

Hydropower Development Policy, 2049

1. Background

The present installed capacity of electric power system in the country in total is 278 MW which includes 233 MW of hydropower and 45 MW of diesel power.

It has been found on the basis of the demand projection of electricity for up to year 2001 that between 300 and 400 MW of electricity must be added to the national electricity system by the end of this century. To meet this demand feasible projects like Arun-III (402 MW) and Kaligandaki (110 MW) may be executed within a period of 7-12 years.

Therefore, it is necessary to make alternative arrangement to meet the interim demand of the country till the above projects come into operation after their completion. It is also necessary to construct new small hydro electric projects to meet the demand of those hilly and remote Himalayan region where the national electricity system has not been extended or would not be extended in the near future. Apart from this, it is utmost necessary to extend proper distribution system in the rural areas where electrification has not been done and also to develop hydro-power of the country by motivating national and foreign private investors in the electricity sector.

2. Objectives

- 2.1 To supply electricity as per the demands of the people in urban and rural areas through the development of the high potentiality of the water resources that exists in the country.
- 2.2 To enhance the development of hydro-power to meet the energy needs required for the industrial development in the country.
- 2.3 To motivate the national and foreign private sector investment for the development of hydroelectric power.

3. Policies

- 3.1 To carry out hydro power projects of various standards and capacities to meet the interim and long term electricity requirements.
- 3.2 To give emphasis to the programme of rural electrification in order to render assistance in the development of agricultural production and cottage and small scale industries in the hill and terai regions.
- 3.3 To give emphasis to the development of transport system to be run by hydroelectric power in order to substitute the petroleum products.
- 3.4 To utilize the indigenous labour, skill and resources as well as foreign investment and technology for the development of hydropower.
- 3.5 To export hydroelectricity produced in excess to the national demand.
- 3.6 To extend the use of electricity for making the minimum utilization of fuelwood and to render necessary assistance in the conservation of forest and environment.
- 3.7 To diversify the utilization of electricity.
- 3.8 To make the supply and distribution of electricity regular and reliable.

- 3.9 To have maximum control in the leakage of electricity.
- 3.10 To make electricity sufficiently available to the people and to make the tare of electricity tariff more practical.

4. Works to be done for the Development of Hydropower

a. Establishment of Hydroelectric Projects

- 1. No license shall be required to be taken to operate hydroelectric project having a capacity of up to 1000 KW. However, if the project having a capacity of 100 KW to 1000 KW is to be operated, a notice to that effect with necessary particulars should be given to the concerned agency before commencing the work of the project.
- 2. A license should be obtained by submitting an application to the Ministry of Water Resources for carrying out a hydroelectric project with a capacity of more than 1000 KW. Feasibility study and other necessary information shall be made within 120 days from the date of submission of such application as to whether such license is to be issued or not. The validity of the license shall be of a period of 50 years in the maximum.

b. Investments

Investments may be for the projects relating to generation, transmission and distribution line constructed and completed by the government sector and owned by it necessary agreements may be made with private sector for their whole or partial operation.

- 1. Sole or joint venture of one or more private national investor.
- 2. Joint venture of the government and one or more national or foreign investor.
- 3. Hundred percent investment of one or more than one foreign investors.
- 4. Joint venture of the national or foreign investors.

c. Operation Procedures of Hydroelectric Projects

- 1. Supply of electricity in any area may be made under the local system of the Nepal Electricity Authority (herein after referred to as "NEA").
- 2. The excess of electricity in any area may be supplied to the system of NEA.
- 3. The whole electric- power, generated through a hydroelectric project shall be supplied in bulk into the system of NEA.
- 4. If electricity is being distributed in any specific area in an isolated way without obtaining a license and the electrical system of NEA is extended thereto, and in consequence whereof the private sector desires to sell the hydroelectric plant and transmission and distribution line operated therein, NEA shall make arrangement for purchasing the said hydroelectric plant and transmission and distribution lines as mutually agreed upon between NEA and concerned private sector.

5. If the national private sector desires to generate and distribute electricity up to 1000 KW in any rural area by constructing a hydroelectricity plant, financial institutions shall make available concessional loans.
6. Private entrepreneurs may use the electric system of NEA to transmit electricity generated by them.

d. Hydroelectric Project not to be Nationalized

1. Hydro electricity project established by private sector shall not be nationalized during the period of the validity of the license.
2. Projects established with more than 50 percent of the total investment by foreign company shall automatically be transferred to His Majesty's Government after the expiry of the time prescribed in the license. No compensation shall be given by the government for it. However, if the investor company desires to purchase such hydro-electricity plants from His Majesty's Government it may do so.

e. Construction of Hydroelectric Project by the Government

His Majesty's Government shall, as required, supply electricity by constructing hydroelectric projects to be extent possible out of its means and resources.

f. Royalty

No royalty shall be imposed on the electric power generated through hydroelectric plants having the capacity of up to 1000 KW. In case electricity is produced through hydroelectricity plants of more than 1000 KW, the produce of such electricity shall pay the government a sum of Rs. 100.00 per KW per annum and 2% of the average sale per unit (KW hour) as royalty up to the period of 15 years starting from the date of commercial production. After the completion production, the producer shall pay the government a sum of Rs.1,000.00 per KW per annum and ten percent of the average sale price per unit (KW hour) as royalty. No royalty shall be paid by the private sector, if it transmits and distributes electricity by purchasing it from the electric system of NEA.

