**Why Nepal needs good hydro agreements**

Radhesh Pant

The refrain is eerily familiar across our country -- despite having enormous hydro potential, we have no access to reliable electricity. Ninety eight percent of the country’s 40,000MW of economically viable hydro potential remains un tapped and only 46 percent of the population have access to electricity.

However, Nepal now has an enormous opportunity to not only fulfill her own domestic demand but also sell electricity to her southern neighbor in return for billions in revenue, taxes and royalties.

Projects in the pipeline include West Seti (750MW), Tamakoshi III (650MW), Upper Karnali (900MW), Upper Marsyangdi (600MW), and Arun III (900MW). While 750MW West Seti is solely intended for the domestic market, the four export projects aimed at the Indian market will deliver at least 500MW of free power for domestic needs.

Our hydro resources belong to *all* the people of Nepal. It is the responsibility of any government to ensure that our nation’s resources are managed wisely for the benefit of our people. And for this to happen, Nepal needs to be in a position to be able to sign a *good agreement*, which is crucial to ensuring that hydro assets fully benefit Nepal and Nepalis.

Now, the question arises: so what constitutes a good agreement?

- A good agreement will meet Nepal’s electricity needs first. Large scale projects like the 750MW West Seti and 600MW Budhi Gandaki, combined with free electricity and some domestic purchases from the four major export projects, as well as seasonal interchanges of power with India, will ensure that the needs of Nepal for electricity are met first.

- It captures for Nepalis their fair share of the economic benefits. It assures an appropriate distribution of those benefits at all levels – village, district, regional and national. This involves calculating and analyzing flow of benefits from each proposed deal, ensuring that pricing in export markets is maximized over time and a fair share of benefits accrue to Nepal, and ensuring that carbon and other environmental credits belong to Nepal.

- It ensures that the hydro project and contracts make best and most profitable use of the value of water from the respective river basin and do not harm downstream projects either already in place or possible for the future. River basins need to be analyzed so that proposed developments achieve highest and best use of the entire river. The flow of water where cascade projects are being developed needs to be managed so that downstream projects are not made uneconomic.

- It returns the hydro asset to Nepal in good operating condition at the end of the concession period, which is as short as possible but enables the developer to receive a market return for its investment and risk.

- It transfers project risks to the developer for completion and project performance and adherence to contractual terms. The Government and NEA staff and advisors perform due diligence to ensure performance.

- It is balanced. The developer is able to receive a fair market based return as compensation for investment, project development and management skills and risk. The people of Nepal receive a fair share of benefits based on the inherent value of our water resources.
• It ensures high environmental sustainability and high safety standards. It also ensures that the project covers its environmental and social costs, which are borne by the developer and the project, not the Government.

• And with so many hydro projects that will be developed over the next several decades, a good deal is structured so that the demand for goods and services from the tens of billions of dollars of expenditure stimulate many new prosperous business and thousands of skilled and semiskilled jobs.

• Finally, it includes a model community benefits package that brings about long term benefits such as training, skill development, employment, business development, community infrastructure - clean water, health services, electrification, housing, etc. It looks specifically at needs of indigenous groups and seeks free, prior, informed consent from local communities.

However, achieving a good agreement requires active and constructive participation of all stakeholders. This includes full disclosure from project developers, rigorous analysis and strong political support, which the Nepal Investment Board has been working towards, since it was awarded a mandate for managing hydro projects above 500MW.

The Board has been working closely with all relevant ministries and is putting together a team of world class financial and technical analysts, water management experts, energy specialists, sociologists and economists in addition to seeking international and national legal expertise to assist it in negotiating a good deal for Nepal. With the recent approval of the new Project Development (PDA) template, the Board has already invited respective developers for informal talks in the lead up to formal negotiations.

The PDA template, which underlines all the principles of a good deal, will be tailored to specific hydro projects during negotiations with the developer because no two hydropower projects are the same. The river basin on which each is going to be developed will vary, so the geology, hydrology and economics of each project are likely to be different. Likewise, the number and the kinds of people impacted and how they are affected by the project will be different. The same variation applies to project design, the amount and the timing of power generation, and to the markets where the energy is ultimately delivered. So each project may have a different looking PDA but the underlying principles will be the same.

Hydropower has the potential to be the cornerstone of government finance, a key engine of Nepal's economy and a vital means of rural electrification. But in order to harness that potential in the best possible way, Nepal first needs to sign good hydro deals. As an honest broker acting for the government and the people, it is our responsibility to ensure that we achieve them.

Radhesh Pant is the CEO of Nepal Investment Board, the leading agency representing GON, set up to fast track hydro projects above 500MW and other infrastructure projects above 10 billion rupees.