

IPPAN NEWSLETTER

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 to mobilize private capability, both national and international, to overcome the constraints confronting hydropower development.
- to make optimal use of Nepal's water resource endowments, to serve long-term national and regional needs in the context of future freshwater energy scarcity.
- to disseminate information on hydropower development, current activities and experiences in Nepal and elsewhere.

MORE *more...*

Interview with K.B. Chand/DG-DoED - 2

IPPAN holds its first AGM - 3

South Asia Power & Energy Summit New Delhi - 3

Integrated Internal Security and Development Program - 3

Khudi Hydropower Signs PPA with NEA - 3

News from BPC, Upper Karnali and HPL - 4

Independent Power Producers' Association Nepal (IPPAN)

PO Box: 12740,
Kathmandu, Nepal
Phone nos.: (977-1) 521864,
534160, 521937
Fax no.: (977-1) 536411
Email: ippan@power.com.np

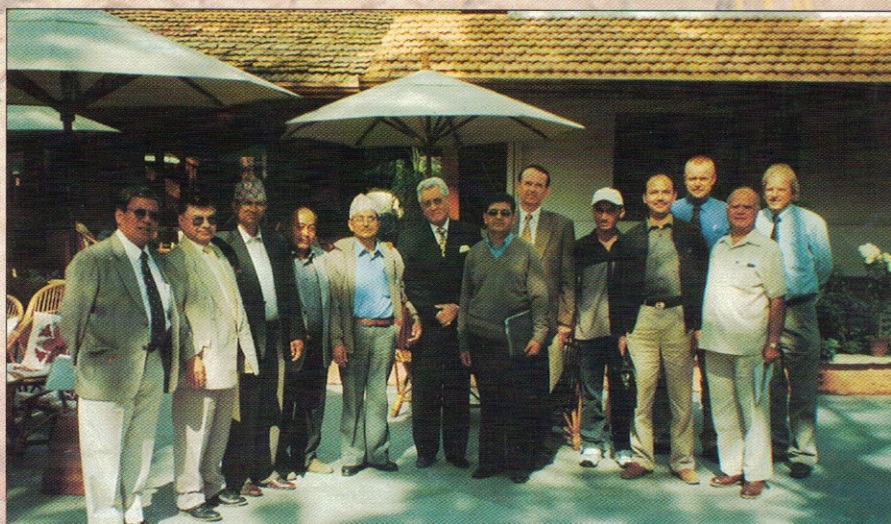
Establishment of Independent Power Producers' Association Announced

KATHMANDU, August 25, 2001 -The Independent Power Producers' Association, Nepal, (IPPAN) announced its formal opening amid participation of over fifty representatives from independent power developers and hydropower professionals at a "Get together". Mr. Prabhakar Shamsher Rana, the founding chairman of the association, outlined the need for such an organization in the context of growing interest among power producers and amid complexities arising from government policies, financing institutions as well as cross-border power-trade issues, and global environmental concerns.

Mr. P. P. Adhikary, the General Secretary of the organization, welcomed power producers to join the association, as this can enable them to air issues of concern to all types of independent

power developers, and to create a firm opinion to present to the government and stakeholders. Mr. Harald O. Skar, the General Manager of Himal Power Limited, emphasized the need for such an organization to serve as a common forum to discuss the challenges faced by private power producers in Nepal. Mr. Himalaya Pandey, West Seti Project, raised the issue of the Power Trade Agreement between Nepal and India. Many other IPPS also contributed actively at this inaugural meeting.

Other issues generally discussed were relations with NEA, duty regulations and their practical implications, the politicization of water resources, and foreign investment prospects. The meeting concluded by stressing the need to strengthen the Association to further the cause of hydropower development in Nepal.



Private Sector Participation in Hydropower Development is Encouraging

Director General of Department of Electricity Development (DoED) since March 2000, Mr. K. B. Chand (MSc/Civil Engineering with specialization in Hydropower Structure), 55, has 33 years of experience in hydropower development in Nepal. Mr. Chand, who has worked in various capacities within the HMG/N Ministry of Water Resources, started his career as an Assistant Engineer in 1968 at the Electricity Department.

