

An Interview with Dr. Sandip Shah

President of Independent Power Producers Association of Nepal (IPPAN)

Dr. Sandip Shah granted an interview to Mr. Jeewan P. Thanju, Editor-in-Chief of HYDRO Nepal. Excerpts from the interview:-

1. As the President of IPPAN, how do you assess the situation of hydropower development in Nepal and the role of IPPAN?

We have completed 100 years of experience of hydropower development in Nepal. Ironically, in 100 years we have only developed about 650 MW of hydropower capacity, which is far below the current demand. Now, almost 40% of the households have access to electricity through the interconnected grid. In recent times, there definitely is a paradigm shift in hydropower in Nepal. We want to develop hydropower not only to meet the domestic demand but also to export power to neighboring countries.

This sector was opened for private sector investments from early 1990s. As a result, a few private developers undertook this onerous task of developing hydropower projects. Now, private entities are generating more than 160 MW and a number of projects totaling appx. 4000 MWs are in different stages of serious development from the private sector. In addition, some of the projects are being developed by public sector, too.

It is a non-profit, non-government autonomous organization, and its objectives are:

- 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.

One of IPPAN's main activities is to act as a link between the private sector and government organizations involved in developing hydropower in the country.

IPPAN's activities include, but are not limited to, advocacy at various levels; educating policy makers, bureaucrats, public and all stakeholders; to act as a catalyst for hydropower development; conduct relevant research and development

In its short history, IPPAN has established itself as a key stakeholder in the power industry. The Government seeks expertise inputs from IPPAN for all policy issues, and we are involved in a number of power sector reform initiatives.

The recent power crisis did not precipitate suddenly. It started from 2001 AD. A number of plans were developed



for least cost generation expansion and for taking the giant leap towards developing small, medium and large project for domestic consumption and exports. However, due to the continued political instability in the country and lack of will to implement these plans, we are facing the situation that we are in today. For instance, past trends have shown that NEA 's power projects have problems of cost and time over run. In such scenario, only IPPs' projects are capable of generating power within stipulated time. This has been demonstrated in the past. However, the current PPA rates are not reflective of current market prices, and hence, new development undertaken by IPPs have come to a standstill. IPPAN has been advocating for a flat rate of 5.99 Rs. per unit and escalation of 5 % for nine consecutive years. If the PPA rate is revised accordingly, more than 170 power companies will go into construction immediately, generating a total of 580 MW within 3 years. Similarly, more than 100 companies are in the process of entering into PPA to generate appx 1500 MW in the next 5 years. Hence, appropriate reforms in tariff structure need to be effected at the earliest to make these projects see the light of day. This will help alleviating the current load shedding situation to a great extent.

2. Hydropower Sector in Nepal is in deep trouble due to various impediments in its development and implementation. What is IPPAN doing in this regard and what is your opinion to remove these obstacles?

The major obstacles in hydropower sector are related to laws and policies and their implementation. The Electricity Act 1990 is the guiding document in the current context. It has been proposed to be replaced by new Draft Electricity Act, which is pending in Constituent Assembly (CA, Parliament) since long. Due to the political instability, effective implementation of existing rules is

also in question. IPPAN has strongly lobbied for the need for a balanced new Act and has actively participated in its drafting and discussions. Once the new Act is in place it is anticipated that a number of problems related to policy shall be resolved, provided its effective implementation.

Because of growing local expectations, there are numerous cases of security threats to hydropower projects. IPPAN has been raising its voice against such threats and requesting government to maintain law and order in project area and to give additional security when requested.

Till now, NEA is the single buyer of power generated by the IPPs. However, the electricity tariff, which NEA has published to buy power from IPP projects does not make projects financially viable. IPPAN has urged NEA and Ministry of Energy to look resolve this issue such that projects can be taken up by the private sector.

3. IPPAN has organized a number of Power Summits in Nepal. This has helped to increase interest for regional cooperation in hydropower development. But, still there is some mistrust between the two neighboring countries. What strategy we should adopt to get regional cooperation in Nepal's water resource development especially the hydropower export?

South Asian regional politics plays a key role in all trade and investment related issues. Till date, politics is governing economics. Our efforts should be towards focusing the attention of politicians, national and civil society leaders towards economic, financial and social benefits of energy trade and investments. I believe, we need to strive towards making the countries' leadership realize that economics should govern politics, and not the other way around. There needs to be a great deal of confidence building among the neighbors. We believe that after promulgation of new constitution, most of such problems will be sorted out and development of power market will happen. The efforts of IPPAN through different seminars including Power Summits has helped to create an environment to determine opportunities and threats as well as to identify strength and ways/means to overcome weaknesses in this sector. In summary, such programs helped tremendously to boost confidence and to create an investment environment, as a result a number of developers have shown keen interest and many are seriously working on projects.

4. One of the major problems the IPPs of Nepal are facing, at present, in hydropower development is the high lending interest rate of the commercial banks which make the implementation of hydropower projects financially unviable in Nepal. How do you observe the situation and what could be the way out to these problems?

