

Power Sector Reform in Nepal

~~National-Nepal~~ Hydropower Association ~~of Nepal~~ (NHA) and Niti Foundation organized a half day dialogue program titled 'Power Sector Reform in Nepal' on March 24, 2014 at Hotel Annapurna. Energy Minister Radha Gyawali attended the program as a chief guest while the guests list included Chief Secretary of government of Nepal, Vice chairperson of National Planning Commission, Managing Director of Nepal Electricity Authority, Director General of Department of Electricity Development, Independent Power Producers, journalists and other individuals associated with the energy sector of Nepal.

Mr. Jeewan P. Thanju, Vice President, NHA began the program by welcoming all the guests and participants of the program. ~~H~~highlighting different problems faced by energy sector in Nepal including the long hours of load shedding in his inaugural speech, he stressed on the significance of commitment by all stakeholders in resolving the crisis situation.

Mr. Bhanu Pokhrel from NHA essayed the various problems faced by energy sector including problems in transmission and distribution of electricity. He mentioned that NHA and Niti foundation are jointly undertaking a study on Power Sector reform in Nepal. There is no problem of funding in transmission lines due to donor supports; but implementation has been a big issue. In his view 4500 km of transmission lines will be required in the country by 2016/17. Mr. Mohan Das Manandhar from Niti Foundation stressed on the reform of power sector governance. Stressing that inadequate supply of quality electricity is one of the growth constraints in Nepal as per recent MCC and government study; he stated that electricity is a must for economic development of Nepal. The other factors mentioned are political constraints, expensive road transportation and requirement of labour laws reforms. He also stressed on the significance of a separate Regulatory Commission as well as national master plans for transmission and distribution of electricity for resolving crisis faced by energy sector. He also highlighted the importance of the promulgation of the new Electricity Act as well as the significance of NEA strengthening and reform.

Mr. Arjun Kumar Karki, MD at NEA stated excess electricity (4 billion units per annum) will be produced in the wet season by 2017 which will have to be wasted due to lack of transmission lines while load shedding will persist in the dry season. He stated that NEA was working towards bringing down electricity leakage rate to 23.5% from 25%. He admitted that there was slow progress in transmission sector but added that it was working towards building capacity of existing transmission lines throughout Nepal. He stated that a master plan to construct transmission lines connecting eastern parts throughout Kali Gandaki was in place while cross border transmission line with India of 400 KV is being constructed and study for another one is underway. He highlighted problems faced in transmission line construction including land acquisition and forest clearance requirements etc. He blamed lengthy and complex rules and regulations for crisis in energy sector and stressed on requirement of one-window clearance for all procedures required. Strengthening of Energy Ministry and giving it sole authority while carrying out works related to hydropower was also stressed. He informed that NEA was also working on national

distribution plan. He highlighted requirement of foreign investment to develop power sector, including rural electrification. He mentioned following points:- a)- import of electricity will be required till next 10 years when some storage projects will be completed, b)- 12 hours load shedding is even difficult to maintain, c)- even though sufficient budget and plans are there, not much progress is in Transmission lines in the field: examples are - Khimti-Dhalekebar started in 2006 not yet complete, Matatirth-Bhaktapur T/L problems, d)- there is not only change in policy but also change in ~~organisation~~ organizations by creating new ones, e)- during forest clearance if the number of trees to be felled increased by 1-2 numbers over the previous approved numbers; the process of approval is fully repeated and re approval required from the Cabinet-, g)- regarding PPA , due to all these constraints, only dispatchable agreement connection agreements are being made. He also stressed that a separate regulatory commission was required to take responsibility of matters such as wheeling charge etc. He stated that NEA would itself start the process of unbundling 4-5 years later when it grows in size but stated that the present state of crisis in energy sector was not because NEA could not be unbundled at present. He request media to avoid mis-information of 25% losses in the system in on T&D; as losses can not be reduced below 15%, and the actual losses avoidable is only 8-10% .

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Mr. Khadga Bista, President from IPPAN stressed on the need of sectoral reform saying that more construction of hydropower projects being problematic due to the ~~but~~ lack of transmission lines ~~is due to absence of sectoral reform~~. He also stressed on the need of a separate regulatory commission for the success of one window policy since hydropower sector requires coordination with multiple ministries. He stated that without a regulatory commission, one window policy would be like a football match without a referee. He was of the view that present situation has been generated due to single buyer, multiple seller situation and added that NEA is not in position to regulate policies. He stated that reform started post democracy in 1990 should be continued and a framework ~~readied~~ realized necessary for regulatory commission for transmission, generation and trading ~~should to~~ be implemented.

