

Source: The Himalayan Times; 30 August, 2014

Committee advises to go by the law

Parliament to decide on cash incentive for export oriented projects

The ball on extending cash incentive of Rs five million for every megawatt of electricity generated by export- oriented hydro projects is now in the Parliament's court.

A high-level committee formed to examine draft Project Development Agreement (PDA) on Upper Karnali hydroelectric project today recommended that cash incentive be given to the project developer as per the law.

The fiscal policy for this financial year, introduced in July, includes a provision on providing 'a grant of Rs five million for every megawatt of electricity generated and evacuated to the national grid', to compensate cost of value added tax levied on various construction materials.

But since the policy is still under consideration at the Parliament, the provision has not come into effect yet.

"The committee's recommendation generally means export-oriented hydro projects would be entitled to the cash incentive if the provision in the fiscal policy is endorsed by the Parliament as it is," a reliable source said.

Many say this is possible as two ruling parties, Nepali Congress and the CPN-UML, are supportive of extending cash incentive to export-oriented hydroelectric projects as well.

The issue on whether to extend cash incentive to Upper Karnali project developer was discussed heavily during committee's meetings after two of the members — Chief Secretary Leela Mani Paudel and Nepal Rastra Bank Governor Yubaraj Khatiwada — voiced objection. "It was also discussed during meeting this morning, when recommendations were being finalised," the source said.

The committee had made the recommendation as per the mandate given to it to identify pros and cons of the draft PDA. The 13-member committee was formed under Vice Chairman of the National Planning Commission Govind Raj Pokhrel on August 2 after some political parties raised objection to signing of the PDA during Indian PM Narendra Modi's visit to Nepal.

It was given a deadline of three weeks to submit a report which expired last Sunday.

In a report submitted to PM Sushil Koirala today, the committee has suggested the project developer be asked to take necessary measures to minimise impact of hydroelectric project on various irrigation projects downstream of the site. The comment was made referring to irrigation projects like Rani-Jamara-Kuleriya, Rajapur, Surya Patuwa that lie in the downstream of the hydroelectric project.

"The PDA should incorporate provisions that could provide maximum benefit to the country," says a statement issued today by the high-level committee.

Other recommendations include mobilising domestic insurance companies for various purposes, use of domestic construction materials and generating maximum number of jobs for Nepalis, the statement signed by Pokhrel and Investment Board Nepal CEO Radhesh Pant states.

The Upper Karnali project is being developed by GMR Group of India. The company was awarded the project, located in Surkhet, Achham and Dailekh districts, in 2008 through competitive bidding. The project, which will export electricity to India, will give 27 per cent equity and 12 per cent electricity for free to Nepal.

Negotiations on the PDA began in April 2013.

- Cash incentive be given to project developer as per fiscal policy
- Project developer be asked to take necessary measures to minimise impact of hydroelectric project on various irrigation projects downstream of the site
- PDA should incorporate provisions that could provide maximum benefit to the country
- Mobilise domestic insurance companies for various purposes
- Use domestic construction materials
- Generate maximum number of jobs for Nepalis

Source: The Himalayan Times; 1 September, 2014

PTA talks to begin on Sept 3

Agreement will allow Nepal to purchase electricity during a shortage and sell surplus power to the southern neighbour

The Ministry of Energy (MoE) has proposed to hold much-awaited talks on power trade agreement (PTA) with India from September 3-5 in the Indian capital of New Delhi.

“A proposal in this regard has already been sent to the Indian side. They have informally agreed on the dates,” MoE Joint Secretary Keshab Dhoj Adhikari told The Himalayan Times.

The ministry now needs to get an approval from the Cabinet to travel to India and start negotiations on the power trade deal, which, once sealed, would officially allow Nepal to purchase electricity whenever there is a shortage here and sell surplus power to the southern neighbour.

Once the permission is extended, a seven-member delegation led by Energy Secretary Rajendra Kishore Kshatri will depart for India.

The ministry had decided to begin PTA negotiations based on the invitation sent by the Indian side earlier this month.

The government had, however, taken some time to respond to the invitation, as it was waiting for the Indian reaction on the draft of the PTA forwarded by Nepal on August 1. Nepal had proposed the dates for the meeting after it received the response of the Indian side some days ago.

“They (the Indian side) have welcomed our draft and said it (the draft PTA) can be used as a basis for negotiation. They have said other issues can be discussed during the meetings in New Delhi,” Adhikari said. “We are now making preparations for the meeting.”

If the talks are held this time, both the sides may be able to meet the 45-day deadline on PTA signing extended by the premiers of both the countries. On August 4, Prime Minister Sushil Koirala and Indian Premier Narendra Modi had agreed to conclude the PTA within 45 days.

