



## **Indo-Nepal Hydropower Cooperation: The Way Forward**

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### **Introduction**

After much ‘deliberation and delay’ Nepal has finally endorsed the Power Trade Agreement (PTA) with India and also inked the Project Development Agreement (PDA) with Indian private company GMR. During PM Narendra Modi’s visit to Nepal in first week of August 2014, Prime Ministers of the two countries ‘directed the concerned authorities to conclude negotiations on the agreement on trade in power sector within 45 days’. Endorsement of PTA and PDA within the time limit of 45 days was not an easy target. In fact, it has been possible primarily because of due attention and firm commitment from Prime Ministers of both countries. Moreover, it clearly shows that Indo-Nepal hydropower cooperation is receiving a greater thrust from Prime Minister Narendra Modi’s endeavour to develop closer economic ties with its neighbours.

The PTA titled “electric power trade, cross-border transmission interconnection and grid connectivity” was signed between energy secretary of Nepal Rajendra Kishore Kshatri and power secretary of India Pradeep Kumar Sinha on 5<sup>th</sup> September 2014. The PTA, aims to facilitate and strengthen the cross border electricity grid connectivity and power trade between the two energy starved countries, is being seen as a major step forward for harnessing the abundant hydropower potential of Nepal. Nepal’s economically and technically feasible hydropower potential is estimated to be about 43000 MW, of which only about 700 MW has been exploited. The PDA was signed between Nepal Investment Board (IBN) and GMR for

development of 900 MW Upper Karnali hydropower project, one of the biggest single foreign direct investment (US \$1.5 billion) in the Nepal so far. The Upper Karnali development deal was agreed in principle in 2008 but delayed primarily because of political instability in Nepal.

PDA, a relatively balanced agreement, is an attempt to address most of the concerns of developers. According to National Investment Board Nepal, “the agreement is intended to provide greater security to both foreign investors and the Government of Nepal and clearly assert its responsibilities to protect the national interest of Nepal”. However, this is a good beginning; all concerned parties in India and Nepal must ensure that project will not be hampered or delayed due to lack of coordination, complexities driven by power water nexus, non availability of required infrastructure and political instability.

### **Major hindrances and lessons to be learnt**

Despite some uncertainties, both countries are optimistic and hoping for robust cooperation in hydropower development and trade. To take full advantage of the agreement, both of the countries are required to identify the existing practical problems and their remedies.

Key challenges and their possible solutions are discussed below:

- High degree of political commitment and trust are essential for accomplishment of such type of power agreements. PTA and PDA between India and Nepal would have not materialised without the commitments of the two governments.
- During third meeting of Indo-Nepal Joint Commission (JC), which was co-chaired by External Affairs Minister Sushma Swaraj, both countries developed an understanding towards power development and trade. Indo-Nepal Joint Commission (JC), group of eminent persons from both countries, might play a crucial role in planning and execution of hydropower agreements, if the meetings of the commission are being held on regular basis. Third meeting of Indo- Nepal JC was held in July 2014 after a gap of 23 years.
- India and Nepal need to show that they are capable of timely execution of the projects. Pancheshwar multipurpose project was halted for 17 years just because of lethargic approach of both governments. Now, after years of delay, India and Nepal have resumed talks to reinstate the process to build Pancheshwar project. This step is being considered as follow up of an agreement on Pancheshwar multipurpose project during PM Narendra Modi visit to Nepal in the first week of August. Many major hydro-power projects in

Nepal are delayed because of political differences and opposition in the name of ‘national interest’.

