

Source: The Kathmandu Post; 27 September, 2014

PAC sub-panel exposes massive irregularities at Chameliya

A subcommittee of the parliamentary [Public Accounts Committee](#) formed to probe the [Chameliya Hydropower Project](#) has found massive irregularities behind its cost overruns seeking the Commission for the Investigation of Abuse of Authority (CIAA) to conduct further investigations and take action against those responsible.

The project's cost almost doubled to Rs 15.06 billion from its initial estimated outlay of Rs 8.49 billion due to a massive rise in the variation order, change in design, bad geographical condition, compensation for land acquired, squeezing of the

tunnel, steel lining and prolongation costs.

The parliamentary panel headed by Rajendra Kumar KC found irregularities such as overhead costs higher than those of similar other projects without any basis, cost calculation without ground reality, delayed preparation of construction drawing, differences in the formulae presented in the tender document and the ones used in escalating the cost and failure to obtain a promised discount from the contractor, among others.

KC said the project faced cost and time overruns due to irregularities and they recommended that the anti-graft body take action against those responsible. "The high variation cost and escalation of the cost for the transmission line from Balach, Darchula, to Attariya, Kailali, resulted in huge cost overrun," he said. The cost for the transmission line rose to Rs 2.11 billion from an initial estimate of Rs 1.83 billion.

However, variation caused the biggest rise in the cost which has been approved by the Nepal Electricity Authority (NEA), the developer of the 30MW project, for six times until now for the civil works.

With Chinese contractor China Gezhouba Water and Power (Group) getting the civil contract for Rs 2.88 billion on December 21, 2006, variations approved by the NEA alone reached Rs 2.54 billion. The subcommittee's report states that with the addition of variation and other costs, the revised cost of the civil work has reached Rs 7.5 billion.

The biggest variation approved by the NEA is for tunnel squeezing treatment works, which is worth Rs 1.09 billion. An 843-metre segment of the project's tunnel, which is almost one-fourth of its total length, had to be reconstructed due to its being squeezed.

The report said that the tunnel became squeezed because the geological study of the project site was not done properly while preparing the detailed project report (DPR). Despite the NEA's approval to pay such a large variation amount to the contractor, PAC stopped the payment until another decision was taken by its meeting held on July 1.

But the entire work of the project was stalled after PAC's order to stop payment. "It is guided by publicizing reports that the project has been a failure at the local level," stated the report.

The report submitted to PAC at its meeting on Friday has recommended a new technical evaluation regarding the repair and maintenance status of the treatment of the squeezed tunnel and making payment based on the physical progress of the construction work. Earlier, PAC had suggested instructing the Energy Ministry to resume work at the project immediately after making payment for the 86th Interim Payment Certificate, a regulator task, fixing the exact deadline for completing the work with the contractor.

It has also recommended forming a monitoring team to find out whether work has been done as per the timeline and to ensure accountability for the work.

The subcommittee's report has pointed out that contractors have demanded a variation amount 78 times higher than the amount determined by the Variation Review Committee (VRC). While fixing the variation, the contractor proposes variation which is checked by the consultant

engineer and the VRC fixes

the variation and sends it to the NEA board.

The variation amounts determined by these three agencies differ as they don't use the same norms for the variation, the report further said, adding that there was a need to prepare and implement the norms. As a result of the higher variation, the cost of the project per megawatt has risen to Rs 500 million from the initially estimated Rs 283.18 million. Likewise, the appointment of a consultant as late as 10 months after the contract for the civil works was awarded as well as the change of the consultant after three years also created problems at the project, said the parliament panel.

The report also found NEA failed to claim the promised discount of 24.18 percent from the contractor while paying it the variation amount. "Overhead costs and profit for contractor have been hiked by 40 percent against NEA's Financial Administration Bylaw that has provisioned keeping it at 15 percent by calculating the cost of materials, labour and equipment," states the report.

Likewise, the NEA approved the cost escalation of the South Korean contractor appointed for the electro-mechanical and hydro-mechanical tasks. A Korean joint venture named KHNP Consortium, consisting of Korea Hydro & Nuclear Power Co, Hwachon Plant Construction Co, Sean Engineering and Construction Co and Nepal Hydro & Electric, are handling the electro-mechanical job.

