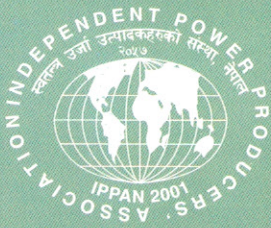


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January, 2005

INDEPENDENT POWER PRODUCERS' ASSOCIATION, NEPAL



Remarks from the President



It is indeed a matter of great pleasure to bring out the first issue of IPPAN's newsletter for the Year 2005.

This issue was to be published in the last quarter of 2004; however, due to the number of activities planned and conducted during the period, publication of the newsletter got pushed to the new year.

During 2004, IPPAN has made great strides towards conducting activities pertaining to its objectives of promoting involvement of the private sector in developing power projects; advocating for a better, comprehensive and unambiguous legal and regulatory framework; creating conducive atmosphere for project finance through local and international lending; investigation and diversification of power markets; and participating and cooperating in national, bilateral, regional and international efforts towards energy cooperation. IPPAN has been able to make rapid strides in conducting the activities under its Strategic Plan during this period, the results of which have been widely publicized, debated, synthesized and disseminated for broader public consumption.

We feel that these efforts have provided greater visibility to IPPAN, and has led to direct impacts towards formulation, revision and updating of policies, acts and regulations in the power project development arena, along with a recognized voice in the power sector reforms process. With this recognition, we feel that our views and perspectives will also be sought during national, bilateral and regional issues related with project development and trading.

IPPAN has moved to its new office at Heritage Plaza II in Kamaladi, Kathmandu after more than three years at the Himal Power Limited (HPL) Office. IPPAN thanks HPL for providing the office space and the facilities over these years. The new office is well equipped in terms of meeting rooms, library, office rooms, reception area, etc. The library is being upgraded regularly, and along with the IPPAN website, is targeted to be a one-stop shop for power development in Nepal. All IPPAN members are encouraged to utilize the facilities at the office and support its activities.

I wish everyone a very happy and prosperous New Year 2005!

IPPAN'S VISION, MISSION, GOAL & PURPOSE

To contribute to the development of Nepal's vast untapped hydropower potential, in line with Nepalese aspirations.

To help mobilize private capability, both national and international, to overcome the constraints confronting hydropower development.

To make optimal use of Nepal's water resources endowments, to serve long-term national and regional needs in the context of future fresh water and energy scarcity.

To disseminate information on hydropower development, in Nepal and elsewhere.

RGM of SARI/E RFP-I held in Delhi

Regional Grantees Meeting of RFP-I under the South Asia Regional Initiative on Energy (SARI/E) program was conducted on 4- 5 November 2004 in New Delhi. The purpose of the meeting was to share and update the different projects under RFP-I of SARI/E Small Grants Program. Rural Electrification in South Asia Region (RESAR) was one of the SARI/E funded project under RFP-I, jointly undertaken by IPPAN and CII, India. The program was also an opportunity to make contacts between different people and organizations working on energy sector across the Region. Different projects were presented under RFP-I, during the meeting. The RESAR project was jointly presented by Prakash Kaini, IPPAN and Suman Kumar, CII.



Participants of RGM of RFP I SARI/E in New Delhi

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Review of Polices, Acts and Regulations related to Hydropower

After the restoration of democracy in 1990, His Majesty's Government of Nepal embarked on a policy of economic liberalization, disinvestment and privatization. Accordingly, the electricity sector was also opened to the private sector for electricity generation, transmission and distribution through the promulgation of the Hydropower Policy 1992, Electricity Act 1992 and Electricity regulation 1993.

At the outset, these policies, acts and regulations had been instrumental in encouraging the participation of the private investors in the development of the hydropower sector, which is still in its formative stage. However over the years, it has been observed that the hydropower sector has not really developed as anticipated leaving the vast resource largely untapped unable to satisfactorily contribute to the development of the country. It has also been observed that the recent amendments in some of the legislations have also not been as supportive as the previous ones and furthermore in some cases, it is difficult to identify which legislation gain precedence over the others. Moreover, inadequacies in these legislations need to be addressed. Thus, it was felt that a detailed review of the policies, acts, regulations and ordinances related to hydropower is needed to come up with recommendations such that the inconsistencies, conflicting clauses and lack of coordination among different institutions can be overcome for better environment of hydropower development in Nepal.

IPPAN had therefore, taken it upon itself to review these acts, policies and regulations and identify problem areas, and suggest solutions to alleviate these problems such that private investment can be increased to a larger scale.

Some of the general constraints in hydropower development at present may be listed as follows

- » Institutional Framework - unclear and overlapping roles and responsibilities of existing institutions
- » Inadequate internal financial resources on account of a capital market which is still in its initial stage of development
- » Acts and regulations not developed to adequately assist policies along with inconsistencies and conflicts in various acts
- » Elimination of tax and other incentives, especially in the context of present unfavorable situation in the country
- » Lack of infrastructural support
- » Limited internal market size
- » Difficulty in selling electricity to third parties
- » Lack of independent regulatory mechanism
- » Limited labor force and raw materials
- » Lack of defined "power export policy"
- » Shortcomings in the compliance of acts and regulations
- » Political risk and the present adverse situation for investment in Nepal
- » Shortage of a specialized human resource, who have the professional expertise to appraise, implement and monitor hydropower projects, in financial institutions in the country

During the course of the IPPAN Study, a number of issues were identified, discussed and recommendations were made to the concerned policy makers and government authorities.

complementarities of the generation systems across the board. The study focuses on the historical background, current situation, impediments and future perspective for energy trade and hydropower development in Nepal.

