



STRATEGIC ENERGY SECTOR POLICIES IN NEPAL: WHERE DO WE GO FROM GOKARNA?

NOVEMBER 2018

Prior Actions Achieved Under DPC1 By Sept 2018

PILLAR A: IMPROVE THE FINANCIAL VIABILITY OF THE ELECTRICITY SECTOR

Prior action 1. The cabinet has approved the NEA financial restructuring plan.

Prior action 2. The NEA board of directors has adopted a financial viability action plan.

Prior Action 3. NEA has signed performance contracts with chiefs of regional and district offices to reduce transmission and distribution losses.

Prior Actions Achieved Under DPC1 By Sept 2018

PILLAR B: IMPROVING THE GOVERNANCE OF THE ELECTRICITY SECTOR

Prior action 4. The MOEWRI has adopted a power sector strategy and action plan

Prior action 5. (i) The GoN has published the ERC Act; and (ii) the Cabinet has approved executive regulations.

Prior action 6. The Nepal Power Trading Company Ltd. has been established and its Board has appointed a Managing Director.

Prior Action 7. NEA Board has adopted: (a) power purchase rates and associated rules for PPA hydropower generation projects; and (b) guidelines on FX-denominated PPAs.

Prior Action 8. The MoFE has adopted a hydropower EIA manual.

Policy Triggers Under DPC2 and DPC3

Prior Action for DPC1	Trigger for DPC2	Trigger for DPC3	Results	
			Baseline ¹ (FY2016)	Target (FY 2022)
Pillar A: Improving the financial viability of the electricity sector				
Prior Action 1: The Cabinet has approved the NEA financial restructuring plan.	Trigger 1. NEA publishes FY2020 tariff rates following ERC decision on its tariff application.	Trigger 1. NEA publishes FY2021 tariff rates following ERC decision on its tariff application.	Average retail tariff is 32% below the average cost of electricity services	Average retail tariff covers average cost of electricity services
Prior Action 2: The NEA Board of Directors has adopted a financial viability action plan.	Trigger 2. NEA has restructured its financial arrangements with its subsidiary companies to meet expected return on equity as per its financial viability action plan.	Trigger 2. NEA's audited financial statements for FY2020 are compliant with NFRS and have been published.		
Prior Action 3: NEA has signed performance contracts with chiefs of regional and district offices to reduce transmission and distribution losses.	Trigger 3. NEA has: (i) through its Board of Directors, approved a loss reduction master plan, (ii) implemented immediate priority institutional measures to reduce transmission and distribution losses outlined in its loss reduction master plan, and (iii) measured the transmission and distribution losses in the performance contracts with chiefs of regional and district offices in line with the loss reduction master plan.	Trigger 3. NEA has (i) completed implementation of the institutional measures to reduce transmission and distribution losses outlined in NEA's loss reduction master plan and (ii) published the results of performance contracts.		
			NEA's PBITDA ² : NPR 0.49 billion	NEA's PBITDA is > NPR 40 billion
			Overall T&D losses: 25.8%	Overall T&D losses: <18%
Pillar B: Improving the governance of the electricity sector				
Prior Action 4: The Ministry of Energy, Water Resources and Irrigation has adopted a power sector strategy and action plan.	Trigger 4. The Government of Nepal has submitted the Electricity Act to the Parliament.	Trigger 4. The Cabinet has approved regulations implementing the Electricity Act.		

¹ The base year is 2016 when the project concept note was approved unless noted otherwise.

² PBITDA = Profit before interest, tax, depreciation and amortization.

Policy Triggers Under DPC2 and DPC3

<p>Prior Action 5 (i) The Government of Nepal has published the ERC Act in the official gazette; and (ii) the Cabinet has approved executive regulations implementing the ERC Act.</p>	<p>Trigger 5. The ERC has issued tariff-setting guidelines.</p>	<p>Trigger 5. The ERC has issued guidelines on open access and transmission pricing.</p>	<p>Electricity traded and exchanged is 2178 GWh</p>	<p>Electricity traded and exchanged has increased by at least 20%</p>
	<p>Trigger 6. The Cabinet has adopted a resolution on the sequence, timeline and milestones for the restructuring of NEA.</p>	<p>Trigger 6. Government of Nepal has restructured the NEA by completing the separation of its generation, transmission and distribution business under a holding company structure, pursuant to the Electricity Act and the Cabinet-approved NEA restructuring plan.</p>	<p>PPAs are signed through negotiation</p> <p>Electricity projects are not informed by GESI guidelines</p>	<p>PPAs are signed based on posted tariff and/or competitive bidding</p> <p>GESI guidelines have informed at least one electricity sector project</p>
<p>Prior Action 6. The Nepal Power Trading Company Ltd. has been established and its Board of Directors has appointed a Managing Director.</p>	<p>Trigger 7. NPTCL Board of Directors has approved its business plan and operating procedures.</p>	<p>Trigger 7. NPTCL has commenced electricity trading</p>		
<p>Prior Action 7: NEA Board of Directors has adopted: (i) power purchase rates and associated rules for PPA of run-of-the river, peaking run-of-the-river, and storage hydropower generation projects; and (ii) guidelines on foreign currency-denominated PPAs.</p>	<p>Trigger 8. NEA Board of Directors has issued competitive bidding guidelines for electricity projects.</p>			
<p>Prior Action 8: The Ministry of Forests and Environment has adopted a hydropower environmental impact assessment manual.</p>	<p>Trigger 9. (i) The Cabinet has adopted (a) improved forest clearance guidelines and (b) right of way guidelines; (ii) NEA has adopted the gender and social inclusion guidelines.</p>			