POLICY

ON

HYDROPOWER DEVELOPMENT

BY

PRIVATE SECTOR

IN

THE STATE OF UTTARAKHAND

(Up to 25 MW)

(This policy is superseded by "Policy for Harnessing Renewable Energy Sources in Uttarakhand with Private Sector/Community Participation" from dated 29.01.2008)

POLICY ON HYDROPOWER DEVELOPMENT BY PRIVATE SECTOR IN THE STATE OF UTTARAKHAND (Up to 25 MW)

4.1 SCOPE FOR SMALL HYDROPOWER DEVELOPMENT IN UTTARAKHAND

Uttarakhand has a hydropower potential of the order of 25000 MW against which only about 3140 MW has been harnessed so far. The Government of Uttarakhand (GoU) has decided to encourage generation of power through small hydropower sources of energy, and has framed a policy so that the development of this sector serves as an engine to achieve the objective of promoting the all-round development of the region.

This policy shall be in operation from the date of its publication as notified by Government Order. All projects awarded within this period under this policy will be governed by this policy for their entire duration.

All Hydropower projects/ stations estimated to have an installed capacity of upto 25 MW shall be eligible under this policy.

4.2 PARTICIPATION & PREQUALIFICATION

Uttarakhand invites any non-GoU agency to bid for identified projects for the development of this sector. These will be termed as Independent Power Producers (IPP). There shall be a pre-qualification by the GoU of the bidders for the projects in the state. Based on the balance sheets, annual reports and other reported evidence of financial and technical capacity; the Applicants will be graded and listed. The weightage to be given to financial capacity, technical capability, past experience and other relevant attributes of the Applicants, the sub-categories of these attributes to be evaluated and their inter-se weightage, the guidelines for evaluation and the passing score on attributes/ in aggregate required for pre-qualification shall be specified in the bid documents inviting bids for pre-qualification.

4.3 PROJECTS

4.3.1 The Uttarakhand Jal Vidyut Nigam Ltd. (UJVNL) will undertake to prepare the pre-feasibility studies in a time bound manner. The evacuation requirements including details of nearest sub-station will be specified in the pre-feasibility studies. The projects shall be offered for a period of forty years (40) from the date of the award at the end of which they shall revert to the Government of Uttarakhand or extended

further on mutually agreed terms, as per the decision of the Government of Uttarakhand.

4.4 PROCESS OF ALLOTMENT

4.4.1 The projects shall be advertised in order to seek Bids. Applications in response to the advertisement should be accompanied by a non-refundable draft of Rs.1, 00,000 payable to UJVNL.

4.4.2 All Bidders will be subject to pre-qualification as provided in Paragraph 4.2.

4.4.3 All pre-qualified bidders will be provided with the pre-feasibility studies prepared by the UJVNL.

4.4.4 Bids shall be invited for premium payable upfront to the Government of Uttarakhand per MW in the case of each project/site, subject to a minimum threshold premium of Rs.5 lakhs per MW. Bids received beneath the threshold premium will be rejected.

4.4.5 Projects will be allotted to the bidders making the highest bids. The successful bidder shall be required to deposit the premium/other amount due within a reasonable period of receiving intimation regarding his bid being successful. The exact time period shall be specified in the bid documents for invitation of bids. The successful bidder may be permitted to provide 50% of the Bid amount in excess of the threshold as a bank guarantee encashable at the time of actual or scheduled financial closure, whichever is earlier.

4.4.6 If more than one bidder bids the identical premium per MW for any site/station, a gradation list based on pre-qualification criteria described above shall be the basis for allotment.

4.4.7 In case any project fails to attract any acceptable bid despite being bid out at least twice, the GoU may consider allotting the site to a GoU agency.

4.5 SALE OF POWER

The IPP/ bidder can contract to sell power to any HT consumer within Uttarakhand, to local rural grids within Uttarakhand, which are not connected to Uttarakhand Power Corporation Ltd.'s (UPCL) main grid to rural power distribution entities (i.e. those which sell power to predominantly rural areas), to any consumer outside the state, or to the UPCL. Sales to the UPCL will be mutually negotiated. All sales will be approved, as may be required, by the Regulator.

4.6 WHEELING CHARGES

4.6.1 The infrastructure and facilities of UPCL will be made available to all IPPs for wheeling the generated energy.

4.6.2 Wheeling charges for wheeling the generated energy to third party consumers or outside the State will be as determined by the Electricity Regulatory Commission of Uttarakhand (ERCU). However, for those projects, which are bid out prior to the determination of this rate by the ERCU, the wheeling charges (for the entire concession period) would be 10% of net energy supplied at the interconnection point.