According to the report, the cost of the electro-mechanical and hydro-mechanical work surged to Rs 2.48 billion from the initial estimate of Rs 1.97 billion.

Source: The Himalayan Times; 27 September, 2014

IBN, GMR pen pact to build Nepal's biggest hydel project

Rupak D Sharma

The ground for construction of the country's largest hydropower project has finally been laid, as the Investment Board Nepal and GMR Energy of India today signed the Project Development Agreement on 900MW Upper Karnali hydroelectric project.

As the clock struck 2:56pm at the Harka Gurung Hall in Prime Minister's Office, IBN CEO Radhesh Pant and RV Sheshan, president of Hydro Energy Business Unit at GMR Energy, sat down to sign PDA documents. After two minutes, the signing ceremony concluded, drawing a burst of applause.

Among those who applauded the signing of deal were Prime Minister Sushil Koirala, Deputy Prime Minister and Home Minister Bam Dev Gautam, Indian Home Minister Rajnath Singh, Nepali ministers, high-ranking government officials and Indian Ambassador to Nepal Ranjit Rae.

GMR, the developer of \$1.5-billion Upper Karnali project, is building the project on build-own-operate-transfer (BOOT) model. Under this model, the developer will have to hand over the project, including transmission lines, to the government free of cost and in good operating condition after 25 years of electricity generation.

"This is the first time such a huge investment is being mobilised by a foreign investor to build a project here. We hope this will open doors for further utilisation of natural resources for the benefit the people," DPM Gautam said at the signing ceremony.

Indian Home Minister Singh called the signing of PDA 'a historic moment'. "It is probably the largest foreign investment Nepal has drawn so far. This will benefit both Nepal and India," he said, urging GMR to complete the project on time so that the company does not lose its credibility.

GMR has said it would arrange all necessary funds to build the project in the next two years and complete construction of hydel plant and transmission lines in another five years.

“We will raise debt and equity capital required for the project within the deadline and we won’t have any problem mobilising it,” Sheshan said, sidestepping a question on the deal that is said to be in the making to sell part of GMR’s shares in the Upper Karnali project to Électricité de France, a French state-owned power company. He also did not reveal anything on investors that GMR is planning to rope in to build the project.

Sheshan only said the project would have debt-equity ratio of 75:25 if there was no cost overrun.

GMR, an Indian multinational company, was awarded the Upper Karnali project located in Surkhet, Achham and Dailekh districts in 2008 through competitive bidding. It started PDA negotiations with IBN in April 2013. The PDA was signed today after IBN’s board and the Cabinet endorsed the document. GMR, however, still needs to ascertain the project’s impact on downstream irrigation projects like Rani-Jamara-Kuleriya, Rajapur and Surya Patuwa. “For this, a joint study will be conducted with the government.”

Source: The Himalayan Times; 21 September, 2014

'PDA in our interest'

Energy Minister Radha Gyawali has said the project development agreement signed with the GMR company was in the country's interest and that it would open doors to further development. GMR is the power developer company of 900 MW Upper Karnali hydel project.

Addressing an interaction in Kathmandu on Saturday, Minister Gyawali said that the power trade agreement (with India) and project development agreement had paved the way for many other development projects.

She added that the government was studying the possibility of hydel projects in Rolpa and Taplejung with the help of the World Bank.

Source: The Himalayan Times; 22 September, 2014

Nepal-India meet on Pancheshwar begins today

The two-day meeting will focus on framing a charter of Pancheshwar Development Authority that will oversee project implementation

A Nepal-India meeting dedicated to development of 5,600 MW Pancheshwar Multipurpose Project is being held in Kathmandu for the first time after a decade, during which officials of both the countries will hold discussions on finalising the detailed project report and drafting the charter of Pancheshwar Development Authority, which will oversee implementation of the project.

The two-day meeting of the governing board of the project will begin tomorrow. Energy Secretary Rajendra Kishore Kshatri will lead the Nepali side, while the Indian side will be led by Secretary at the Ministry of Water Resources, River Development and Ganga Rejuvenation, Alok Rawat. The Indian delegation has already arrived in Kathmandu.