Yes, the high lending interest rate of the commercial

banks is a deterrent to national investors. The bank interest rates of Nepal have reached 14 % in recent days. IPPAN has been lobbying for a subsidy of 2.5 % in the bank interest rates if the current situation persists. Government may facilitate for reduced interest rate for infrastructure projects like hydropower.

5. Hydropower development in Nepal has become a political slogan. The result is that the Nepalese people and the economy are facing hardship due to the load-shedding which has multiple side affects to the national economy as well. As an expert, what do you see the core problems and how to solve it?

There seems to be cross-cutting political will to develop this sector for the benefit of the people of Nepal. The core problem, however, is the absence of a consensus on the way to achieve it, meaning whether projects are to be developed only for internal consumption or for exports as well. The absence of a high powered implementing/monitoring agency, responsible for implementation of projects related to power sector is also a major factor. Hydropower still has not got sufficient priority among other political agenda. As a result, Electricity Act is pending in Constituent Assembly for a long time. In my opinion, political instability and lack of long-term vision are the core hurdles for hydropower development. Hydropower development has become the political slogan of all political parties but these are not backed by proper policies, plans, programs and implementation strategies.

6. Bhutan and Laos have benefitted enormously through hydropower development and its export. What lesson Nepal should bear from these two countries?

First, the hydropower issues must be delinked from politics. The power must be treated as a commodity. And after that, plans and policies must be implemented with a seriousness of purpose. We have to initiate the development of hydropower projects (both for internal use and export), which increases our confidence level and opens more avenues for economic prosperity of the region.

7. There has been some news about the 750 MW West Seti Hydropower Project. What is your view on this project becoming a reality?

West Seti is planned to be developed on a PPP concept. This is new for Nepal and the stakeholders need to be properly educated about the concept and its implementation mechanism. We have heard about issues regarding resettlement and rehabilitation, flow augmentation, lack of availability of funds and an insufficient tariff for the power. One key issue we must focus on is that electricity issues need to be delinked from water issues. Private sector will not get engaged on water issues and the secondary benefits from building

of such reservoir projects. The Governments needs to negotiate such secondary benefits, if any. I am sure with proper understanding and communication among the stakeholders, all of the issues can be resolved amicably and the Project can move forward. The importance of large reservoir projects in stabilizing the power system cannot be underestimated.

8. The proposed 3000 MW Cross-Border (Nepal-India) transmission line has been reduced 1000 MW. What is your opinion on this?

It is rather unfortunate that the capacity of the proposed cross border transmission line has again been set to 1000 MW. IPPs that were planning to evacuate power on that line were willing to fund the incremental cost of the line. Now, parallel lines will have to be built which is not an environment friendly solution. Besides, the ROW issues will be even more complicated now.

9. The Upper Tamakoshi hydropower Project (456 MW) is being implemented by local initiative and resources. Give us your view point.

It is certainly a welcome step to try to develop this project through local initiatives and resources. However, we feel that it should have been developed in a public – private partnership mode, in order to make sure that the project is completed in an efficient way, within stipulated time and cost. In addition, proper project finance mechanisms should be in place before embarking on the construction of the Project. I certainly believe that project construction should start only after financial close since this is a rather large project requiring large investment. Prudence rather than emotions should drive such large investments.

10. The Maoist of Nepal has strong objections for Indian Companies getting license for upper Karnali, Arun III, and upper Marshyangdi Projects. How do you observe this situation?

This is certainly an unfortunate situation. It is high time that the political parties recognize the importance of hydropower in Nepal's economic development, and make commitment for unhindered implementation of

hydropower projects.

11. You are also Heading SN Power, Norway in Nepal. Please tell us for our readers its present and future plans in Nepal.

SN Power has majority ownership of Himal Power Limited, the company that owns and operates the Khimti 1 power plant. SN Power is developing another project (Kirne- 67 MW) on Khimti River with its current partners at Himal Power Limited (BKK of Norway and Butwal Power Company). SN Power is also conducting feasibility study of Tamakoshi 3 (880MW), which is planned to be developed with Tata Power. Currently, it is planned that Tamakoshi 3 will start construction in 2012 and Kirne in 2011. SN Power is a long term industrial investor, and we have taken a long-term investment view in Nepal.

12. Lastly, would you like to give some suggestions to the Government agencies and the stakeholders related to power and water resources sector in Nepal?

First, all political parties must see eye to eye in the matters of power sector, and agree to a common vision and a common minimum program for development of hydropower in Nepal. The recently prepared plans to generate 10,000 MW in ten years and 25,000 MW in 20 years, may be a basis for common discussion.

Second, the proposed Electricity Act and Nepal Electricity Regulatory Commission Act must be enacted at the earliest, with amendments as per IPPAN's suggestions. Government of Nepal must take into confidence all the stakeholders involved into power sector, while framing policies, revising the Acts and Regulations related to power sector.

The Government must see that there is a proper monitoring agency, responsible for implementation of policies and regulations. Proper regulations should be implemented and monitored through the. Electricity Regulatory Commission, and hence, the requirement for formation of this agency. This will result in elimination of a lot of adhocism and discretionary activities in this sector that is currently prevalent.