

Source: The Kathmandu Post; 21 July 2018

Feasibility study of Nepal's largest hydel set to begin

Vidhyut Utpadan Company (VUC) is preparing to conduct a detailed feasibility study of the country's largest identified hydropower project. After getting a survey licence for the 1,902 MW Mugu Karnali Storage Hydroelectric Project from the Department of Electricity Development (DoED) several weeks ago, the state-owned enterprise is getting ready to conduct a detailed feasibility study and prepare a detailed project report (DPR). VUC is preparing the bidding documents to invite global tenders to appoint a consultant for the preparation of the DPR. Company officials are also planning to organise a site visit before publishing a tender for the selection of the consultant. The company plans to appoint the consultant within six months, according to Managing Director Mohan Raj Pantar.

The DoED has given the state-owned enterprise a two-year deadline to complete the study of the project. However, the company can apply for an extension of up to five years to complete the study. "Our plan is not to take too much time to complete the study," said Pantar. "We want to complete it as soon as possible." Apart from Mugu Karnali, the state-owned company is undertaking the study of four other hydropower projects with a total installed capacity of 1,593 MW. The company is studying the 450 MW Kimathanka Arun, 426 MW Phukot Karnali, 307 MW Jagdulla Hydro and 410 MW Nalsing Gadh Hydro.

VUC received the survey licence for Kimathanka Arun, Phukot Karnali and Jagdulla Hydro at the time of its incorporation in October 2016. The government awarded the 410 MW storage-type Nalsing Gadh Hydropower Project to the company by dissolving the development committee formed to build it.

The company is planning to prioritise the construction of the project as per the country's need once the detailed feasibility study is completed. "First of all, the project needs to be financially viable. Then we have to consider the energy demand of the country before undertaking the construction," Pantar told the Post.

VUC was established under the Company Act 2006. The company will issue 17 percent of its shares to the general public. The Ministry of Energy, Water Resources and Irrigation and the Nepal Electricity Authority (NEA) hold 20 and 10 percent of the stock respectively. Likewise, the Finance and Law ministries each own 5 percent of the shares while the Employees' Provident Fund and Nepal Telecom have a 10 percent stake each.

The Citizen Investment Trust, Hydroelectricity Investment and Development Company and Rastriya Beema Sansthan own 5, 4 and 2 percent of the shares respectively. The state-owned enterprise will offer 10 percent of the shares to locals affected by its hydropower projects, and 2 percent will be allotted to the extremely poor. The company has a paid-up capital of Rs300 million and an authorised capital of Rs20 billion.

Source: The Kathmandu Post; 22 July 2018

HIDCL taking the initiative to create a ‘hedging fund’

Mitigating risk

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Hydroelectricity Investment and Development Company Limited (HIDCL) has taken the initiative to establish a “hedging fund” in order to mitigate the foreign exchange risk that comes along with foreign direct investment (FDI) in public infrastructure project.

Hedging is a risk management strategy used to reduce the risk due to fluctuation of asset price. The hedging fund that HIDCL wants to establish is a kind of insurance that will cover additional liability created to any party (investor or government) due to the fluctuation of exchange rate.

In order to be eligible for coverage by the fund, the investor or the government has to pay a fee or premium determined by the volume of the investment as well as the time period.

The company has outlined a guideline document on the basis of which the fund will be created and operated.

The HIDCL has also started the conversation with Finance Ministry and Energy and Water Resources Ministry to establish such a fund.

Two weeks back, HIDCL officials gave a presentation before the Finance Minister and ministry officials. And last week, they had a discussion with the Energy and Water Resources Ministry. According to Mukti Bodh Neupane, deputy general manager of the HIDCL, both ministers were positive about the company’s initiative.

The draft document prepared by the company will see further amendment after consultation with various stakeholders before finalising it with the approval from the central bank.

As foreign exchange management is the prerogative of Nepal Rastra Bank (NRB)—the central monetary authority of the country—the company plans to get its approval before finalising the guidelines.

The NRB has also prepared a concept note on operation of the hedging fund and is planning for the stakeholder’s discussion. As per the concept note prepared by the central bank, energy projects with installed capacity of 100MW or more, transmission line projects and metro and monorail projects which will be developed by foreign investment, qualify for the hedging service.

There is an urgent need for hedging service in Nepal, especially in developing hydropower projects in the country. Due to lack of hedging service, the Nepal Electricity Authority (NEA) is currently facing difficulty in signing power purchase agreement (PPA) in convertible currency with the projects being developed under foreign debt.

Recently, the NEA signed power purchase agreement (PPA) with Nepal Water and Energy Development Company (NWEDC) for the development of the 216 MW Upper Trishuli-1 Hydroelectric Project. As per the PPA, the power utility has to make payment in US dollars for the portion of the investment made with foreign loans. In order to mitigate the exchange rate risk while making such payment in US dollars, both the developer and the NEA have agreed to hedge the investment, according to the PPA. In absence of hedging service in the country, the project developer is facing difficulties in arranging funds for the project.

Source: The Kathmandu Post; 25 July 2018

CMC, Sinohydro win 140MW Tanahu hydro contract

Infra development

Tanahu Hydropower Limited (THL) has selected CMC Ravenna of Italy and Sinohydro Corporation of China to build the 140 MW Tanahu Hydropower Project. The two contractors will work on the two components of the storage-type project located on the Seti River in central Nepal. CMC Ravenna will implement the first package of the hydroelectric project worth Rs20.64 billion. This includes formulation of a detailed design of the project and construction of the headworks. The Asian Development Bank (ADB) is providing a loan for the execution of this component of the project. Similarly, Sinohydro Corporation, a Chinese hydropower engineering and construction company, has won contracts worth \$114.18 million and Rs3.83 billion to execute the hydromechanical and electromechanical works under the second package of the project which includes construction of waterways and the powerhouse. The Japan International Cooperation Agency (Jica) is providing a loan to implement the second package. The two companies have to sign their contracts with the developer THL, a wholly owned subsidiary of the Nepal Electricity Authority (NEA), within 28 days. THL has asked the winning bidders to submit their performance guarantees before signing the contract. "We are planning to sign the contract within a month and mobilise the contractors to the project site by October," said Pradip Kumar Thike, managing director of THL.