This is the first time that the governing board of Pancheshwar Project is meeting. The governing board comprises seven members each from both the countries. It will be co-chaired by Nepali energy secretary and Indian water resources secretary.

Nepali members in the governing board include joint secretaries of energy, finance and foreign affairs ministries, directors general of the Department of Electricity Development and the Department of Irrigation, and managing director of Nepal Electricity Authority.

A meeting dedicated to development of Pancheshwar Project was last held in 2004. After that terms of reference of the project were initialled at the secretary-level during Nepal-India joint committee meeting on water resources held in 2009. The terms of reference were finally endorsed by both the countries during Indian PM Narendra Modi's visit to Nepal in the first week of August.

"The two-day meeting will basically focus on framing a charter of the Authority, which will oversee the project implementation," said Joint Secretary at the Ministry of Energy Keshav Dhoj Adhikari. Discussions will also be held on appointing a CEO and an assistant CEO of PDA.

Both the countries have agreed to select these officials through free competition. One of them will be a Nepali, while the other an Indian. “The meeting will also deliberate on finalising the detailed project report of Pancheshwar Project so that the project could be rolled out soon,” Adhikari said.

Earlier during Indian PM Modi’s visit to Nepal, both the countries had agreed to set up the authority within six months and finalise the DPR and begin implementation of the project within a year.

“Both the sides have conducted detailed studies on the project in the past. All we need to do is iron out differences and ensure the information is up to date,” Adhikari said. “Considering this, we might be able to finalise the DPR within six to eight months.”

The two sides will discuss creating a fund to pool resources for the development of the project during the meeting, Adhikari informed.

Source: The Himalayan Times; 22 September, 2014

‘There are those who always try to politicise and protest every move made by the government’

The country's energy sector achieved two major milestones last week. First was the Cabinet's endorsement of the Power Trade Agreement initialled by energy secretaries of Nepal and India. Second was the signing of the Project Development Agreement on 900MW Upper Karnali hydroelectric project – the largest hydro project being built in the country – between the Investment Board Nepal and GMR Energy of India. **Rupak D Sharma** of **The Himalayan Times** spoke to Finance Minister **Ram Sharan Mahat**, one of the architects behind both the agreements, on the significance of these deals and effects these pacts would have on the country's economy.

What kind of message does the Cabinet's endorsement of the PTA and signing of PDA send?

These developments will send a strong message that Nepal is ready to do business with investors from across the globe. These developments also show that business climate is improving here and decisions will be taken on time. So far, we have only been chanting about the country's huge hydropower potential, without actually generating electricity. Now, we have shown to the world that we are ready to harness this potential. Once we start generating power, investment will gradually start flowing into other sectors, as electricity is the staple for every type of industry. So, these two agreements will create lots of multiplier effects.

What measures are being taken by Finance Ministry to draw investment, both domestic and foreign?

Recently, through the fiscal policy, we announced to extend cash incentive of Rs five million for every megawatt of electricity that is generated in return for value added tax (VAT) paid by project developers. We are also providing income tax rebate to hydro project developers for the first 10 years and income tax concession for another five years. In addition, we are also trying to expedite decision-making processes to facilitate investors. It should be noted

that PTA and PDA were concluded around the 45-day deadline extended by Prime Minister Sushil Koirala and Indian Premier Narendra Modi. All of us did our level best to meet the deadline as we wanted to show everyone that we mean business and decisions can be taken on time here. We hope these developments will raise the confidence of investors who are considering on investing here.

But the issue of extending cash incentive of Rs five million for every megawatt of electricity generation became quite controversial, isn't it? Few senior bureaucrats were not supportive of the decision to extend incentive to export-oriented hydro projects like Upper Karnali.

