electricity generation, although project developers are spending Rs 11.6 million to Rs 12 million to cover the cost of VAT levied on construction materials,” said Khadga Bahadur Bisht, president of the Independent Power Producers’ Association, Nepal (IPPAN).

Earlier, in an interview with The Himalayan Times, Govind Raj Pokharel, vice chairman of the National Planning Commission, had also proposed extending cash incentive rather than tax rebates to attract investors towards the energy sector and make power outages a history.

Currently, the government has only been providing income tax holidays for hydroelectric project developers.

As per the financial ordinance, companies involved in commercial hydropower generation and distribution need not pay income tax for a period of 10 years from the commencement date of power generation, and extend only 50 per cent of the income tax thereafter for the next five years. This condition only applies to companies that start construction work by August 23 and begin commercial operation by mid-April 2019.

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

Source: The Himalayan Times, June 25, 2014

India's power sector losses seen at $27bn

AGENCE FRANCE PRESSE

NEW DELHI: Annual losses in India’s dysfunctional power sector are forecast to rise to $27 billion in 2017 unless the government enacts sweeping reforms in the face of rising demand, a World Bank (WB) study said on Tuesday.

India has one of the world’s lowest per capita electricity consumption rates, with the average person consuming less than a third of the annual global average of 3,044 kilowatt-hours, the WB study says.

But this is expected to rise sharply as the country industrialises and caters to needs of its growing population which according to the United Nations is forecast to hit 1.45 billion by 2028.

The deficiencies of the power network were laid bare in July 2012 when a huge blackout across the north and east of the country left almost 300 million people without electricity.

“An inefficient, loss-making distribution segment and inadequate and unreliable power supply are major constraints to India’s aspirations for growth,” Onno Ruhl, the WB’s India director said.

In 2011, the power sector incurred losses of $12 to $13 billion. By 2017, the World Bank forecast the figure could rise to $27 billion assuming tariffs increase around six per cent every year.

The problems stem from the state-controlled distribution sector which is undercut by leaks and theft, an inability to collect payments and chronic under-pricing of power. The World Bank also criticised ill-targeted subsidies which end up benefiting the rich.

“Distribution is the weakness and also the linchpin of the power sector,” said Sheoli Pargal, economic adviser and co-author of the study at the bank.

India’s Power Minister Piyush Goyal, in office since May under the new right-wing government of Prime Minister Narendra Modi, faced massive power outages in New Delhi earlier this month at the height of summer.

He blamed insufficient investment in supply infrastructure.

Source: The Himalayan Times, June 26, 2014

Hydro projects losing millions

HIMALAYAN NEWS SERVICE

LAMJUNG: As many as four hydro projects have been incurring loss of Rs 1.5 million a day due to prolonged load shedding in Lamjung, the so-called load shedding free district.

With the 4MW Khudi, 5MW Siuri, 4.4MW Randhi and 183KW Syage hydro projects failing to generate power causing hours of power outage, they have to incur loss of millions every day .

The projects failed to generate power as Nepal Electricity Authority Damauli cut off the electricity from the 33KVA transmission line along the Dumre-Beshishahar road section. The hydro projects could not generate electricity due to the lack of backup.

According to Deepak Bhandari, Khudi Hydro-project Centre acting chief, all the hydro projects in the northern belt of the district are confronting with the threat of closure due to the cut in power supplied through the 33KVA transmission line.

The four hydro power projects had started generating a total of 14MW electricity with the arrival of monsoon.

However, it has now been reported that problems have been surfacing frequently with the 33KVA transmission line along the Dumre-Beshishahar road section for a long period.

Sometimes electric poles collapse. There are also explosions of transformers resulting in power tripping due to weak infrastructure.

The total number of transformers which exploded recently has reached a dozen, said an official at Lamjung Electricity Consumers' Organization.