As part of the study, IPPAN has been collecting information of jointly developed projects or mutual interest projects and the historical background. Key stakeholders from government authorities and others were met in order to have their first hand impression. Department of Electricity Development, Water and Energy Commission Secretariat,

Nepal Electricity Authority, Indian Embassy, Winrock International Nepal and the IPPs were met for discussion. Meetings with Indian authorities were held in the second week of October 2004 in New Delhi where Dr Sandip Shah, Mr. R.C. Chaudhary and Mr. Prakash Kaini participated from IPPAN. The key stakeholders met were Power Trade Corporation of India, Ministry of Power and Confederation of Indian Industries. Similarly Mr. V Raghuraman and Mr. Suman Kumar from CII visited Nepal on 1st week of November. During the visit, meetings were held with IPPAN executive committee, Ministry of Water Resources and Department of Electricity Development. Some of the key issues that came up during the meetings and discussions were:

- » The trade or cooperation should start with some immediately doable things to build up the confidence.
- » The transmission interconnection is a bottleneck and therefore it should be opened up as soon as possible.
- » The third party access to the transmission in Nepal must be there to enable the private sector start the power business. Laws and regulations should be in place as soon as possible.
- » Any kind of possibilities for partnership between public and private sector should be explored to develop the hydro projects in Nepal.
- » In the Joint Committee of Water Resources (JCWR) between Nepal and India, private sector should also be involved.

IPPAN in New Office

IPPAN has moved to its new office at Heritage Plaza II, Kamaladi Kathmandu from September 2004. IPPAN is grateful to Himal Power Limited (HPL), one of its founder members, who provided the secretariat space during the initial years.



Nepal India Cooperation on Hydropower

Under the SARI/E small grants program, IPPAN in partnership with CII India has been undertaking a research project Nepal India Cooperation on Hydropower (NICOH).

The objective of the project is to explore the areas of cooperation between India and Nepal for hydropower development in Nepal in order that both the countries can benefit from energy trade utilizing the

National Workshop on "Review of Policies, Acts and Regulations related to Hydropower Project Development in Nepal"

IPPAN, through the sponsorship of The Norwegian Embassy, organized a one-day Seminar on November 24th 2004, at Hotel Soaltee Crowne Plaza, Kathmandu to discuss and disseminate the findings from the detailed study report prepared by IPPAN on the review of existing policies, acts and regulations related to hydropower development in Nepal. The intent of this seminar was to help create better enabling legislative provisions, regulatory mechanism and institutional arrangements for hydropower development.

Opening the Seminar, the Member Planning Commission Honorable Yuvaraj Khatiwada stated that water resource development has been a national



Dr Sandip Shah, President of IPPAN, welcoming the participants

priority of all of HMGN's Development Plans and this conference would serve as a valuable reference to all engaged in and concern with hydropower development planning and implementation. He further recalled that while hydropower development in the past was mainly within the domain of the government, following the liberalization policy of the government, private sector is now considered as an important partner in this pursuit.

Welcoming the participants of the Seminar, Dr. Sandip Shah, President of IPPAN, highlighted the objectives and strategic plan of IPPAN. He elaborated on the fact that a developer needs to be aware of and is to follow more than 32 policies, acts and regulations of HMGN while developing a hydropower project in Nepal. He also noted the fact that there is a need for clarity among these laws in order to remove any ambiguity in their implementation.

There were 72 participants in the seminar representing various government agencies, private power developers, HMGN agencies involved in the



Dr Yuva Raj Khatiwada, addressing the workshop

Electricity sector, Donors, Financing Institutions, Manufacturers, International Government Organizations, Consulting firms, Contractors, Experts and the Media representatives.

There were 3 papers presented in the Seminar regarding review of laws in: 1. Water Related Sector, 2. Finance and banking sector, and 3. Environmental sector.

The findings of the study are that problems arise in hydropower development due to lack of implementation, weakness in governance and partly from risks specific to the sector. The main problems identified are:

- » Improper Institutional arrangements,
- » Inadequate legal framework,
- » High initial cost and long payback period for investments,
- » Lack of adequate financial resources,
- » Sanctity of Contracts.

Mr. PP Adhikari, Secretary General of IPPAN, gave the vote of thanks to participants. He requested all participants particularly the legislators, policy makers, professionals to recognize the constraints highlighted in the above presentation and to work harder to undertake responsible stewardship in order to expedite process of development of this very promising economic sector.

Workshop on Private Sector Participation on hydropower and financing by local banks in Nepal

Winrock International Nepal organized a two day workshop on the private sector participation on hydropower focusing on the financing by local banks in Nepal on 29-30 November 2004 in Kathmandu.