Nepal and India had initially planned to hold talks on PTA in New Delhi from July 21 to 22. To begin the negotiations, a delegation led by Energy Secretary Kshatri was supposed to leave for the Indian capital on July 20.

But citing the absence of Prime Minister Sushil Koirala in the country, the Cabinet, which was then headed by Deputy Premier Bam Dev Gautam, did not give clearance for the visit. The Nepali delegation then had to cancel trip in the last hour.

The Cabinet at that time did not give permission to the Nepali delegation, as the draft of the power trade agreement forwarded by India had raised some eyebrows here, with many politicians

claiming signing of the pact would give sole authority to the Indian government or companies to build hydroelectric projects in Nepal.

Following that controversy, a three-party panel comprising Finance Minister and leader of Nepali Congress Ram Sharan Mahat, CPN-UML's Bhim Rawal and Unified CPN-Maoist's Narayan Kaji Shrestha was given the responsibility of finalising the draft of the power trade agreement.

The draft, prepared with the support of MoE officials, was then forwarded to India on August 1.

In the draft of the power trade agreement prepared by the panel, Nepal had proposed to focus solely on power trading and building cross border transmission lines to import and export power, without touching upon the issue of power generation.

Source: The Himalayan Times; 2 September, 2014

Upper Karnali a three billion dollar bonanza for Nepal

Yet the government has made no progress on PDA as September 17 deadline approaches

Future looks bright

- Rs 144 billion in dividend from equity
- Rs 121 billion in royalty
- Rs 66 billion worth of free electricity

Himalayan News Service

Kathmandu, September 1

The much debated Upper Karnali hydroelectric project is expected to bring a windfall with the government standing to earn Rs 144 billion in dividend from equity extended by the developer of the 900-megawatt power project.

This money is exclusive of Rs 121 billion that the project developer will provide to the government in royalty and around Rs 66 billion worth of free electricity throughout the concession period of 25 years. Indian multi-national GMR Group, the developer of the hydroelectric project, has pledged to provide 27 per cent equity in the project free of cost to state-owned Nepal Electricity Authority.

The value of these shares is approximately Rs 9.45 billion. These shares will generate returns of around Rs 5.76 billion per year, or Rs 144 billion throughout the concession period, sources told *THT*. The government, through a competitive bidding, had decided to allow GMR Group to develop the Upper Karnali project in 2008.

The project, located in Surkhet, Achham and Dailekh districts, is being built under build, own, operate, transfer (BOOT) model of 25 years, meaning the developer will have to transfer the ownership of the project without charging any fee after 25 years of commercial electricity production. With this ownership transfer, the government will get asset of Rs 240 billion for free, which is around 12 per cent of the country's GDP of the last fiscal year.

“The project holds so much potential for development of the country's hydro sector,

and also promises to extend financial benefits. But, unfortunately, a project development agreement is yet to be signed, which is delaying project implementation,” a government source told *THT*. The Investment Board Nepal, a government agency which is overseeing implementation of the project, had started negotiations on the PDA with GMR Group in April 2013.

After numerous rounds of meetings, both the sides had agreed to sign the deal during Indian Prime Minister Narendra Modi’s visit to Nepal in the first week of August. However, that did not materialize after some of the political parties raised objections, citing ‘more homework needs to be done’.

Following that a 13-member high-level committee was formed under National Planning Commission Vice Chairman Govind Raj Pokharel to find out pros and cons of the draft PDA. The committee, formed on August 2, was asked to submit a report to Prime Minister Sushil Koirala in three weeks.

Two issues were debated during the committee’s meeting. First was on the impact that the hydroelectric project could have on irrigation projects like Rani-Jamara-Kuleriya, Rajapur, Surya Patuwa that lie downstream of the project site. This problem was immediately addressed, as the committee members agreed to deploy a team to conduct a study within six months of signing the PDA.

The more controversial issue was the proposal to extend one-time cash incentive of five million rupees for every MW electricity produced by the project. Two members of the committee, Chief Secretary Leela Mani Poudyal and Nepal Rastra Bank Governor Yuba Raj Khatriwada, opposed it on the grounds that the incentive should only be given to projects that generate electricity for domestic consumption. But since the fiscal policy has not been approved by the Parliament so far, the two sides will have to negotiate on the issue of cash incentive at a later date, a source said. This raises the question: Will the government be able to sign PDA with GMR Group of India within the deadline of September 17 issued by PM Koirala?

Source: The Himalayan Times; 3 September, 2014

IBN wants MoF to clarify stance on incentive

Investment Board Nepal (IBN) has requested the Ministry of Finance (MoF) to make its stance clear on extension of cash incentive of Rs five million for every megawatt of electricity produced by the developer of the Upper Karnali hydroelectric project.