"Moving hydropower development from rhetoric to reality requires a firm commitment from all stakeholders: policy makers, political parties, investors and communities. Despite its enormous hydropower potential, Nepal is still an electricity-deficit nation. Only about 15% of the population has access to electricity, and Nepal is barely able to meet the existing demand. Developing Nepal's hydropower potential could meet the growing demand for electricity in homes, agriculture, industry, health and education, as well as producing enough clean energy to meet the needs of neighboring countries, thus providing both capital returns and foreign exchange earnings. It is felt that national consensus among political parties and other concerns is a must for the creation of a favorable environment for private sector investment in hydropower development," said Mr. Chand. More excerpts of our interview with Mr. Chand focusing on DoED:

1. How do you look at relevant Acts in Energy Development?

The Hydropower Development Policy 2049 (1992) and the Electricity Act 2050 (1993), Water Resources Act 1992 and Electricity Regulations 2050 constitute the government's major regulatory framework for developing the nation's water resources through private sector participation. Additionally, the Foreign Investment and Technology Transfer Act 1996 abolished the minimal capital investment requirement, thus eliminating a significant barrier to foreign investment. The existing regulatory framework defines special terms and conditions for investments in hydropower development. This has opened the sector to private development efforts, and a few sizable private sector hydropower projects have already resulted.

2 What is the Role of DoED in Energy Development?

DoED looks at both the promotional as well as regulatory activities related to

hydropower development. It is responsible for investigation, study and implementation of multipurpose projects. It submits recommendations to the Ministry of Water Resources for issuance of licenses to private developers. It also serves as the secretariat for the tariff fixation commission and renders "One Window" services required for the implementation of projects by private developers.

3. How do you look at private sector participation in hydropower?

It is very encouraging. The existing legal framework has already attracted not only domestic but also foreign investors in harnessing the water resources of our country. As a result, we have a few already commissioned projects that contribute one fourth of the total generation in the country. More projects are to be commissioned very soon. West Seti, for instance, is in the process of PPA with India. When the Australian company SMEC completes PPA, construction will be started. Upon completion, all the power generated from this project will be sold to India. The Nepali Government will also receive 10% of revenue energy sales.

4 How can we achieve competitive pricing in power production?

Licensing based on competitive bidding, with greater participation of the private sector, will certainly keep the price of electricity down. We have realized this, and the revised version of Hydropower Policy will address this with great emphasis.

5. How wills the new hydropower policy effect private investment?

I hope that the new policy, which is in the process of revision, is more clear and transparent. As the economic development trend in the hydropower sector is already shifting to the private sector, HMG has opened up new avenues to develop the hydropower of our country, by motivating national and foreign private investors in this sector. The new policy will attract more actors, from both the domestic and the foreign private sector, to hydropower generation in Nepal and export the power generated to the foreign market.

6 Could you shed light on the regulation of existing and new projects?

We need to strengthen the inspection part of our body. The Department is seriously



- K. B. Chand/ DG- DoED

considering the preparation of standards formats for this purpose.

7 What about environmental concerns?

The project must meet the government's environmental regulations and follow the guidelines of the HMG/ Ministry of Population and Environment. There is need to closely monitor compliance with these regulations and guidelines. The Environmental Mitigation Plan (EMP) should also include a component for community development programs, carefully developed in detailed consultation between those affected by a project and the project developers.

8 Do you see any weakness of DoED?

DoED has to do a lot in term of project evaluation, inspections and monitoring. At present this is inadequate, due to lack of enough experienced staffs.

9 What is the biggest challenge for achieving the national goal?

The economic resources, institutional efficiency, technology, skill and experience required for the generation of hydropower are lacking in Nepal. In the present context of policy shift of bilateral and multilateral donors, we should emphasize the need for maximizing private sector participation in infrastructure developments. In these efforts HMG should play a complementary role.

10 Would you like to make some suggestions?

I want to make few suggestions: - i) I strongly feel that domestic resources should be mobilized. ii) To promote industries related to construction materials production at least such materials as cement, essential hardware, seasoned timber and reinforcement bars etc. Otherwise, one has no choice other than importing them and this in turn makes the project comparatively costly. iii) Maximize use of local manpower, constructors and professionals iv) the project affected area should get priority for electricity. The domestic contractors- that they should come forward united to compete with foreign contractors.

IPPAN holds its first AGM

The first AGM of the Independent Power Producers' Association, Nepal (IPPAN), was held at the Hotel Summit, Kupandole, Lalitpur on Tuesday, 6th November 2001. The function was chaired by founding president Mr. Prabhakar SJB Rana.

The Meeting started with the introduction of new members and the activities of the new member companies. There are now

15 members. IPPAN has continued its membership drive among local and foreign firms/ companies engaged/ interested in hydropower development activities in Nepal.

In its efforts to expedite hydropower development in Nepal, IPPAN has signed a Memorandum of Understanding (MoU) with Independent Power Producers' Association, India (IPPAI).

South Asia Power & Energy Summit, N. Delhi

Three participants represented IPPAN at the South Asia Power and Energy Summit held on 8th and 9th Aug. 001 in New Delhi, on invitation of the Independent Power Producers' Association, India (IPPAI).