The budget document is very clear on extending this grant to all those who evacuate power before mid-June 2023. You know that value added tax is ultimately paid by consumers. But we haven't imposed VAT on electricity consumption. So, the entire burden of VAT on electricity has to be borne by project developers. Because of this, project developers were insisting on scrapping this tax provision and were demanding VAT rebate to the tune of Rs 10 million for every megawatt of electricity they generate. But we didn't agree to their demand. Instead, we told them that we'd reimburse VAT in the form of cash incentive. That's why the government pledged to extend the incentive of Rs five million. This is a policy declared by the government and it applies to all the projects that evacuate power within the deadline. We offered this incentive to encourage project developers to speed up the process of electricity generation so that we could get rid of loadshedding and reduce imports of electricity from India.

But the budget document does not clearly mention that export-oriented projects are also entitled to cash incentive, isn't it?

We cannot take discriminatory approach in this regard and bar export-oriented projects from enjoying this benefit. In fact, government has been extending various forms of incentives and tax rebates to export-oriented businesses so

that their products could compete in international market. These measures are taken to boost exports, and electricity should not be an exception. Moreover, PTA initialled by Nepal and India calls for free trade in power between two countries on non-discriminatory basis. So, if we start taking a discriminatory approach, India may reciprocate in a similar manner while selling power to Nepal, which will add burden on consumers. So, the proposition that cash incentive should not be extended to export-oriented projects is ridiculous and was raised by those who wanted to create a controversy.

Do you mean politics came into play?

There are those who always try to politicise and protest against every move made by the government. For instance, there was a huge outburst of protest when BIPPA (Bilateral Investment Promotion and Protection Agreement) was signed with India. Energy projects, especially those being developed by India, always land into controversy. This is a unique phenomenon seen in Nepal. The PDA document was prepared by best experts after conducting thorough research. But because of misinterpretation and misunderstanding of a few of the clauses, some started opposing it. The problem is that we do not have faith in our institutions and people working there. We should start trusting our institutions as they know how to protect national interest.

You had publicly said that signing of Upper Karnali PDA would be a game changer for country's hydro sector. Now the document has been signed what benefits could Nepal reap?

I meant it. This is because we have long been talking about attracting private investment in the hydro sector. In this regard, we have also issued many survey licences for development of hydropower projects. But very few of those projects have taken off. The PDA that we signed with the private investor is for the development of the largest hydro project and it's the first of its kind. With this, we now have a model PDA document. I believe we can use this document as a reference while designing PDAs for other projects. I believe this will facilitate the PDA signing process with other similar projects in pipeline,

such as Upper Marshyangdi, Arun III and Tamakoshi III, which have potential to generate around 3,000 MW of electricity. These are the reasons why I had said that signing of the Upper Karnali PDA would be a game changer for country's hydro sector.

So, you are very optimistic about the development of the hydro sector?

Yes. The World Bank Group has already expressed interest to invest \$5-7 billion in hydro and other sectors here. Similarly, European Investment Bank and Asian Development Bank are also eager to fund hydro projects. Recently, we also allowed two international financial institutions – International Finance Corporation and ADB – to float local currency bonds worth Rs 100 billion and a big chunk of this money is going towards the hydro sector. Also, the Indian government has pledged to extend \$1 billion of credit line to Nepal and sizeable portion of it will go towards development of the energy sector. So, there is resurgence in interest in Nepal's hydro sector, following the installation of new government.

How much of the credit of \$1 billion being extended by India is going towards the hydro sector?

We are still in the process of identifying projects. But at the moment we do not have ready-to-implement hydro projects. Implementation of projects like Budigandaki or Pancheshwor may take at least one year. So, we might have to wait till then.

Government seems to be concentrating too much on power generation these days, without laying much focus on development of transmission lines. This has started affecting developers who have already built hydro plants.

We have allocated a significant portion of our annual budget for development of transmission lines. Nepal-India cross-border transmission line and transmission lines along Koshi, Solu, Tamakoshi, Trishuli, Marshyangdi and Kaligandaki are in implementation phase. At no point in Nepal's history, development of so many transmission line projects was underway.

But the budget allotted for transmission lines usually never gets used, isn't it?

Yes, there is a problem in implementation of budgetary programmes and we are pushing ministries to timely utilise allocated funds.

And what about problems seen in acquisition of land required for development of transmission lines. How is the government trying to address this problem?

