

## An Interview with Mr. Uttar Kumar Shrestha Managing Director of Nepal Electricity Authority, Nepal



*Mr. Uttar Kumar Shrestha granted an interview to Mr. Shankar Bashyal of HYDRO Nepal. Excerpts from an interview*

### **HYDRO Nepal welcomes you as the newly appointed MD of NEA by GON. As the MD appointed from within NEA, how do you assess the opportunities and challenges faced by NEA?**

First of all, allow me to thank you for giving me this opportunity to express my views on issues pertinent to NEA. Yes, I have been associated with NEA for a long period and thus have the opportunity to closely witness the ups and downs faced by NEA over the period of time from its inception in August, 16, 1988 till now. At present, NEA is going through the gravest of challenge. Bridging the gap between the ever widening demand and supply, arresting and improving the deteriorating financial health of the organization and mobilizing the huge capital required for the expansion of generation and transmission capabilities - these are the most daunting challenges before us at this time. However, on the brighter side, the burgeoning market for electricity both in Nepal and India offers us an immense scope for the expansion of our business and capabilities. There are greater commitments from the government and the donor agencies alike and as a result, I see greater opportunities for growth and expansion unfolding before us.

### **NEA is the largest public utility responsible for overall energy planning, generation, transmission and distribution of electricity in Nepal. How do you assess the roles and responsibilities of NEA within the given mandate by existing Acts?**

Electricity Act-2049 (1992) has opened up the energy sector for the private sector as well. Now any competent private company can develop and run generation, transmission and distribution projects. Scores of generation projects have been successfully implemented by private companies. Their contribution in meeting the energy demand must be duly appreciated. Now, more and more private companies are vying for developing generation projects in different parts of the country. This is a welcome development for NEA as it is a sign of letting up of the burden on NEA to keep its generation capability at par with the demand. However, it does not mean that NEA has a diminished role. There is a fundamental difference in purpose between a private organization and a public organization. Private companies, by and large, are geared towards maximizing the wealth for the owners, whereas NEA, a public organization, is geared towards maximizing the wealth for the society. This means that overdependence on private generation would give rise

to upward pressure on tariff. Even now, the average cost of supply of electricity would have been very high if not for the low cost of generation of existing NEA owned power stations. Hence, there should be a healthy mix between NEA owned and private owned generation capabilities and NEA must go on identifying and developing more of cost effective projects like Upper Tamakosi.

There are also other concerns. Our experience tells us that private developers are reluctant in investing in components and facilities that do not contribute directly in revenue generation but nevertheless, very important from system operation view point. They are also not accommodating in sharing of reactive load. Given that no regulating commission has been formed yet, NEA also has the role of developing and administering norms and guidelines. It is noteworthy that NEA has pioneered a Grid Code for Nepal. Another issue of concern is lack of interest of private sector in transmission and distribution sector. As such, there is ever increasing burden on NEA to expand the transmission and distribution system to match the addition of generation capacity. As the private sector is more focused on the lucrative wholesale market, the loss making retail market of electricity is left on the NEA's cauldron by default. So, given the fact that NEA is the largest and the most experienced organization in the energy sector you can conclude that NEA has prominent role to play now and in future.

### **NEA has to bear dual responsibilities i.e. social as well as making NEA a viable commercial entity. How do you perceive these dual but conflicting responsibilities of NEA?**

You have rightly pointed out the difficulty and dilemma that we are confronting. NEA must earn a profit to be in business. If we go on investing in economically unfeasible endeavors, a catastrophe will be waiting us ahead. I believe, all the stakeholders including the Government are aware of this fact and that appropriate measure will soon be in place to address this issue.

### **What are the core and priority constraints you recognize that need to overcome in order to realize the enormous hydro potentialities and to make NEA vibrant, efficient and responsible in energy sector in Nepal? In this regard, what are the major plans of NEA to overcome these constraints?**

You may be aware that NEA has recently issued a new tariff and power purchase policy. The investment climate has

never been so favorable for developers. So, as far as policy is concerned, there are no serious impediments to realization of hydropower potential now. On the front of physical infrastructure, lack of adequate transmission capability is a serious factor constraining the growth of hydropower development. The 35-point National Energy Crisis Mitigation Action Plan recently announced by the Government has opened up the development of transmission lines by the private sector on Build-transfer mode. Government has committed more fund for the expansion of transmission facilities in the Eastern Nepal and other important corridors. These measures are expected to further invigorate the private sector in the development of hydropower.

Loss reduction is one major front on which NEA need to make progress. NEA's past efforts in this direction has not been effective mainly because of reasons beyond our control. Nevertheless, we are working on measures to motivate the staff to fight the menace of pilferage. If we get cooperation from all sectors, we could achieve progress on this front in no time.

Another core priority is revision of tariff, which has been long overdue. With the present tariff, we are not even able to breakeven our cost of sale. The formation of Tariff Fixation Commission is a welcome development. We will again be filing our case for tariff revision soon.

### **What are NEA's constraints to accomplish PPA with IPPs?**

Other than transmission bottleneck, there are no constraints from our side. There is media hype that NEA has stopped signing PPA. This is not true. On the contrary, we have been working with the prospective developers for concluding PPAs. Some time back, IPPs' were reluctant in signing PPAs. Their shyness in executing PPAs could be understood given the rise in construction materials cost and other risks involved. Now, a new PPA tariff has already been issued after interactions with stakeholders. Government has already announced further incentives in tax, VAT, license, forest permit and environmental studies for hydropower projects. For the genuine developers, these developments offer bountiful of opportunities.