Mr. Dilli Ghimire from NACEUN stressed on importance of updating Electricity Act of 2040 to make it contextual today illustrating on the relation between different stakeholders. He stressed on the significance on strong legal instruments to resolve disputes between IPPs and NEA. He stated that regulatory authority should be separated from NEA for management of transmission and distribution sector. He raised the issue of decentralization for hydropower development as well as necessity of rural electrification. He called for reform in distribution sector to control electricity leakage. He mentioned conflict in Electricity Act and NEA Act and requiring suggestions ed ~~to~~ revisit for refinement. He suggested to ~~authorise~~ authorize local authority for tree clearance approval if there is a variation of up to 10% from the original estimates. He suggested coordination between stakeholders instead of the pointing problems to each other.

Chief Secretary Lila Mani Poudel also stressed on the significance of reform in existing transmission lines and towers as well as reform in whole transmission sector. He stated that if separate transmission authority was to be set up, coordination with generation sector will still be required. He spoke of dilemma on making high investment in high capacity transmission lines. He proposed that private power producers themselves could be given authority to construct transmission lines to link the power produced to national grid on local and basin scale. He informed that Transmission Service Agreement

(TSA) was already decided to allow private companies for construction of transmission lines. He informed of different transmission lines being constructed. On regulatory commission, he stated that NEA did not need any other regulatory body as of now since government itself is a regulatory body for NEA. However, he stated that regulatory body for transmission will be required when market demands for it later on.

Similarly, the then Vice Chairperson of National Planning Commission Dr. Rabindra Shakya stated that NEA did not represent the whole power-energy sector development of Nepal, but was merely a part of it. He deemed weak policy provision as the reason for NEA's problems. He elaborated on the relation between hydropower development and economic development. He was of the view that technical weaknesses, financial weaknesses, weak human resources, weak power sector governance etc were to blame for crisis in power sector. According to him, policy changes, institutional changes and regulatory changes was key to reform in power sector governance. He sought recommendation from expert group for changes in power sector. In his view the problem in Nepal is not the lack of investment; but it is lack of management.

In her speech, energy minister Radha Gyawali spoke of political instability and other reasons giving rise to problems in energy sector. She expressed commitment that new Electricity Act will incorporate recommendations coming from interaction programs like these. She stressed on coordination between different line ministries for hydropower development. The Minister admitted that there are several problems such as 25% losses in the system, delays in the T/L implementation, alternate ways to remove load shedding in three years. She informed that in next budget there will be a provision of Rs. One crore per MW VAT rebate. She further stated that licenses should be issued to the genuine developers. She acknowledged delay in transmission line construction and construction of power projects resulting in loss and stated that those unable to complete the projects in-on time could be fined. She added that Nepal now need~~ed~~ to aim towards producing enough power to sell to other countries also. She stressed on importance of commitment from government, energy ministry, IPPs and private investors for development of power sector and pledged to carry out policy reforms.

Mr. Jyoti Baniya from Consumers' Forum stated the reasons behind the failure to carry out power sector reform was failure to break the school of thought that state alone should be responsible for transmission and generation, out dated and one-sided Acts, rules and regulations benefiting only the power producers and lack of inter-ministerial coordination. He pointed that the proposed Electricity Act returned from Parliament is lying in the cabinet of the Legal Officer of the Ministry of Energy which has not given any importance. He also highlighted on the need to develop electricity development policy and stressed on the strengthening of NEA. He was of the view that forming a separate regulatory commission was difficult but stated that favorable environment for electricity development was necessary. He called on all the stakeholders to help the constitutional committee concerned with energy sector to ensure its development. He also highlighted role of consumers in power sector reform.

Similarly, Mr. Ganesh Prasad Subba from ETFC stated that commitment from the Prime Minister and Finance Minister was of utmost importance for energy sector development. He was of the view that concerned ministries need to be willing to give up their authority for power sector reform.

Director General of DoED, Mr. Dilli Bahadur Singh expressed his commitment to incorporate recommendation for policy reforms through interactions like these and ~~called-urged the for~~ IPPs to voice their opinions in this regard. ~~He requested suggestions for the revision of the Acts.~~

The session was then followed by a short question and answer round where problems faced by ~~power~~ private developers due to lack of transmission lines, frequent institutional changes etc as well as issues of lack of energy policy, lack of monitoring etc were raised. The session ended with conclusion that NEA needs to be strengthened as it is being mired by different problems. Need for FDI in power sector was also highlighted while development of transmission and distribution sector was also stressed. It was agreed that government needed to help power producers in activities like land acquisition, forest management etc for smooth development of power projects. Need for simple governmental procedures to get clearance regarding hydropower projects construction was reiterated. It was also stated that private sectors could be given responsibility to construct transmission lines in different corridors after necessary negotiation and competition.

The program concluded with vote of thanks by NHA Advisor Mr. Balram Pradhan ~~who said that the NEA and the private sector are two sides of a coin and suggested that power sector reform is needed and the implementation planning should be in detail and stressed for the continuation of programs like this.-~~

NHA Chairperson Dr. Megh Bishwakarma in his closing remarks stated that like agriculture, energy has not yet commercialized in Nepal; and future is not happened, it ~~is~~ can be planned. He stated that outcome of this National Dialogue will be prepared as Resolution and submitted to the related stakeholders and authorities as input for said reforms.