Transmission line projects are usually delayed because of exorbitant sums of money demanded by land owners. Of course, legitimate concerns need to be addressed but if locals start placing unwarranted demands or exerting undue pressure, actions should be taken as per the law. Personally, I favour enrolling projects of national importance in the Essential Services Act, so that such projects do not face obstructions.

Source: The Himalayan Times; 23 September, 2014

PDA will herald revolution in hydro electricity, says Mahat

Country could profit 431 billion rupees from Upper Karnali PDA

Finance Minister Ram Sharan Mahat today said the Project Development Agreement (PDA) that Nepal signed with India's GMR would usher in revolution in the field of hydro electricity generation.

Inaugurating Bharatpur Festival organised by Youth Society Bharatpur in Bharatpur, Minister Mahat remarked that the country could undergo radical change in a short span of time if agriculture, tourism and industrial development could be revolutionised after the hydro electricity revolution.

Stating that political instability had hindered the nation's development, Mahat argued that politics should not stand in the way of economic development. He claimed that implementation of PDA would rid the country of darkness.

Mahat said the country would make a profit of 431 billion rupees from the Upper Karnali Power Development Agreement and the realm of hydro electricity would be revolutionised.

He also observed the Inland Revenue Office in Bharatpur and directed the employees to strictly collect revenue.

Source: The Himalayan Times; 23 September, 2014

Pancheshwar statuette likely to be finalised today

Talks between high-ranking government officials of Nepal and India on development of 5,600MW Pancheshwar Multipurpose Project wrapped up today with both sides agreeing to finalise the statuette of the Pancheshwar Development Authority by tomorrow.

“Considering the developments of today, we may be able to finalise the statuette by tomorrow,” a high-ranking official of Ministry of Energy said, without providing details. “Both sides have agreed not to disclose information on the matter.”

The formulation of the statuette will pave the way to establish the authority, which will oversee implementation of the Pancheshwar Project.

Earlier during Indian Premier Narendra Modi’s visit to Nepal, both the countries had agreed to set up the authority within six months.

The first meeting of the governing board of the project, which began in Kathmandu today, will continue till tomorrow. Energy Secretary Rajendra Kishore Kshatri is leading the Nepali delegation, while Alok Rawat, secretary at the Ministry of Water Resources, River Development and Ganga Rejuvenation, is heading the Indian side.

During the meeting, discussions on preparing the detailed project report (DPR) were also held, the official said.

When Modi visited the country in the first week of August, both the sides had agreed to finalise the DPR on Pancheshwar and begin implementation of the project within a year.

“Both the sides have conducted detailed studies on the project in the past. All we need to do is iron out differences and ensure the information is up to date,” Joint

Secretary at the Ministry of Energy Keshav Dhoj Adhikari had earlier told The Himalayan Times. “Considering this, we might be able to finalise the DPR within six to eight months.”

The last meeting dedicated to development of Pancheshwar Project was held in 2004. After that, terms of reference on the project were initialled at the secretary-level during Nepal-India joint committee meet on water resources held in 2009. The terms of reference were finally endorsed by both countries during Modi’s visit to Nepal.

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Source: My Republica; 23 September, 2014

A month and
half of work
and
momentum at
Pancheshwar
Multipurpose
Project

RUDRA PANGENI

: **26:** Until August, about two dozen officials of Pancheshwar Multipurpose Project, working under the Department of Electricity Development in Baneshwar in Kathmandu, were twiddling their thumbs.

Recent developments, like the approval of a Terms of Reference (ToR) for the development of the project during India Prime Minister Narendra Modi's visit in the first week of August, and the first meeting of the governing body co-chaired by the water resources secretaries of India and Nepal held in Kathmandu earlier this week, have added some momentum to the development of the mega project which has made the officials' schedules pretty hectic over the last month and half.

Nepal and India signed the Mahakali Treaty in 1996 but there was very little action taking place over the nearly two decades.



The Mahakali River

The project is of about 6000 MW -- the final capacity will be determined after a Detailed Project Report (DPR) that will be prepared within a year as per Monday's decision by the governing body co-chaired by both the countries' secretaries -- is to be built in the Mahakali River, which borders Nepal and India.

