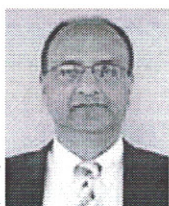


Remarks From The President



Dr. Sandip Shah

Power Sector Issues in New Nepal

First of all, I would like to apologize for the delayed publication of our newsletter due to unforeseen circumstances. I assure you that henceforth our publication will be regular as we now have a new Executive Manager – Mr. Pradeep Gangol. Please join me in welcoming Pradeep to IPPAN!

The country has gone through a major transformation over the last six months. Elections to the Constituent Assembly have been finally held in a relatively peaceful manner. Although it has now taken three months for the political parties to form a government, we certainly hope that the culture of coalition politics prevails and that there is solution to the current impasse. As IPPs, we have seen that this has had a direct bearing on the political risks for new and existing projects. Leading up to the elections, all rating agencies had higher political risk numbers for Nepal. However, with the successful election process, these risk numbers had decreased.

Over the last three months, we have seen these numbers climb back up again. This is a serious matter and a stern message to the political leaders of the country to get their act together; else investments in this sector will dwindle and may go elsewhere to more stable pastures.

The larger political parties had mentioned various numbers as target power generation in Nepal in their election manifestos. Some said 5,000 MW in 10 years whilst others suggested 10,000 MW in 10 years. This is all very good since the parties at least came up with a vision for power sector development in Nepal. However, the plan, policy, program and implementation strategy have not been defined. What we need to assess are: are these numbers realistic? will Nepal still attract this type of investment? do we have the Government machinery for implementation and monitoring of this development process? We, at IPPAN, feel that the political parties in the national government must come up with a common minimum program and implementation strategy on power sector development.

This should not only include power sector reforms, but also the strategies for development of power projects on an integrated river basin development concept. The much-awaited Electricity Act and Electricity Regulatory Commission Act must be promulgated at the earliest to provide the country's policy statement for this sector.

Load-shedding continues unabated, although we have had some respite in the recent monsoon months. NEA has come up with some very precarious numbers for hours of load-shedding starting this Dashain although they may have Middle Marsyangdi online by then. Some relief may come with the construction of the Dhalkebar-Muzaffarpur line by mid-2010. However, these would all be short-term solutions, while the crux of the problem would still remain. No major generation addition has been planned before 2013, and that also remains in plan! We are all in for a long-haul of load-shedding and with the dearth of fuel supply, the situation will further aggravate.

Over the last few years, IPPAN has been instrumental in raising awareness on power sector issues through various national and international events and advocacy efforts. These events were focused towards jump-starting private sector initiative for hydropower development in Nepal. Some of the major outcomes of these programs have been the award of development licenses for two projects through a competitive bid process by GoN; initial steps towards formation of an infrastructure development bank; construction of cross-border transmission lines, etc. One of the key elements that now need to be addressed is project financing. Nepali investors and Nepali Banks are now actively engaged in developing small to medium-size hydropower projects in Nepal. However, it has been realized that as we move towards more number of medium to larger size projects, there is a bigger role of international partners and international lenders. Risk assessment and project finance are increasingly being recognized as critical elements of the project development process. IPPAN along with other partners

is therefore organizing a workshop to address such issues and to develop the way forward.

The Government seems to have started awarding licenses again after a lull of about 8 months. The license renewal fees have been increased to weed out the opportunists from the serious developers. These are all very welcome steps undertaken by the Government. These steps, we believe, will lead to forging of partnerships among real developers although we still see some license opportunism.

All in all, watching the transformation in Nepal from an IPP's perspective has come with a bag of mixed feelings of elation and despair. I certainly hope that in the days to come we will see political statesmanship coming forward to formulate New Nepal where economy and business thrive with development of an equitable social culture.



Mr. Pradeep Gangol
Executive Manager

Mr. Pradeep Gangol has joined IPPAN as Executive Manager since July 9th 2008. He is an experienced Hydropower Engineer by profession and is well-versed with the hydropower development scenario of Nepal. He has a M.Sc. in Civil Engineering from the Technical University of Budapest, Hungary and a PG. Dip. in Hydropower Development from the University of Trondheim in Norway. He has worked on several hydropower projects ranging from micro-hydro to some of the recently constructed larger projects in Nepal.

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.

