

# LEASING OF NEA OWNED SHPs TO PRIVATE OPERATORS

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# Background

- HMG/N created S.H.P. Board in the year 1975
- HMG/N electrified all 75 district headquarters by the year 2000
- 7 district head quarters are out of electricity supply (Maoist's insurgency)
- N. E. A. formed in 1985

# Reasons for Leasing Out to Private Sector

- 40 SHPs (capacity between 32 KW to 2000 KW) are in operation
- total installed capacity of about 15000 KW
- most of the isolated SHPs have very low load factor

# Reasons for Leasing Out to Private Sector

- poor financial performance - cannot even generate O/M expenses
- to reduce the financial losses and increase the profitability

# 1st phase leased out SHPs

- 1) Khandbari SHP (250 kW)
- 2) Bhojpur SHP (250 kW)
- 3) Jomsom SHP (240 kW)
- 4) Bajhang SHP (200 kW)
- 5) Darchula SHP (300 kW)

# Main Terms of lease agreement

- Annual royalty payable to NEA
- NOT allowed to increase tariff rate above that of NEA
- can provide concessions to consumers at their discretion

# Main Terms of lease agreement

- provision to penalize the lessees by forfeiting their performance bond and even terminate their contract if lessee,
  - a) fails in fulfilling the contractual obligations
  - b) fails in supplying electricity for a continuous period of more than three months

# Results of 1st phase lease

- Performance of leased SHP plants found satisfactory
- Flexible relation of NEA with the private operators motivated them for efficient operation of the plants



# Results of 1st phase lease (contd.)

- NEA is earning revenue instead of financial loss
- SHPs are also capable to create a non-operative fund to
  - a) meet natural disasters
  - b) expand and improve the system



## 2nd phase leased out SHPs

- encouraging results of the first phase leased out SHPs
- motivation for leasing out more SHPs

# 2nd phase leased out SHPs (contd.)

- 6 SHPs leased out in 2nd phased
- 1) Taplejung SHP (125 kW)
- 2) Phidim SHP (200 kW)
- 3) Terhathum SHP (100 kW)
- 4) Chaurjahari SHP (150 kW)
- 5) Serpodaha SHP (200 kW)
- 6) Jumla SHP (200 kW)

# Main Guidelines of lease contract

- lease period is fixed for a minimum of 10 years
- The lessees are required to pay a fixed amount of royalty to NEA
- This royalty amount is subject to change with the increase of sales and will be revised in course of change in NEA's tariff rate

# Main Guidelines of lease contract

- a separate account made of 50% of profit created for the purpose of meeting natural disasters, for the expansion and improvement of the system
- regular operation reports to be submitted to NEA
- NEA is to make regular inspection of the plants and to monitor the operation

# Main Guidelines of lease contract

- lessees are prohibited to charge above NEA's tariff rate
- lessees are authorized to reduce NEA's tariff rates on their own discretion.
- investment made by lessee compensated by NEA if agreement is terminated before maturity due to change in government policy.

# Main Guidelines of lease contract

- NEA is authorized to forfeit lessee's performance bond or even terminate their contract in the following condition:
  - a) Failure to supply electricity for a continuous period exceeding 90 days.
  - b) Involvement of the lessees in any illegal activity.
  - c) Failure to meet the obligations of the lease



**The end**





**Thank you**