

Flash Alert

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NEA Welcomes Small Hydropower Projects for Power Purchase Agreement

The Nepal Electricity Authority (NEA) has announced its readiness to engage in power purchase agreements (PPAs) with developers of run-of-the-river type projects with a capacity of up to 10MW. This decision was made during a meeting of the NEA board on 7 February 2024 and was confirmed in a statement released by the power monopoly on Wednesday.

Under this arrangement, the NEA will enter into PPAs with developers of both run-of-the-river and peaking run-of-the-river projects, provided they have a capacity of up to 10MW. The NEA emphasized its willingness to sign PPAs with such developers at any time. These agreements will operate on a take-or-pay basis, meaning the NEA commits to paying the agreed-upon rate regardless of whether it utilizes the power from the projects or not. The statement outlined tariff rates of NPR 8.40 per unit during the dry season and NPR 4.80 per unit during the wet season.

Last year, the NEA opened avenues for PPAs with run-of-the-river projects totaling up to 1500MW combined capacity. However, prior to this decision, the NEA had refrained from signing PPAs with such projects for three years due to concerns about financial risks associated with purchasing excess power during the rainy season.

PKF Comment

The surplus electricity generated by run-of-the-river projects during the wet season has been a challenge for Nepal, as the country fails to export this excess power, resulting in wastage. This situation has made the NEA cautious about committing to long-term agreements for purchasing power from such projects. The decision to engage in PPAs for projects up to 10MW aims to attract small investors to the hydropower sector and optimize the utilization of Nepal's natural resources.

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