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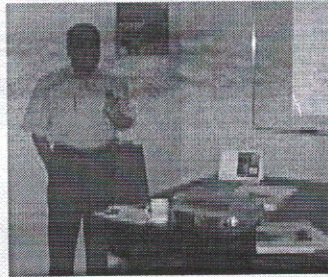
IPPAN ACTIVITIES

Interaction program with Society of Economic Journalists of Nepal (SEJON)

IPPAN is honored on being nominated a member of the Power Sub-Committee formed by the Ministry of Finance, Government of Nepal to provide comments and suggestions on the national budget of 2064-2065. In this regard, an interaction program with the representatives of the Society of Economic Journalists of Nepal (SEJON) was organized on 1 July 2007 to discuss on the provisions and incentives currently in place, in order to attract investments in the field of hydropower development in Nepal. It also aimed to generate some practical solutions to existing hydropower issues to be included into the national budget. Issues such as VAT exemption, income tax holidays, royalty distribution, tariff policy, clear electricity act, single borrower limit etc. were discussed.

Interaction program on EIA study

IPPAN organized an interaction program on Environmental Impact Assessment (EIA) study of hydropower projects on 10 July 2007. Mr. Pravin Aryal, Under Secretary, Ministry of Water Resources, presented a paper on "IEE/EIA Study for Hydropower Projects". Mr. Batu Krishna Uprety, Under Secretary, Ministry of Environment, Science and Technology (MoEST) presented a paper on "EIA Challenges and Initiatives". This program provided a worthwhile opportunity for IPPAN members to interact with several government representatives.



Training on Geographical Information System (GIS)

An intensive two weeks GIS Training was organized from 19-28 September 2007 at Dhapakhel, Lalitpur. This training was conducted for hydropower professionals, consultants and freelancers alike, and was facilitated by Mr. Shankar Pathak, GIS Expert using Arc View (3.2) & Arc Info (3.5.1). The training aimed to provide in depth knowledge on GIS and its applications for project planning and demonstrated the procedures of data formulation, manipulation, management and analysis. The training module was divided into two levels, firstly focusing on data output and then on data input with an analytical overview. The trainees expressed satisfaction on the knowledge gathered on the different parameters of project planning.



Radio Program

Yet another advocacy effort of IPPAN was the initiation of a weekly radio program from 16 September to 7 October 2007 for increasing awareness and investments in the hydropower sector. As a pilot project, initially, a total of four episodes were broadcast on Kantipur FM96.1 each Sunday morning from 7:00 – 7:30 am.

The first episode on 16 September 2007 focused on the review of Power Summit 2006 and targets for Power Summit 2007. The second episode on 23 September 2007 highlighted the hindrances and impact of the Power Summit 2007. The third episode on 30 September 2007 showcased an interesting discussion forum facilitated by Dr. Sandip Shah, President, IPPAN and Mr. Arjun Kumar Karki, Managing Director, Nepal Electricity Authority (NEA) on opportunities and challenges for power trade with India. The final episode was broadcast on 7 October 2007 which presented discussions on relevant issues such as licensing procedures, license trading, license fee hiking and EIA/ESIA challenges.

Friday Forum

The first Friday forum on "Prospective Capital Market for hydropower projects" was organized on 3 August 2007 facilitated by the students of Kathmandu University School of Management. The forum aimed to identify and analyze the qualitative issues that hinder the growth of capital markets. The second forum on "Private Sector participation in Hydropower Development in Nepal" was organized on 2 November 2007 and was facilitated by the student of AIT School of Management. This forum attempted to understand the issues and problems faced by the private sector during the phase of project development.

Farewell to Ms. Marit Strand

IPPAN bid farewell to Ms. Marit Strand, First Secretary, Royal Norwegian Embassy on 26 June 2007 while appreciating her contribution and support towards IPPAN's activities.

PARTICIPATION IN EVENTS

EIA Recommendation Committee Meeting

Mr. Amar Jibi Ghimire, Executive Committee Member, IPPAN participated in the environmental Impact Assessment (EIA) of Kichekhola Small Hydropower Project of Annapurna Renewable Energy Pvt. Ltd. organized by MoEST on 21 August 2007. IPPAN was also invited to participate in the Environmental Impact Assessment (EIA) of Dumre – Damauli 132 kV transmission line project organized by MoEST on 13 November 2007.

