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Sujeev Shakya:

Talking about hydropower and bashing Independent Power Producer's Bhotekoshi and Khimti has become nation's favorite pastime. All the people who earned donor dollars to crib against the private developers in the past ten years could not suggest alternatives; therefore, Nepal is back reeling under power shortages. While we talk of private investment in hydropower, we talk as if we have zillions of people lining up to invest in Nepal. Contrary to that, it is difficult to find investors in the hydropower sector. Only 15 hydropower projects have financially closed in the past decade and a half out of which two are in Nepal. Price is determinant on cost of production. Nepal is not credit rated and therefore getting financing for Nepal is utterly difficult. When the financial closing for Bhotekoshi was underway, 63 banks rejected the proposal despite being led by a multilateral like IFC and had a dollar based PPA. The guarantee of countries like Nepal which people presume to be part of selling national sovereignty is a piece of paper and many guarantees globally have been meaningless. Private power producers need to pay for insurance, legal costs and interest during construction. We always compare these costs with NEA developed projects like Kali Gandaki and now Middle Marsyangdi where there are neither elements of interest factored nor any financial considerations on account of delay factored in. If we take both into consideration many studies have shown that Kali Gandaki is perhaps more expensive to the economy than the IPPs. The fact that Chilime, the NEA promoted company has a rate that is close to the IPP rates perhaps reflects on the fact that if we have to assume that there is cost to money and money is not free and there is a concept called time value of money and delays do not amount to cost, then the rates paid to IPP are close to the real prices. If we continue to harp expensive power by comparing oranges with apples then we will land up writing many seminar papers, but Nepal will continue to reel in the dark. It is like complaining about foreign airlines that charge dollar fares that ferry Nepalis outside Nepal taking business away from our national flag carrier!

If NEA has bled on account of exchange losses by paying dollars rates to Bhotekoshi and Khimti, it would be interesting to see the balance sheet improve this year when the dollar rates have actually come down making the prices of Chilime and Bhotekoshi the same.

In the power sector we need more radical reforms to look at the scrapping the system of PPAs and survey licenses and shortening Environmental Impact Assessment timeline. There is a demand in Nepal and India, there are projects that can be developed, leave the rest to the market. People are sitting on survey licenses (bestowed upon by political masters) for years and like sitting on plots of land and not building houses they are trying to encash on the premium. Scrap the licenses, let merchant power plants who can manage

risks come up with power, they will find the market themselves. The transmission lines have to get to a special purpose vehicle owned by the state and let everybody use it like they can use the road by paying tolls. Let distribution be managed by municipalities who know the customer better and cut debtors. Let private sector be just allowed to build generation plants. If we take the potential of 40,000 MW to sell at 5 cents a unit based on current estimates, it can fetch \$ 150 billion plus revenues. We need to re-engineer our thinking.

Mallika Shakya:

Is power not a single unit but multiple and eclectic? Its commercial components might include core components of power generation, but its infrastructure components surely include the public goods of roads and transmission lines. But in today's financial sophistication, it should well be possible to differentiate the treatment of these two components so that we avoid the dilemma of subsidization versus capitalization.

To take one example, from Bangladesh, the power finance facility, first, set up a public fund (through govt., multilateral and bilateral donors). They then dissected this into two sub-components, each managed by different entities. The first subcomponent was managed by the government: First, it developed an eclectic (as opposed to 'thick') infrastructure plan based on social-cost-benefit-analysis (as opposed to financial CBA). Second, the plan mobilized the donor support to award contracts to private bidders on a competitive basis. Since the fund was based on the local currency, bidders were either local companies or were sufficiently locally grounded. The second subcomponent was a purely commercial credit which was managed by a commercial financial institution for commercial remunerations on commercial principles.

I am not too sure that Nepal's current hydro loss is coming from the subsidization-vs.-capitalization dilemma. I think a larger factor might be the problem that the one component was never sufficiently dissected and differentiated from the other. We cannot ignore the importance of mini-calculations and comparative bargains from within the country and within the region. Penny-crunching seems to be the name of the game in such projects although this might be idealistically a bit sad.

Ambika Adhikari:

Hydropower development in Nepal has long been held as a panacea for Nepal's economic development. The government and foreign-aided hydropower development have not been that successful, both due to large per unit cost (construction inefficiencies, graft), and problems of maintenance. Since 1992, the private sector development of the hydropower was seen as the best approach to utilize Nepal's most important economic potential while utilizing the private sector efficiency. There lingers a vast controversy on the modalities of these investments. Although the previous few private power

development were carried out by the US, Australian, Chinese and a few other companies, the most successful ventures have been the ones organized by the Nepali investors.

The most recent private hydropower development projects are almost all proposed by Indian or Indian-Nepali joint investors. This is an interesting change and merits a careful review. The Indian companies are perhaps, best suited to operate in Nepal due to their proximity, cultural and economic understanding of the Nepali situation, and relatively low cost of their professional and other costs. More importantly they are in the best position to negotiate Indian market for Nepal generated power. However, Many Nepalis are long concerned about the possible compromise of national security, and monopsony by the Indian state in the development of Nepal 's hydropower. Also, Nepal wishes to diversify its investor's list, and wishes to attract non-Indian investors in the power sector to obtain foreign technology and also to counter the enormous Indian influence in Nepal.

Keshav Upadhyay:

The problem with hydropower is how you treat power in the economic schema. Do you take it as an essential part of infrastructure, or is it a commodity like say a pair of shoes? There are two sides, both equally important. First one is of course the need for investment, where does the money come from? If you give a handsome return to the investors, investment will surely come. But then the price of energy will go soaring high. Can you allow that? What would be the impact in the macroeconomic sphere if you let that happen? It is here that I think there is a need of serious intervention by the government. If you are clear about it color of the cat is not important.

Vijaya Sharma:

The discussions on February 18 and 19 mainly focused on power sector in Nepal, especially Nepal's bitter experiences with FDI in Khimti and Bhotekoshi projects, the limited investment capacity of the national private sector, the problem of red tape and corruption discouraging private investment, the severe crunch of power shortage in the country, and the potential loss of comparative advantage in the South Asian energy market if investments on power sector are further delayed. At this time it is being hotly debated in Nepal, as to what would be the most appropriate investment modality for Tamakoshi: FDI, national private sector, or state investment through the Nepal Electricity Authority.

Should Nepal target Indian investors? Should the government extend loan guarantees and/or subsidized credit for large power projects to promote national private investment? Should the government directly engage in investing in power? What kind of policies and strategies should the country undertake for producing and selling power to the domestic market and also for exporting to India and the South Asian region?