



Challenges of Crafting Nepal-India Water and Energy Relations



38th Pani Satsang

GWP Nepal

Morning Session

(For research fraternity and professional invitees only: conclusions from discussions to be shared in the 38th Pani Satsang in the afternoon 1-3 PM)

July 18, 2014 (Friday) • Annapurna Hotel, Kathmandu

Bulleted Problem Statements for Interactive Discussions

A Water Storage and Its Multiple Benefits

1. Stored and regulated water has significant multiple benefits, besides power, especially in the dry season. How should we deal with those benefits, especially as they accrue to the downstream riparians? What lessons have we learned from our past experience with such storage project as Pancheshwar, Budhi Gandaki, Kankai, Bagmati and West Seti?
2. India is supposed to get downstream benefits of any reservoir projects in Nepal. It is not willing to buy this theory and pay for accordingly. We also have not made any systematic effort to assess such benefits in real terms. In this situation, what should Nepal do? Seriously explore options or jump to accept whatever is put on the table? How will that affect water conflict and festering feelings of having received a raw deal?
3. In the face of the negation of the theory of downstream benefit by India, how should we approach building reservoir storage projects for our own needs for food, water and electricity security? Currently we direly need reservoir projects for reliable and balanced supply of electricity. How do we approach their planning in cases where there is minimal possibility of using the stored water for purposes other than power production?
4. Is there any way to do a reservoir project for power only where both Nepal and India would agree to side-lining the non-power downstream benefit issues and still have both parties mutually benefited and without long-term, festering grievances?
5. Given that successful treaties and agreements are concluded not just on sectoral issues but, in the case of water “which is life”, on cross-sectoral trade-offs, how should Nepal approach reservoir developments (which are only possible in Nepal and not in UP, Bihar or Bengal, with Nepal bearing all the social and environmental costs), how should Nepal approach bilateral and regional negotiations from such perspectives?
6. For all of the above to happen and for Nepal’s water resources development to move away from the impasse of the past half-century, what institutional strengthening should we aim for, especially given the fact that the Water Resources Ministry has been “dis-integrated”?

B Power Trade

1. Nepal's current alarming and chronic load-shedding is in itself a huge market. How large is it? Studies have shown that the Nepali private sector has invested in diesel generation through private investments that is almost equivalent to the official NEA system (520 MW of diesel, study by CRE/Institute of Engineering, Pulchowk) and paying almost five times the official tariff for it. Nepal's import of diesel jumped from 3 lakh kilolitres to 6 lakh kilolitres from 2008 to 2010, with the country spending 126% of its foreign exchange earnings on petroleum import. Why has serious official electricity load forecast practically stopped and why whatever is out there blind to the reality of this market?
2. Given that the North Indian grid has power shortage to the tune of tens of thousands of Mega Watts, is import of power for Nepal a serious and feasible commercial option or is it a strategic one with commensurate costs?
3. If short-term power trade is a feasible proposition, what could be the features of a mechanism for such power trade and its time limits? What would be the role of the government and the private sector in a power trade mechanism? Should the mechanism be entirely public sector dominated or could the private sector also be part to establishing and benefitting from such mechanism, thereby paving the way for a more level playing field?
4. Does there exist the possibility in the foreseeable future of a regional or sub-regional power market in South Asia?
5. What attempts have there been for creating regional or sub-regional power market and how effective have they been? What are the present challenges in setting up a functioning regional or sub-regional power market? How can Nepal gain, what ought it to gain, by regionalizing the power market? With what constraints of an underdeveloped national economy should it advocate for such a market? For whom is power trade more urgent, India or Nepal?
6. There are serious news reports that India ignored the Nepali draft for power trade and has proposed an entirely different draft which combines both development and trading. It is inferred that the draft has the following "principles" and the question is whether such a composite draft should be accepted by Nepal:
 - a) Absence of commercial price mechanism and a role for the private sector, with a pricing rate firmly tied up to the less-than- prevailing rate in India
 - b) Wide Indian official involvement covering development, training, efficiency enhancement, consultancy etc.
 - c) Promotion of the basic philosophy that Nepal's needs are pre-determined and fixed but India's open and infinite: "You will have what you need and the rest will go to India on its (Indian) terms".
7. What are the alternative ways of re-thinking power market and power trade?
 - a) If regional power market is a dream which will not pay us a better price and the external power market is only monopsonistic India, why not concentrate only in developing the domestic market (and inviting Indian industries to establish here creating jobs for our youth), especially if the domestic market is already ready to pay more? Will the heavens come crashing down if we say so politely, firmly and with justifications to India?
 - b) If India is a market, should we hesitate to have bilateral deal on the mechanism which is at hand now with interest from the new regime in India? If the present "opportunity" is missed, what options do we have, particularly on the wake of a surplus energy during the monsoon? How and why did we create such a sorry situation and how do we avoid it in future?