Interaction Program- "Electricity Crisis"

An interaction program on "Electricity Crisis" was organized by the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) on 23 August 2007. Dr. Sandip Shah along with Executive Committee members participated in the program. He also made a presentation on "Electricity Crisis and its Impact," which addressed the direct and indirect consequences of electricity crisis to the lives of the people and to the national economy as a whole. With the key objective of alleviating the power-shortage crisis in the short and long-terms, the program intended to provide a forum for interaction between the key stakeholders involved in the hydropower sector so that a plan of action could be formulated for future activities.

POWER SUMMIT 2007: An Indo-Nepal event for hydropower development in Nepal

IPPAN-NBA and PTC India Limited took an initiative entirely for private sectors of both countries to host the "Power Summit 2007" on 17 and 18 September 2007 in Kathmandu, Nepal. This two day event of five sessions was packed with 22 paper presentations.

This event gathered relevant stakeholders as well as key dignitaries of the government, business, financial and industry associations of India and Nepal. With various business entities participating, the event provided an opportunity to review the progress post Power Summit 2006 and allowed for continuation of dialogue between developers and financiers of power projects.

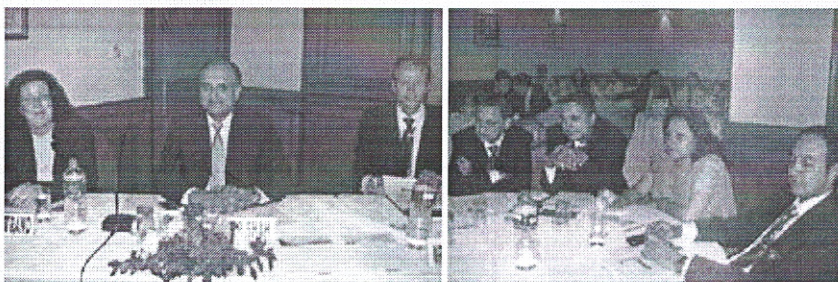
The Summit aimed to highlight the tremendous potential of hydropower in Nepal thereby attempting to attract investments from private players and to explore accessibility to the power market in India through power exchange. The Summit focused on the challenges and opportunities created by the financing

needs of hydropower projects and discussed on Indian investments for domestic power crisis. It also presented the views and perspectives of the national and regional financial sectors. The Summit had over 200 participants representing 100 domestic, regional and multinational overseas companies many of whom were leading names in the power sector. Reputed financial institutions such as SN Power Interkraft AS, Butwal Power Company, PGCIL, ICF International, IDFC, PowerGrid, JSPL, IFC Dhaka, Larsen & Turbo, IL&FS, NHPC, ATHENA, ICTC Pvt Ltd, Himal Power Limited, Standard Chartered Bank, Nabil Bank, Bank of Kathmandu, Everest Bank and Himalayan Bank were well represented.



Seminar on "Power Trade with India – How infrastructure, wheeling charges and regulations affect the market"

On 5 July 2007, a seminar on "Power Trade with India – how infrastructure, wheeling charges and regulations affect the market," was organized with the support of Royal Norwegian Embassy. It was targeted at senior executives of commercial banks. The seminar highlighted experiences of cross border power trading and power marketing with India. Mr. Bjørn Tjomsland, Managing Director of Nord Pool Consulting presented a paper on Nord Pool's perspectives on the growing Indian power market and prospective future of power marketing in Nepal.



Seminar on "Regulations and the Potential for Power Trade with India"



Another seminar on "Regulations and the Potential for Power Trade with India" was organized on 8 July 2007 supported by the Royal Norwegian Embassy. The purpose of the program was to address the impacts of regulations on market design and pricing systems and the associated benefits from cross border power trade with the Indian market. The program mainly addressed the members of the Natural Resources Committee of Parliament.

The Ambassador of Norway, His Excellency Mr. Tore Toreng expressed the significance of power trading and emphasized on Norway's assistance in the area of hydropower development in Nepal. Honorable Minister of Water Resources, Mr. Gyanendra Bahadur Karki appreciated the prospects of power marketing in Nepal and urged all the stakeholders to come together for the development of this sector.

NEWS FROM MEMBERS

Inauguration of Khudi Hydropower Project Monument

The Chairman of Khudi Hydropower Limited, Mr. Gyanendra Lal Pradhan and Distribution Chief of Hydro Quebec, Mr. Andre Boulanger jointly unveiled the inauguration monument of the Khudi Hydropower Project amidst a lively function on 27 October 2007. The 4 MW power plant was developed with the investment of Butwal Power Company, SCPHI of Canada and Lamjung Electricity Development Company. The construction activity of the project was started on May 2005 and was successfully commissioned on December 2006.