Representatives from the banks, Independent Power Producers and other stakeholders were present during the workshop. The key issues discussed were on the concept of project finance, experience of local banks investment in the sector which is encouraging and the arrangement of Power Development Fund (PDF) which is to come on line soon with the sole objective

of investing in the hydro sector. It has been calculated that local banks are capable of financing for approximately 30 MW each year which is slightly more than the half of the annual increment of the power needed in the system. The issues of technical expertise to the lending banks, the issues of guarantee from the developers, risk minimization issues, and the proper and simpler mechanism for PDF management were discussed. Experts from Sri Lanka also presented their experience of financing small hydro during the workshop.



Participants of the Workshop

Interview



**Interview with
Dr. Subarna Shrestha,
General Manager,
Sanima Hydropower
Company**

Could you briefly describe on the development of Sunkoshi Small Hydropower Project and its technical aspects?

A 2.6MW Sunkoshi Small Hydropower Project, being developed by Sanima Hydropower (P) Ltd. (SHPL) is currently at the end of construction phase and shortly going to be commissioned. For the development of this project SHPL has selected Himal Hydro and General Construction Limited as the main civil works contractor.

The powerhouse equipment were supplied by the Hyangzhou Keyu Hydro-tech Co. of China and all steel works and a short length of steel penstock pipe are being installed by Machhapuchhre Metal and Machinery Works (P). Ltd. The major portion of the penstock (2550m) is GRP pipe of 1200 mm and 1300 mm diameter which has been supplied by Graphite India Limited of Nashik, India.

Nepal Investment Bank is the lead bank for consortium financing of the project. The Engineering Department of SHPL has been taking the responsibility of all the engineering design/documentation as well as construction supervision/engineering management of the Project.

Major portion of the construction is completed, headworks structures including intake, inlet culvert, gravel trap, approach culvert, settling basin and forebay have been completed, the penstock installation and powerhouse equipment installment are towards completion.

The main highlights of this project are: Boulder lined diversion dam (1-3 & 3-5 ton boulders) and Glassfibre Reinforced Plastic (GRP) pipe which has been used as penstock in the region for the first time. The project is expected to be commissioned shortly.

What is the financial structure of the project?

This project is financed by purely Nepali entrepreneurs who live abroad, known as NRN (Non Resident

Nepali). This is the ever first project being developed by NRN. The project is financed on equity debt ratio. The debt part has taken by Nepali commercial banks, the lead bank being Nepal Investment Bank. The total project cost is about 300,000,000.00 (Three hundred million) Nepali Rupees.

Could you describe on the social obligations and the project_grea peoples' expectations from the project? Although there are not statutory/ mandatory social obligations as such but there are definitely some moral obligations towards the people of the project area. These are, to list a few for example, making of roads in the VDCs with combined efforts with the villagers, school building rehabilitation, helping sports clubs, renovation / reconstruction / construction of temples, distribution of sewing machines to marginalized village women, transmission line extension to the remote villages etc. Thus these activities demonstrate that peoples' expectations are varied from the project. Some people involved as unskilled workers during project construction phase have concern with their job. They want to have their job continued even after the completion of the project, which is not possible always.

How is the cooperation from the government authorities?

The cooperation from the government authorities also differs from person to person. It's a very complex relationship. However, the overall cooperation is positive otherwise the project would not have come to its fruition. The most important thing is that you have to have full confidence upon yourself in what you are doing and you must be determined to achieve the goals you put forth before outset of the project.

Future Projects?

We are planning to initiate feasibility study on Upper Sunkoshi (Sindhupalchowk), and Mai- Khola (Ilam).

Anything you want to share with others and new developers.

Obviously, the hydropower potential inside the country is tremendous. Rationalized harnessing of its potential can lead our country and our coming generation towards a bright future. New developers should have more practical approaches to harnessing

hydro-potential and should visualize clearly all difficulties that emerge during study, construction and post construction phases.

We people having common professional and business interests must unite together and lobby concerned government authorities for ensuring more secured environment for investment on hydropower. There are innumerable impediments a developer encounters while attempting to develop hydropower in Nepal. There are too many issues to be discussed and problems addressed. Therefore, I urge that we people of shared interests let sit together around a round-table and sort out all our grievances/views in relation to the existing environment in the nation for hydropower developers. Through such gatherings in which professionals share their experiences, we could come up with appropriate proposition/ formulation which may be useful for further our cause for the fulfillment of genuine interest of hydropower developers in the times to come?

Member News BKPC - New Plant Management Team

Provisions of the Hydropower Policy 1992 and Foreign Investment and Technology Transfer Act 1993, in Nepal, require that the project licensee carry out works such that technology is transferred to Nepalese citizens. To this end, on July 6th 2004, Bhothe Koshi Power Company Pvt. Ltd. (BKPC) has announced the promotion to Plant Manager of Mr. Bikram Ratna Sthapit and to Deputy Plant Manager and Operations Manager, Mr. Ajay Kumar Singh. Similarly, on July 31st 2004, Mr. Janak Raj Pant was promoted to the position of Maintenance Manager. This results in all in-country management positions, as well as staff, at BKPC being held by Nepalese.

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