In a letter forwarded to the MoF today, IBN has asked the ministry to clearly mention whether the cash incentive should be given to the developer of the 900-megawatt hydro project, a reliable source informed The Himalayan Times.

The request was made to expedite the process of concluding negotiations with GMR Group of India, which is developing the hydroelectric project, and sign the Project Development Agreement (PDA).

IBN, a government agency which is overseeing implementation of the Upper Karnali project, had resumed negotiations on PDA with GMR Group on Monday.

Although this leg of negotiations was supposed to deal with two contentious issues of minimising the effect of the project on irrigation projects downstream of the Upper Karnali site and extending cash incentive, both the issues could not be discussed elaborately.

“We had called the irrigation minister and secretary to join the talks today, but they couldn’t as they were abroad,” the source informed. “And since we have just written to the MoF asking it to make its stance clear on cash incentive, we will have to give it some time. We have, therefore, decided to sit for negotiations at another date.”

IBN had started negotiations on the PDA with GMR Group in April 2013. After numerous rounds of meetings, both the sides had agreed to sign the deal during Indian Prime Minister Narendra Modi’s visit to Nepal in the first week of August.

However, that did not materialise after some of the political parties raised objections, citing ‘more homework needed to be done’. Following that, a 13-member high-level committee was formed under National Planning Commission Vice Chairman Govind Raj Pokharel to find out pros and cons of the draft PDA. The committee, formed on August 2, was asked to submit a report to Prime Minister Sushil Koirala in three weeks.

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“We were supposed to discuss this issue in detail today, but couldn’t,” the source said.

Another issue was proposal to extend one-time cash incentive of Rs five million for every megawatt of energy generated.

Two members of the committee, namely Chief Secretary Leela Mani Poudyal and Nepal Rastra Bank Governor Yubaraj Khatiwada, stood stiff against this proposal as they argued the incentive should only be given to projects that generate electricity for domestic consumption.

Upper Karnali project is an export-oriented hydro project, which intends to sell 88 per cent of the electricity in India. But cutting the project's access to cash incentive may send a wrong signal to other international hydro developers who are planning to generate power here and sell it in markets like India, sources argued.

Also, the fiscal policy for this financial year, introduced in July, speaks of providing 'a grant of Rs five million for every megawatt of electricity generated and evacuated to the national grid'.

Last Friday, the high-level committee formed under Pokharel submitted a report to PM Koirala stating that the cash incentive be extended to the project developer as per the law. This implies the provision on incentive mentioned in fiscal policy has to be first approved by the Parliament, as ratification of the policy would turn it into an Act.

"However, we don't know when the document will be endorsed. So to give assurance to GMR and expedite the process of signing the PDA, we need a commitment from the finance ministry," the source said.

Source: The Himalayan Times; 3 September, 2014

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Source: The Himalayan Times; 4 September, 2014

Lower Modi maintenance to take a week

The maintenance of the 10-Megawatt Lower Modikhola 1 Hydropower Project is to take additional one week.

The hydropower project based in Chuwa of Parbat district has been closed down due to landslide.

The power generation and transmission was stalled after the landslide destroyed the canal. The landslide triggered by incessant rainfall on August 27 obstructed the regular operation of the hydropower.

The disaster has blown away 15 metres and buried over 200 metres of the canal, said Project Director Upendra Raj Gautam.

He said the landslide has added financial burden of Rs 30 million to the project constructed by United Modi Hydropower Limited, a private company.

Source: The Himalayan Times; 4 September, 2014

Gandaki-Dhaulagiri top power generation

As many as 12 projects producing 337MW in region

Himalayan News Service

Pokhara, September 3

Gandaki and Dhaulagiri zones alone generate almost half the total hydro power produced across the nation.

Till date, of the total 700 MW hydro-electricity connected to the central transmission line, 337 MW power is generated only in Gandaki and Dhaulagiri zones. Various big hydro projects are under construction and some of them will be starting production in the near future.

Ramji Bhandari, Chief of Nepal Electricity Regional Office, Pokhara, said approximately 50 per cent of the total electricity of the country is generated in the regions. There are many hydro power projects under construction, he added. Kaligandaki A, the largest hydro power project in the country lies in Syangja, the 70 MW Mid-Marsyangdi lies in Lamjung and the 69 MW Marsyangdi is in Tanahun.

There are 123 projects in the region. Many under construction projects under private sector and state-owned NEA lie in the region and the PPA of many projects have been completed and construction will begin soon.

The data available with the Ministry of Energy shows that around 300 MW power will be generated in the upcoming three to four years in the region. Of the 83 projects granted licenses, 28 projects with 2,330 MW potential lie in Gandaki and Dhaulagiri zones. Of the total 109 projects granted license for survey, 28 including Gorkha's Upper Budhigandaki are in the region. There are many under construction hydro projects in Kaski, Lamjung and Myagdi districts, said sources.