The Khudi Hydropower Project has been continuously generating and supplying electricity to the NEA ever since its commissioning. The project has been providing assistance to the affected villages in different areas like education, health, water supply and sanitation, infrastructure, skill development trainings, scholarships for technical and higher education, plantation of coffee and fruit trees and so on. The project has also provided financial support to the local youth clubs for sports activities and various other community development activities. The project has created employment to about 70% of the people from the three VDCs. Even the surrounding communities have benefited immensely from the project and have welcomed the project in their village.



SN Power – A Glance

SN Power is a growing international hydropower company and a commercial investor, developer and operator of hydropower projects in emerging markets. As per their strategic plan of transferring Norway's extensive hydropower expertise contributing to economic growth of the nation where it operates, SN Power has selected Nepal for investments to operate as a long-term responsible developer of hydropower projects.

SN Power holds the majority of shares of 60 MW Khimti HEP – first hydropower project of the private sector in Nepal which is in operation since 2000. The Government of Nepal has provided survey licenses of Tamakoshi 2 HEP (207 MW) and Tamakoshi 3 HEP (reservoir project of 275MW) in Dolakha district of eastern Nepal on March 2007. Concept studies of Tamakoshi 2 and Tamakoshi 3 HEPs have also been completed. It is expected that the combined capacity of these two projects will be more than 550 MW and 2700 GWh per year. SN Power plans to initiate a feasibility study from the beginning of 2008 targeting to start construction from early 2010. The commercial operation of these projects is expected to start by the end of 2014. SN Power aims to contribute towards solving the current power crisis and system requirements of storage projects to balance the seasonal variations from Tamakoshi 2 and Tamakoshi 3. The additional power which cannot be consumed domestically will be exported to India.

For further details:

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Sanima - At a Glimpse

Sanima Hydropower Pvt. Ltd. (SHPL) was established in March 1999 in Kathmandu, Nepal with the main objective to promote hydropower sector in Nepal through private investments which would contribute towards the overall development of the country. Soon, after the successful commercial operation of the 2.5 MW Sunkoshi Small Hydropower Project (SSHP), SHPL is in a position for a Power Purchase Agreement (PPA) of 14.5 MW Mai Hydropower Project with NEA.

The Mai Hydropower project is located in Ilam district at a distance of 30 km north of the Birtamod East-West Highway. Headwork of the project is located on the Mai Khola between the border of Chisapani and Soyak Village Development Committees (VDCs) in Ilam district. The estimated annual energy generation from the project will be 91.6 GWh. The target year for commissioning of the project is 2011, provided the PPA is reached within 6 months. The generated power will be delivered to Anarmani substation of Jhapa through 132 KV TL. It is envisioned that the voltage level in the eastern part of Nepal will significantly improve, thus giving reliable power and addressing the gap of demand and supply to a reasonable extent. According to LDC of NEA, daily load demand at Anarmani varies from 18 to 28 MW whereas available installed capacity in this region is only about 7 MW.

The Company has established an Engineering Department called "Sanima Hydro and Engineering (SHE)," which has carried out detailed design, construction management and supervision of Sunkoshi Small Hydropower Project (2.5 MW in operation from March, 2005) and the feasibility studies of 14.5 MW Mai Hydropower project and 60 MW Mailoop Hydropower Project. SHE is further undertaking feasibility studies of 5 MW Mai Cascade and 100 MW Upper Tamur in Ilam and Taplejung districts respectively.

SHE also takes on reconnaissance studies, feasibility studies, detailed designing, construction management and supervision for small to medium size hydropower projects. Recently, Khorang Khola Hydropower Development Company Pvt. Ltd completed a 995 KW PHEME Khola Hydropower Project under SHE's detail design and construction supervision. SHE is conducting the feasibility study review and detailed design for the headwork of Upper Mai Hydroelectric Project (Developer: East Nepal Development Endeavour Pvt. Ltd.) as well as detailed design study of Namarjun Madi Hydropower Project (Developer: Himalayan Hydropower Pvt. Ltd.)



New Members of IPPAN

IPPAN extends a warm welcome to two new members, Clean Energy Development Bank Limited (Associate) and Himalayan Hydropower Pvt. Ltd (Corporate). The 33rd Executive Committee Meeting approved the membership of both organizations.

INDEPENDENT POWER PRODUCERS' ASSOCIATION, NEPAL (IPPAN)

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