

ANNEX-III

Hydro Power: Some Legal Provisions and Policies Highlights

A. Royalty Arrangements:

For Small Hydropower Project 3000KW (Three MW) or Less

- No License Required
- No Royalty
- No Corporate Income Tax

B. Hydropower Projects for domestic consumption:

S. N.	Electricity Capacity	Up to 15 years		* After 15 years	
		Capacity Royalty/kW (Rs.)	Energy Royalty/kWh	Capacity Royalty /kW (Rs.)	Energy Royalty/kWh
1.	Up to 3 MW	--	--	--	--
2.	3-10 MW	100.0	1.75 %	1000.0	10 %
3.	10-100 MW	150.0	1.85 %	1200.0	10 %
4.	Above 100 MW	200.0	2.00 %	1500.0	10 %
5.	For Captive use	1500.0		3000.0	

- The energy royalty is charged at a rate fixed for hydropower projects producing electricity more than 100 MW, when the surplus energy produced by captive plant is sold and connected to electrical transmission system.

C. Hydropower Projects for export purposes:

S. N.	Type	Up to 15 years		* After 15 years	
		Capacity Royalty / kW (Rs.)	Energy Royalty/KWh (%)	Capacity Royalty/kW (Rs.)	Energy Royalty/KWh (%)
1.	Exportable, run of river projects	400.0	7.5	1800.0	12
2.	Exportable, water storage projects	500.0	10	2000.0	15

Note: * After the date of commercial production.

- The above royalty rates are charged up to 1000 MW capacity hydropower projects built for commercial purposes.
- The energy/capacity royalty of 15% annually is charged from the date of production from the Hydropower projects up to 1000 MW capacity built for non-commercial purposes.
- If the energy sold for domestic use and the remaining energy produced is exported to a foreign country, in such case the energy royalty is charged as per the projects for export purposes on the exported quantity.
For export projects, the royalty has to be paid in the same currency in which the power is sold.

Note: To calculate the energy royalty and capacity royalty, the formula is as follow:

Energy Royalty = (generated energy-self consumption) x Average selling price x Energy royalty rate

Capacity Royalty = Capacity royalty rate x $(1+5/100)^{\text{year}}$ x Installed capacity (kW).

- ◆ Base Year is 2058 B.S.

D. Terms of License Arrangement:

1	Study / Survey license	A maximum of 5 years
2	License for Hydro power generation	
a.	Projects to supply the domestic demand	35 years
b.	Projects for export purposes	30 years
c.	Captive plant (with a minimum of 60 % self consumption)	So long the industry remains in operation
d.	Water storage projects	Extended up to 5 years on the basis of construction period
3	Electricity Transmission and Distribution License:	
	License for Electricity Transmission and Distribution	25 years (renewable for one time for the period of 10 years at a time)

Note: The license period for transmission and distribution of up to 1 MW Capacity shall be valid so long the power station is in operation.

Fees for License Approval and Renewal for Electricity Generation, Transmission and Distribution:

Category	For Survey License of electricity generation		For Survey License of electricity transmission and distribution		For License of electricity generation, transmission & distribution	
	Approval Fee (Rs.)	Renewal Fee	Approval Fee (Rs.)	Renewal Fee	Approval Fee (Rs.)	Renewal Fee
3- 5MW	A lump sum amounts of 50,000/year	Same as Approval Amounts / year	10,000	Half of Approval Amounts	100,000	Same as Approval Amounts (For electricity transmission & distribution)
Above 5-100 MW	10000 / year / MW		50,000		500,000	
Above 100-500 MW	A lump sum amounts of 1,000,000		500,000		1,000,000	
Above 500-1000 MW	A lump sum amounts of 2,000,000		1,000,000		2500,000	
Above 1000 MW	--		--		50,000,000	

E. Tax and Custom Facilities Arrangements:

Government has provided following legal flexibility among public & private sectors in promoting Micro Hydro projects:

- No license is required for conducting surveys or for building and operating plants.
- No royalty is imposed on the electricity power generated.
- Exemption from income tax.
- The private producers may fix the selling price of electricity
- 15 Years tax holiday. The income tax on hydropower projects production, transmission and distribution systems and its operation shall be imposed as per prevailing income tax rate of 20 %.
- % custom duty is levied on import of industrial machinery, equipments and spare parts which is not manufactured in Nepal. But the amount of machinery, equipments and spare parts should not exceed 20 % of the Total Cost. Import license fee and sales tax is exempted

- Power Development Fund (PDF) is a component of Nepal Power Development Project (PDP) agreed between Government of Nepal and the World Bank to finance private development of small and medium sized hydro schemes. The PDF is expected to provide long term financing for private sector hydropower developments in Nepal.
- The Fund is owned by the PDF Board appointed by the Government pursuant to the PDF Board (Formation) Order, 2003.

Current Status

- Two Windows - First Window (10 to 50 MW project by competitive bidding)
- Second Window (less than 10 MW, first come first served)
- PDF Administrator - NB Bank Ltd
- Initial amount - 35 Million US \$
- Fund to act as catalyst to leverage private sector
- Maximum financing - 40% of the project cost for the First Window Project
- 60% of the project cost for the Second Window Project
- Developer to put in minimum 20% as equity
- Notice published in the Rising Nepal on June 22, 2006 inviting applications for the Second Window

Source: Nepal Electricity Authority; Department of Electricity Development.