The governing body is a perpetual and autonomous body formed to take decisions regarding the project and direct the executive committee of Pancheshwar Development Authority (PDA), a joint entity brought together for the development of the project. Chiranjivi Chataut, the project chief from Nepal, attributes the recent change in political leadership in India for the new pace of the project.

"We had no work prior to Modi's visit as there was nothing to do. But these days are so

hectic and the days ahead are likely to be even busier still,” Chataut said after the conclusion of the two-day long first meeting of the PDA governing body.

Nepal’s energy secretary Rajendra Kishore Kshatri and India’s Water Resources secretary Alok Rawat co-chair the body from the first meeting and also made the project functional.

A statement issued by the Embassy of India to Nepal after the meeting also attributed Modi’s visit for leading into the first meeting of the governing body and paving the way for expediting the project.

Speaking at the joint press conference on Monday, India’s Water Resources secretary Alok Rawat said the project will set an example of mutual cooperation between Nepal and India.

During Modi’s visit, both countries had agreed on the ToR, giving impetus to the development of the project.

The ToR was previously finalized by a meeting of the Nepal-India Joint Committee on Water Resources (JCWR) held in Pokhara in 2009 but had remained unresolved for five years by the Indian government.

Sunday and Monday’s meeting of the governing body approved the statute of the authority and also has decided that Nepal will nominate the Chief Executive Officer for the first three years and India will nominate an additional CEO. It also decided that the leadership of the PDA will change in rotations every three years.

The second meeting of the body, to be held in Delhi after a month, will appoint the CEO and additional CEO, paving the way for setting up of an office for the PDA in Kathmandu for the time being and later in Kanchanpur.

Likewise, the body also has made important decisions like the appointing of Water and Power Consultancy Services (WAPCOS), an Indian government consultant, to update the feasibility study and detailed report carried out separately by India and Nepal, and synthesize for the final Detailed Project Report (DPR).

Speaking to the media after the meeting of governing body on Monday, Ministry of Energy spokesperson Keshav Dhvaj Adhikari said, “WAPCOS will synthesize separate DPRs and will make suggestions about what studies are needed. It [the DPR] will be completed within a year, by the hiring of other agencies if necessary.”

Energy expert and former energy secretary Surya Nath Upadhyay says he feels hopeful that the recent developments will move forward the implementation of the Pancheshwar Project and said that it is moving in the right direction now.

Upadhyay, the author of ‘International Water Course Law and a Perspective on Nepal-India Cooperation’, was in the negotiating team representing Nepal during the Mahakali Treaty signing in 1996.

However, he expressed doubt about how the process of selection of a CEO will be kept free from political intervention and horse-trading as on such appointments are wont to be in Nepal. He says he prefers that the final choice be someone from a government agency as the CEO should have the know-how of the government's working system which an independent professional from outside may not have.

Experts and officials have expressed varying views on why there was so much delay in implementing the treaty.

Upadhyay says that the project was not a priority for India until recently and that India's attitude was also about only making promises and keeping implementation on the back seats.

However, incumbent energy secretary Kshatri, who was also one of the official involved in the drafting of the statute for the Pancheshwar Development Authority back in 1989, said there was no progress as political leaders during the period time had not dared to take risks. He says that there used to be a time when officials would hesitate about taking part in bilateral dialogue related to the Pancheshwar project.

Asked about the downstream benefit Nepal gets from the project, Upadhyay said that India will benefit more than Nepal by the regulated water and therefore according to the Treaty, India has to invest more.

He also said that the DPR will give a clearer picture about the capacity of the project, its benefits and the project cost, among others. There was also a Joint Group of Experts (JGE) formed in the late 1980s which as many as 20 meetings until 2004.

Likewise, a Joint Project Office was also set up in the project site in 1999 for the study of hydrology, meteorology and drilling investigations, but the project office was shut down in 2002 without after some work was done at the site.

Officials at DoED also blamed the peaking of the Maoist insurgency in 2002 for the closure of the office.

Both the countries will receive equally electricity, water for irrigation and any other benefit that comes from the project, according to the Mahakali Treaty.