The NEA subsidiary has completed the pre-construction works and an access road at the project site. It has also made compensation payments to around 90 percent of the landowners whose lands were taken over for the development of the reservoir project.

THL has also signed a power purchase agreement (PPA) with the NEA to sell the electricity generated by the plant. As per the PPA, the NEA will pay THL Rs12.40 per unit during the dry season, which lasts from December to May, and Rs6.08 per unit during the wet season, which lasts from June to November. The PPA also includes a provision under which THL can increase the power purchase rate by 3 percent annually for eight years after it commences commercial generation. After the increase, the NEA will have to pay Rs15.38 during the dry season and Rs7.54 during the wet season.

The Tanahu Hydropower Project will be one of the biggest reservoir-type projects in the country with an estimated annual energy generation capacity of 587.7 GWh in the first 10 years of operation.

The project can generate energy for six hours daily during the dry season. The project is being built using a credit facility extended jointly by the ADB, Jica and European Investment Bank (EIB).

Source: The Kathmandu Post; 26 July 2018

Tanahu Hydro selects contractors

Tanahu Hydropower Company has selected the contractors for major construction works of the 140-megawatt Tanahu hydropower project. For the first package, the Tanahu Hydropower Company has selected Cooperativa Muratori and Cementisti (CMC) of Italy for works related to diverting the flow of the river, construction of the dam of the reservoir and for head works. CMC had placed the lowest bid of Rs 20.64 billion, which includes the provisional sum and value added tax.

For the construction works of the tunnel, power house, and import of hydro-mechanical and electro-mechanical equipment, and their assembly and operation, a Chinese firm, Sinohydro Corporation Ltd, has been selected under the second package. Sinohydro had placed the lowest bid for this second package, which is worth Rs 3.83 billion excluding value added tax..

On June 29, Nepal Electricity Authority (NEA) – the state-owned power utility – had signed the power purchase agreement (PPA) with Tanahu Hydropower Project.

Tanahu Hydropower has forwarded a letter to the aforementioned companies asking them to come with performance guarantee for the agreement.

“We have sent out letters to the respective companies and we plan to start those works within two months from today. We plan to complete the project by 2023,” said Pradeep Kumar Thike, managing director of Tanahu Hydropower.

Tanahu Hydropower has already paid land compensation to the locals. The project has nearly completed constructing physical infrastructure like buildings and access road.

The total cost of the project is estimated at \$506 million, of which Asian Development Bank will provide \$150 million, Japan International Cooperation Agency will contribute \$184 million, European Investment Bank will give \$85 million and NEA will chip in \$87 million.

Source: The Kathmandu Post; 27 July 2018

Tanahu Hydropower Company picks contractors for civil, mechanical works

Tanahu Hydropower Company Ltd (THCL) has selected Cooperativa Muratori & Cementisti (CMC) as the contractor to construct head works of its 140-megawatt hydropower plant.

Issuing a statement, the hydropower company said the Italian contractor will be awarded Rs 20.64 billion (including provisional sum and value added tax) worth of contract to build cofferdam and construction of dam as part of the first package of head works.

CMC is also the contractor for tunnel digging work of Melamchi Water Supply Project.

The Asian Development Bank (ADB) is the major financier of both Melamchi Water Supply Project and Tanahu Hydropower Project. The contractor has often been blamed for persistent delay in tunnel-digging works of the major drinking water supply project.

Similarly, the hydropower company has chosen Sinohydro Corporation Ltd for supply, installation and operation of hydro mechanical and electromechanical equipment as well as the powerhouse, waterway and related equipment as part of the second package. The Chinese company has been awarded the contract worth US\$ 114.19 million plus Rs 3.83 billion (excluding value added tax), according to a statement issued by Tanahu Hydropower Company Ltd.

Both the contractors received the letters of acceptance on Tuesday. Now, they are required to present performance guarantee for signing the contract within 28 days, according to the statement. The Italian contractor CMC was selected from among five pre-qualified companies while the Sinohydro Corporation was picked from three pre-qualified companies.

The storage-type project will generate 587.7 GWh of energy annually in the first 10 years of operation and 489.9 GWh from 11th year onward. It is situated on Seti River in Vyas Municipality near Damauli -- the district headquarters of Tanahun. Eight VDCs and Vyas Municipality of Tanahun district are directly affected by the project.

Tanahu Hydropower Company Ltd is in the process of selecting the contractor to construct 220-KV double circuit transmission line from Damauli to Bharatpur of Chitwan in the third package to evacuate energy generated by the plant.

The hydropower company which has already signed power purchase agreement (PPA) with the Nepal Electricity Authority (NEA) plans to bring the Tanahu Hydropower Project into commercial operation by April 2024.

The project with an estimated cost of \$505 million (including transmission line, rural electrification and interest payment of construction period) is being developed with the funding of the Asian Development Bank, JICA and European Investment Bank. ADB is investing \$150 million in the project while JICA is chipping in \$184 million. Similarly, EIB is providing loan financing of \$85 million, while the government is investing \$87 million in the project.