Mr. PP Adhikari, Secretary General of IPPAN spoke on the activities of the IPPAN in Nepal for furthering the participation of the Independent power producers in Nepal to expedite its development for economic prosperity of the country. Mr. Peter Harwood of Himal Power Limited made a presentation on the experience of the recently completed 60 MW Khimti hydro electric project and threw light on the problems and prospects of the independent private power producers in Nepal. Dr. Sandeep Shah, General Manager, Bhotekoshi power Co Ltd

presented about the role of the Bhotekoshi Power Company in the National power scenario of Nepal and explained the various aspect of the Power Purchase Agreement concluded between the company and the National Utility i.e. NEA.

The purpose of the conference was to look into the limitations and constraints towards effectively using the abundant energy sources - hydropower, gas and other natural resources - available in the SAARC region across political and geographical boundaries.

The IPPAI & IPPAN both feel a strong need to work together to enhance IPPs activities. Accordingly, during the conference they have signed a Memorandum of Understanding (MoU) to further such activities. [See back page]



Khudi Hydropower signs PPA with NEA

KATHMANDU, June 18, 2001 - The Nepal Electricity Authority (NEA) signed a power purchase agreement (PPA) with Khudi Hydro Power Project Limited to buy energy to be generated by the plant as buy back rates of NEA. The power plant is expected to be commissioned and connected to national grid by December 2003.

Lamjung Electricity Development Company Limited (LED CO) will be investing about Rs. 450 million of which 30 percent of its investment will be borne by SCP International Company of Canada.

Under the PPA, NEA will pay Rs. 3 per

unit of electricity purchased during the normal period including monsoon months when the power supply is adequate but will pay Rs. 4 per unit during the four dry summer months.

The price tag will also increase at the rate of six percent per year for the next five years and thereafter as per the Nepal Rastra Bank index prevailing than. Payment by NEA will be in Nepali rupees only.

"This agreement with NEA will encourage private investors to invest in power projects in Nepal," LEDCO Chairman Dikendra Kandel said.

Integrated Internal Security and Development Program

The liberal policy adopted by the government has helped the private sector to expand its activities, and its competitiveness and efficiency have moved in a positive direction. But another bitter fact cannot be ignored: society is under the grip of social and economic tension; the law and order situation is worsening, and strike prone attitudes are on the rise.

An emerging issue of great concern is the violent Maoist insurgency which began on February 14, 1996 in some remote districts, and which is now believed to be growing instead of subsiding. The security situation has become complex and sensitive, with counterproductive implications for domestic and foreign private investors. Many industries have already been affected, for internal and external reasons. Substantial increases in security expenditures not only divert limited budgetary resources from other priority areas, but incidences of violence work to disturb projects of development assistance and investment.

HMG has made arrangements for an integrated plan of security and development in the areas thus affected, with a view to guaranteeing the peace and security, and to furthering development activities by removing hurdles impeding the exercise of constitutional and legal rights. Current projects under the integrated basket funding during the current FY will be adjusted and implemented under the integrated security and development program, provided that this is implemented in the districts in question.

To improve the current situation of peace and security, the Nepal Police Forces, the Royal Nepal Army and other agencies concerned with peace and security will be linked up with the development programs and mobilized in an integrated way. Funds have been allocated for this purpose.

To relate this to Nepal's Electricity Act 1992(2049/9/2)), let us note that the following provisions for security measures are specified in the act.

"His Majesty's Government may make necessary arrangements for the security of any generation plant, transmission plant, sub-station, or any reservoir made for generating electricity or any other structure related to electricity, on the request of the licensee or by itself, if it deems it necessary to provide such security. On the request of the licensee, all expenses incurred for such security shall be borne by the licensee."

Under this provision, while some of our producers requested for the security arrangements, and it was approved through the Ministry of Water Resources and the Ministry of Defense and was forwarded to the Military from which the action is awaited.

News from Butwal Power Company (BPC)

BPC signed a PPA with NEA on 13 July 2001 (29 Ashadh 2058) for 2 years on a 'Take or Pay' basis. NEA will pay NRs. 2.36 per kWh for power from the Andhikhola Power Plant and NRs. 3.26 per kWh for Jhimruk Power Plant for fiscal year 2058/59. The price will increase 6% for fiscal year 2059/60. Thus, power generated from BPC especially during the monsoon season will be utilized, and paid by NEA - a true "win-win situation" for BPC and NEA. BPC has declared 85 GWh energy for selling to NEA beside its local consumption in the four districts of Syangja, Palpa, Pyuthan and Arghakhachi.