Anandaraj Mulmi, former Chairman of Federation of Nepalese Chambers of Commerce and Industries, said the government should create an investment-friendly atmosphere as the potential for hydro-electricity generation is high.

“As there is no alternative to the use of water resources for the country’s overall development, the government should work with short, mid and long term plans to utilise resources for economic revolution in the country,” Mulmi stressed. He said that the transmission lines would be extended.

Meanwhile, Bijaya Babu Malla, Chief Executive Officer of Madi Power Private Limited, said many hydro power projects in the region are in the process of being constructed, while survey is going on in some projects others are going through the process of getting licenses. “The government should ensure investment-friendly environment by amending policies,” he said.

Source: Karobar; 4 September, 2014

Nepal, India agree on PTA

[Baburam Khadka](#)

Nepal and India have signed on a preliminary power trade agreement (PTA) after efforts over a long time.

The energy secretary-level meeting in New Delhi, India on Wednesday and Thursday reached to the agreement. Energy Secretary Rajendra Kishor Chhetri and his Indian counterpart Pradeep Kumar Sinha signed on eight different points of the PTA. They have agreed to do the PTA for 25 years with provision of renewal every 10 years after that. The PTA will come into effect only after ministers of both the countries sign it.

This agreement is expected to increase both domestic and foreign investment in the Nepali hydropower sector. The investors looking for market will be able to sell electricity in India without any discrimination. This agreement is also expected to help in addressing the current energy crisis in Nepal. But 400 KV trans-national transmission lines must be constructed for that. Both the countries will be able to develop energy sector without any discrimination in a way agreeable to the countries, while public and private bodies will be allowed to construct transmission line, exchange electricity and trade it after the agreement. Power is currently traded only at government level. Nepal has been procuring 200 MW from India as per exchange agreement while Indian Prime Minister Narendra Modi has announced to double it to 400 MW to address energy crisis in Nepal. The countries had agreed to sign PTA within one and half months during the Nepal visit of Modi last month.

The countries have agreed to expand power trade to regions and sub-regions by using transmission lines on the basis of benefits for the countries. This has paved the way for power trade with Bangladesh and Pakistan through India. Bangladesh has already proposed to buy 5000 MW from Nepal. They have also agreed to remove barriers like customs duty, fees and taxes to facilitate power trade. Investors, buyers, and traders can use trans-national transmission lines and participate for acquiring license for power generation and trade without any discrimination. India had imposed a fee of IRs 2 per unit on electricity imported from Nepal in 2008 but had later removed it. Both the countries will facilitate sole or joint investment to attract investment in energy sector as per their respective national laws. Both the countries will give rights and license to electricity producers, traders and buyers to trade power and exchange it through trans-national transmission lines. The countries will also get to import or export electricity on the basis of demand and supply. The Nepal Electricity Authority (NEA) is currently refusing to sign power purchase agreement (PPA) with big projects stating that there will be energy surplus during the rainy season once Upper Tamakoshi Project comes into operation. The NEA can sell surplus energy to India during the rainy season and import from India during the winter after PTA.

They have also agreed to form a joint task force under joint leadership of a joint secretary of their respective energy ministry. It will hold meetings at least twice a year and will identify scope for

promotion and assistance. The agreement does not include generation and has stressed on transmission, installation, power trade and power exchange.

Energy Minister Rasha Kumari Gyawali states that the agreement has opened the door for long-term investment and will create investment environment. Stating that the problem of market has now been removed, she says generation will now be challenging. She claims that India has agreed on the issues wished by Nepal. She reveals that the PTA will be ratified by the cabinet.

A political team including Finance Minister Ram Sharan Mahat, CPN-UML Vice Chairman Bhim Rawal and UCPN (Maoist) leader Narayan Kaji Shrestha had prepared the draft of PTA following widespread opposition of the draft proposed by India. The Energy Ministry had sent the final draft to India on August 1 after the three major political parties agreed on that. PTA could not be signed in 1997 when both power trade and generation were kept in the same basket. Implementation was blocked after the then parliament refused to approve the PTA citing linking of generation to the PTA.

The Indian Energy Ministry has already given permission to promoter of Upper Karnali GMR Energy Limited and that of Arun III Sutlej Hydropower Corporation Limited to sell electricity generated in Nepal to India, and PTA is necessary for projects developed by non-Indian promoters to export the generated electricity to India. Indian companies have received generation license for projects with combined installed capacity of 6000 MW out of that issued for generation of 13000 MW in Nepal.

Investment is expected to arrive only after signing of PTA. PTA will end trade of power at the government level only and it can be done with around half a dozen power trading companies like Tata, Reliance and others instead of just depending on Power Trading Corporation Limited.