### **NEA is the largest public utility with about 10,000 employees and only 600 MW of generation. What do you think, in this context, is the NEA overstaffed or under work?**

NEA has around 1.5 million customers dispersed widely in nook and corners of the country. The difficult geographic terrain of our country makes the job of providing service to the customers challenging. Sometimes it takes one full day for the electrician or meter reader to reach a locality with only ten customers. Our staff size has not changed significantly over past several years. Our distribution network is undergoing rapid expansion. The more area is electrified, the more offices will have to be established to run

the services. Under these circumstances, I do not think that NEA is overstaffed or under work. We will be able to manage our services with the better management of the existing human resources, optimum use of Information Technology and outsourcing wherever necessary.

### **As you are very much aware of NEA'S financial health in terms of its revenue and expenditures, what do you think to do to overcome this miserable financial situation?**

Revision of tariff, reduction of system losses and enhancement of efficiency in business operation- these are the key remedies for our maladies. Besides, we will also have to pursue vigorously for better arrangement on interest rates charged by the government on grants from donor countries. The issue of settlement of huge arrears of street lighting also needs to be sorted out without further delay.

### **How NEA plans to tackle the severe power cut in Nepal?**

Government has already announce a 35-point National Energy Crisis Mitigation Action Plan on Poush 10 (25 Dec, 2008). Major part of the action plans falls within the purview of NEA. We are fully committed to execute our part of the Action Plan in a timely manner.

### **The proposed Energy Act envisages unbundling of NEA. What is your view point on it?**

As the size of power market enlarges, vertically integrated companies usually break into functional businesses. This is the process of formation of new organizations. New Electricity Act envisages similar process in Nepal. However, present market size seems too small to go into separate functional organizations.

### **Why NEA is unable to lower Electricity losses to an acceptable level?**

To reduce the Technical Losses, we need huge investment in our transmission and distribution system. On the other hand, misuse of electricity i.e. theft has become a collective practice involving whole of the local communities. NEA's efforts to curb electricity theft have been met with stiff collective resistance. Our staff, repeatedly, have been subjected to manhandling and threats. Hence, active involvement of local civil society and administration has become essential to curb such practice and bring down the losses to acceptable level.

### **The existing transmission lines are about to be overloaded. Does NEA have any plans for expansion?**

Yes, most of our transmission lines including the substations are overloaded. NEA has planned for the expansion of transmission system and government has committed about 7 billion rupees for this purpose. We hope that we will have a

much better transmission capacity in next few years.

**The nation has high hope in Upper Tamakoshi Project (456 MW). What is the assurance that it will not face same fate as in Middle Marsyangdi?**

Middle Marsyangdi project period was marred by the state of insurgency subjecting the project to delays and work stoppage on account of prevailing poor security situation. The project model itself was based on 'bill-of-quantity' contract giving rise to a situation of claims for variations. Upper Tamakoshi will not have to face the same fate for obvious reasons. The project is under implementation with local funding and local participation. Resistance to project development does not exist. Overall environment including law and order situation now is much more better than the Middle Marsyangdi period. Thus, the factors that caused delays and cost overruns in Middle Marsyangdi do not exist in the case of Upper Tamakoshi.

**The System desperately needs storage project. What is the plan of NEA in this aspect?**

Yes, our system desperately needs storage projects for ensuring supply during dry season. We are doing homework to implement Budhi Gandaki (600 MW) and Upper Seti (127 MW) projects under public-private partnership model.

**The GON plans to develop 10,000 MW of hydro-electric power in coming 10 years. What is the NEA's role and responsibility in this regard?**

With the available strength and resources, NEA plans to complete about 1,500 MW power projects as its share out of the 10,000 MW target. Besides this NEA will expand and strengthen the transmission and distribution system and bring more areas under the coverage of electricity.

**Would you like to convey any message to the stakeholders through this journal?**

Yes. We are facing the hardest time now. However, we are working on war footing on all fronts to bring relief from the energy crisis. Arrangements have been made to bring additional 20 MW of power from Tanakpur, India. Similarly,

works have already started to repair the flood damaged transmission towers of Duhabi-Kataiya line. NEA will import 40 MW in addition to the 60 MW of power from India once this line is ready. Middle Marsyangdi will soon start generating 35 MW of power. We believe that these measures will start showing results as move into the driest period of the year, that is Falgun-Chaitra (March). We request all the stakeholders to bear with us during this period of crisis. Our especial appeal goes to all our customers to help us by avoiding wasteful use of energy. We are going to the media and customers' doorsteps with a campaign to promote energy conservation through use of CFL lamps. We request full support and cooperation from all the stakeholders in our ventures.

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*Uttar Kumar Shrestha is recently appointed by the Government of Nepal as Managing Director of Nepal Electricity Authority (NEA). He has been associated with NEA for last 20 years in senior management positions. He joined NEA in 1991 as Joint Director in Finance Department and progressively reached to a position of Deputy Managing Director of finance in 2005. He has also served as Officiating Managing Director for the period April - July 2006.*

*Prior to the appointment to the present position, he has extensively contributed to NEA through innovative management practices in the area of Power Sector Reform, Financial Management, Human Resource Management and Trade Union relation, Business restructuring with Performance Contract concept and Financial Re-engineering. On top of general responsibility in various designations, he has been involved in different committees formed by Nepal Government and NEA in relation to power sector related issues. He has also extensive experience in negotiation with different bilateral and multilateral donor agencies for financing and implementation of various projects. He had participated in various national/international meetings as a member of GON and NEA team in different businesses with the World Bank, ADB, KFW and others.*

*Mr. Shrestha possesses a MBA degree from Tribhuvan University and is also a Fellow Chartered Accountant (FCA). He attended various executive management development program and participated as expert in various national and international forums related to hydropower development and reforms of electric utilities.*