BPC currently plans to electrify 4,042 households. This will make in total 20,492 households electrified by the end of this fiscal year, 2058/59.

Tsho Rolpa Lake lowering was one of its

most challenging job.

BPC Hydroconsult Division in joint venture with NORPLAN is currently working on engineering detail design and consultancy works particularly, River Diversion, underground works, access road works of Melamchi Water Supply Project beside its other consulting works, detail engineering design of FEME - 1 MW hydropower project, developed by a local company - Khoranga Khola Power Company is undergoing.



NEA signs PPA for Upper Karnali

Nepal Electricity Authority (NEA) has signed the Power Purchase Agreement (PPA) of the 300-megawatt Upper Karnali Hydroelectric Project with the Singapore-based Elysee Frontiere humanitarian trust on October 22, 2001 subject to approval by its Board.

The Trust has plans to develop the project on a 30-year Build Operate Own and Transfer (BOOT)-basis, and will be investing US\$ 700 million. While US\$ 500 is said to be invested in the hydel project, the remaining amount at uplifting the socio-economic status of the region such

as re-forestation, re-electrification. The construction works is supposed to begin from next year, and will be completed in about six years.

NEA would buy the power generated from the project at the rate of Rs 2.90 per unit during the dry season. In the wet season, NEA would buy 50 percent of the power for Rs 1.45 per unit and the remaining 50 percent for Rs 2.90 per unit.

The above deal looks very attractive and highly appreciative for Nepal if materialized within the stated time and budget.

MEMORANDUM OF UNDERSTANDING

This MOU is signed on August 9, 2001 between Independent Power Producers' Association of India (IPPAI) and Independent Power Producers' Association Nepal (IPPAN). The main objectives of this MOU are as under.

1. To promote co-operation among various stake holders in power sector for efficient and optimized use of energy resources within the SAARC region with special focus on India and Nepal.
2. To promote co-operation among Independent Power Producers in India and Nepal for mutual benefits.
3. To share views, ideas, expertise and know how available with each organization for betterment of Independent Power Producers in particular and power sector at large by organizing regular exchange programmes, workshops etc.
4. To nurture conducive atmosphere for exchange of power between the various countries of SAARC region.
5. To act as catalyst to liaison with their respective government agencies (Legal, Regulatory, Policy, Institutional, etc.), Project Finance Agencies and Lenders to get the legislation, infrastructure and financing arrangements in place for exchange of power for optimal utilization of energy resources.
6. To study, analyse and co-operate in finding the optimized solutions for common power sector problems of the SAARC region with special focus on India and Nepal.
7. To jointly organize conferences, round tables, exhibitions, media campaigns etc.

[Signature]
For IPPAI
Harry Dhau
Director General

[Signature]
For IPPAN
P P Adhikari
Secretary General

News from Himel Power Limited (HPL)

The most important event during the year was the celebration of commercial operation of the Khimti plant, inaugurated by His Late Majesty King Birendra Bir Bikram Shah Dev and Her Late Majesty, Queen Aishwarya Rajya Laxmi Devi Shah, on 27 November 2000. Other important events have been the sale of 23% of Statkraft SF's shares in HPL to Bergenshalvoens Kommunale Karftelskap AS (BKKAS), the creation of a service provider company named Khimti Services Private Limited (KSPL), and the JREDP II project (with 80% financed by NORAD). Furthermore, HPL has been one of the major contributors to the formation of the Independent Power Producers' Association (IPPAN). Outstanding disputes and legal claims with NEA, BPC, local communities and political factions have also been solved.

Jhankre Rural Electrification and Development Project (JREDP) was started in 1996 while the construction work of Khimti I Hydropower project was on going. In the first phase JREDP has been successful in electrifying 350 households and initiating rural development work such as literacy programmes, income generation

programmes, health and sanitation works and women's development work.

The second phase starting from 2000 has planned to cover a broader area for rural electrification. The plan is to build approximately 240 km of 400V distribution line and 70 km of 33kv and /or 11kv power transmission line is planned for electrifying over 4,000 households within the 2000 - 2005 period. Up to now 732 households have been electrified. Some 1,055

households are planned to be electrified during 2002. Local participation has emerged as one of the most valuable aspects in rural electrification work.

Work to upgrade various new micro infrastructure support activities such as irrigation canals, rural drinking-water supply systems, rural roads and trails will be carried out to sustain and bolster the rural development and an awareness development plan are also being continued.

भक्ति ग्रामीण विद्युत्करण विकास योजना-बेश्रोचरण कार्यक्रम
उद्घाटन समारोह