- Political stability is a prerequisite for investment in infrastructure. For many years, Nepal has been in the situation of political instability which led to policy paralysis and hostile environment for investment. To ensure the political stability in the coming years, Nepal needs to address the causes of ongoing political conflicts. It is also essential to take further steps to improve the regulatory investment climate through insuring the transparency in regulations (South Asia Regional Initiative for Energy Integration - SARI/EI report).
- For effective cross border power trade, independent regulatory body, as well as, transmission and distribution networks of electricity are required. Moreover, an independent power grid organization is also needed to turn the surplus power from independent power producers. Competent legal institutions and simpler and less expensive regulatory processes are bound to generate higher income (SARI/EI report). The Organisation for Economic Co-operation and Development (OECD) countries are successfully following the same type of regulatory process.
- General perception is that if UCPN (Maoist) comes into power it will trash the PTA and PDA. Government of Nepal and India must analyse the possible impact on India- Nepal hydropower cooperation if UCPN (Maoist) forms a government in near future with or without support of any other parties. Opposing the PTA and PDA, UCPN (Maoist) and some other like minded parties of Nepal are holding month long protests against the government of Nepal. Cadre of these parties have been organising dharnas in front of Nepali’s main administrative building in Kathmandu and other districts headquarter buildings. Senior UCPN (Maoist) leaders have expressed ‘serious reservation’ over approved PDA of Upper Karnali project. They are of opinion that the GMR deal will certainly hold back the developing of 4180 MW reservoir project at the upstream of Upper Karnali projects.
- Without adequate cross border transmission infrastructure it is impossible to attract private companies in power trade projects. As India and Nepal lack adequate cross border transmission interconnections, they should ensure the timely completion of proposed or planned projects. According to a report titled “cross-border electricity trade

in South Asia: challenges and investment opportunities” published by South Asia Regional Initiative for Energy Integration (SARI/EI), Dhalkebar-Muzaffarpur 400 KV line which has evacuation capacity of 1000MW is in advanced stage of completion, transmission line of 1800MW evacuation capacity is planned between Bardaghat and Gorakhpur and Duhabi-Jogbani line is identified and proposed. These all projects need time-bound implementation. The same has been said in Article III (clause b) of PTA “the Parties shall take necessary measures to speed up interconnection planning and construction by inviting and facilitating governmental, public or private sector enterprises of the two countries”.

- There is need to improve the financial health of primary buyers. From the cross border electricity trade point of view, ‘financial health’ of primary buyer is important “as it affects the credit worthiness of the utilities for buying electricity” (SARI/EI report). According to Nepal Electricity Authority (NEA) Annual Report 2014, “NEA continued to face deteriorating financial performance for the FY 2013/14. Despite the growth of total revenue, it incurred a net loss of NR’s (Nepali Rupees) 5,704.24 million for the year under review. The major cause for attributing this loss is felt to be the higher cost of services as compared to the electricity sales tariff.”
- To avoid the unnecessary delay and hassle free administration processes India and Nepal should facilitate single window clearance for hydropower investors. Clause (d) of the article IV of the PTA says “both Parties shall work towards removing, and mutually resolving issues relating to, barriers, including tariff, levies, fees, taxes, duties or charges of similar effects, if any, in the cross-border exchange and trading of electricity”. E-portal, highlighting the progress of projects, budgeting, expenses and related politico-socio-economic problems, should be launched by both sides. This balance sheet approach would be useful in assessing the progress made by involved private and government companies as well as allocating the budget for future projects.
- Legal petitions can act as hurdle in timely execution of the project agreements. According to a media report, a written petition against recently signed PDA has already been filled in the Supreme Court of Nepal. Report says “Dambar Rawal on behalf of 36 locals from the districts of Dailekh, Surkhet and Aacham in his petition filed at the Supreme Court claim that since the agreement is against the constitution, prevailing laws of the land and

most importantly against the national interest it must be declared null and void". India and Nepal can explore the idea of forming the separate inter governmental arbitration council to deal with legal issues related to hydropower investment.

- Multipurpose big hydropower projects generally create some complicated environment problems and social issues which can affect large sections of population. Dealing with concerned NGOs and environmental or social activists has always been a difficult task for the government or any private agencies. In this case, local media must be managed in a positive way. Hydropower plants do not emit much carbon as compared to thermal power plants.
- Hydropower project developers in Himalayan region are bound to face the problems related to geological and hydrological uncertainties, natural calamities etc. sediment loads is one of the major environmental challenges for establishment of hydropower projects in Nepal Himalaya. These geographical uncertainties raise the cost of project also. Assessment of landslide risk at the site and access routes are essential for successful operation of the project.

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