g. Income Tax

1. An exemption of income tax shall be given to the projects of private sector generating and distributing electricity from the hydroelectric project upto the capacity of 1,000 KW.
2. Hydroelectric project, constructed under the investment of private sector, producing more than 1000 KW shall be granted exemption from income tax for a period of fifteen years starting from the date of its commercial production.
3. Any private entrepreneur, who constructs electric substation, and transmits and extends the distribution lines shall be granted exemption from income tax for a period of ten years.
4. If the private companies take on contract or purchase the operation, maintenance and management of the hydroelectric plants or transmission and distribution lines under the ownership of His Majesty's Government, such companies shall be granted exemption from income tax for a period of five years.

5. The income tax shall be less than ten percent of the corporate income tax which the government imposes from time to time.
6. If the investor reinvests in the hydroelectric project in order to diversify the project or to expand its established capacity by twenty-five percent or more, or to modernize the technology or to develop the subsidiary industry, such investor may deduct an amount of fifty percent of the new additional fixed asset, from the taxable income of such hydroelectric projects. Such deduction may be made at time or from time to time within three years.

h. Customs, Sales Tax & Excise-Duty

Customs duty and sales tax shall be levied at the prevailing rate on the import of construction equipment, machinery tools and their spare parts required for operation and maintenance if they are produced and sold by the local industries. Only one percent of the customs duty shall be levied on the import of goods if they are not produced in Nepal. Import license fee, sales tax etc. shall not be levied thereto.

i. Facilities Relating to the Exchange of Foreign Currency

1. All facilities concerning exchange of foreign currency shall be provided to the foreign individual, firm or company who invests in the construction of project for generating, transmitting and distributing the electricity at the private sector under the foreign investments and single door policy.
2. If foreign currency is required for repayment of loan or the interest thereon or repatriation of the investment which was invested as a loan or share capital for the hydroelectric project, His Majesty's Government may make foreign currency available to such private entrepreneur at a prevalent market rate of exchange.

j. Selling Rate of Electricity

1. The private producer may itself fix the selling price of the electricity produced from the hydroelectric project having a capacity of up to 1000 KW and operated by it and distribute accordingly.
2. If the electricity produced by the private sector from the hydroelectric project having a capacity of more than 1000 KW is distributed in an isolated way and without making any connection with the electric system of NEA, the private producer may fix the selling price of the electricity in accordance with paragraph(1) above. Provided, the private producer, while fixing such selling price may account that a dividend of up to 25 percent is accrued on the share capital.
3. The electric power produced from the hydro power plant of private sector may be sold or purchased by mutual understanding between the private producer and NEA. The selling rate of such electricity shall as agreeable to both parties, be fixed on the basis of the fixed percentage of the avoided cost or cost plus or fixed percentage of the average selling price of NEA.
4. While fixing the price as above, the private investors may depreciate all the investment made for hydropower development in order to turn the investment in an average of 25 years.
5. A separate Electricity Tariff Commission shall be constituted to fix the the selling price of electricity to be utilized in the national electric system or the system of NEA shall be determined on the recommendation of the said Commission. While fixing the selling price, it shall be done on the basis of the

cost. The weightage of the investment in foreign currency shall also be taken into consideration while fixing the selling price.

k. Export of Electricity

If the electricity produced in the country is to be exported to a foreign country, it shall be done in accordance with the agreement made between His Majesty's Government and the exporter. While exporting the electricity an export tax as prescribed by His Majesty's Government shall be levied on such export.

l. Institutional Arrangement

A Hydroelectricity Development Unit shall be set up in the Ministry of Water Resources in order to promote the private sector's participation in the hydroelectric projects and to approve projects with a capacity of more than 1000 KW, to render necessary assistance to the private sector in the operation of the project and to follow up the aforesaid works.

m. Use of Electric System

If it is feasible from the technical point of view the private sector may supply electricity produced by it to a point of the present electric system in a region and take it from another point of any electric system or may export it to a foreign country. It shall be required to pay the required fee for such arrangement.

n. List of Hydroelectric Projects

The Ministry of Water Resources shall, from time to time, provide a list of hydroelectric projects attractive to the private sectors.

o. Acquisition of Land

His Majesty's Government shall, on request, make available land to the private sector for the construction of hydroelectric project on the same ground as it acquires land for any institution under the Land Acquisition Act, 2034(1977). If the land is owned by the government, it shall be made available on lease throughout the period of licence.

p. Local Labour and Skill to be utilized

The person who obtains the license to construct or operate a hydroelectric project shall have to utilize the local labour and skill at minimum.

q. Transfer of Technology

If the person, who obtains the license to construct or operate a hydroelectric project, is a foreigner, he shall make or cause to make arrangement for technology transfer to the Nepalese citizens in the course of performing the work.

r. To Benefit the Local People

While operating the hydroelectric project it shall be operated in such a way that the local people are also directly benefited from such projects.

s. To Minimize the Environmental Hazards

The Construction or operation of Hydroelectric project shall be made in such a way that it would have minimum adverse effect on the environment.