4.6.3 No wheeling charges are applicable in cases of sales to the UPCL or for sale to rural power distribution entities or local rural grids within Uttarakhand.

4.6.4 The UPCL will prepare a standard wheeling and banking agreement draft consistent with this policy statement. This will be made available prior to any bidding for projects.

4.7 GRID INTERFACING/TRANSMISSION LINE

The IPP shall be responsible for laying lines for connectivity to the nearest grid sub-station at the appropriate voltage, which will normally be 132 KV or 33 KV depending on the capacity of the power station and the distance from the power station to the Grid sub-station. The UPCL will determine the specifications of the evacuation facilities required, including the inter-connection point and voltage and the same would be specified in the project information document provided with the application form. On specific request from the IPP, the UPCL will carry out the implementation of evacuation facilities at charges to be mutually negotiated.

4.8 BANKING

Developers can avail of the facility of banking of energy within fixed period spans of 2 months, which would be specified in the standard wheeling and banking agreement. The energy banked into the grid by the IPP shall be monetised at "the average pooled purchase price paid by UPCL" during the month of banking-in (into the UPCL system). The points of banking-in would be the inter-connection point at which the developer would feed in the energy into UPCL's system. The amount so credited to the developer for the banked-in energy would be set off against the monetised value of the banked out energy. The monetisation of the banked out energy shall be reckoned on the basis of the average pooled purchase price of

electricity by the UPCL during the months of banking-out (of UPCL system). However, in addition, the loss incurred by UPCL on account of over-drawal during peak hours compared to input into the system during the peak hours will be compensated by charging the IPP the average differential between the rate for HT consumers in the State for peak and non-peak hours for the net overdrawal against peak power banked. The banked out energy shall be deemed to have been delivered at the inter connection point. The developer would be required to pay the difference between monetised value of the banked-in and the banked-out energy and the peak period differential adjustment within a period of 30 days failing which a penal interest will be levied on the outstanding amount. Similarly in case of a balance to the credit of the developers it shall be payable by UPCL within 30 days with a provision of penal interest on overdue settlement.

4.9 DESPATCH

Priority will be accorded for dispatch into the grid by these IPPs ahead of merit or and any other source of supply, subject to any overall restrictions on the proportion of power that may be bought from such sources, which may be imposed by the Government/ Regulator in the interest of keeping the overall cost of power purchase within reasonable limits.

4.10 ROYALTY

4.10.1 On all projects governed by this policy, royalty payment for the first 15 years of operation would be exempted in all cases of sale of power outside the State or to the UPCL or to consumers in rural areas not served or inadequately served by the concerned existing distribution licensee. In case of sale to other parties, a royalty of 12% of net energy wheeled (after deducting wheeling charges) or supplied directly without wheeling would be charged. Beyond the 15th year of operation, a royalty of 18% of net energy wheeled or supplied directly without wheeling will be made available to the GoU free of charge by all IPPs.

4.10.2 In the event of third party sale, electricity duty as per law will apply.

4.10.3 No further levies, taxes, charges other than those stipulated in this policy would be levied by the State Government and its agencies or the Regulator on the IPPs governed by this policy, for a period of ten years from the date of this policy.

4.11 INCENTIVES BY STATE GOVERNMENT

The State Government will levy no entry tax on power generation, transmission equipment and building material for projects.

4.12 TRANSFER OF ALLOTMENT

Free transfer of shares will be permitted in the companies allotted projects as per the procedure laid down in this document.

4.13 TIME LIMIT FOR EXECUTING THE PROJECT

4.13.1 IPP shall prepare and submit the detailed project reports and all other information and make the necessary applications for obtaining the statutory clearances and approvals of the State and Central Governments and the Regulator (as applicable) after carrying out the required confirmatory surveys and investigations as per prevailing regulations/ norms within 32 months from the date of allotment. The IPP shall be responsible for ensuring completeness of all submissions to concerned authorities. Failure to do so within the stipulated time frame shall be treated as non-compliance with the requirement stipulated in this paragraph.

4.13.2 The IPP shall achieve the financial closure within 12 months from the date of receipt of all statutory approvals and clearances given by the State and Central Governments. Financial closure would imply firm commitments for financing the entire project, with all pre-disbursement conditions having been fulfilled and the loan documentation being complete.

4.13.3 The project shall be made operational within 48 months from the date of receipt of all statutory approvals and clearances by the IPP. Incentives for early commissioning will be extended.

4.13.4 The failure to reach any of the two milestones mentioned in 4.13.1 & 4.13.2 above will result in automatic cancellation of the allotment of the site, and forfeiture of upfront premium amounts. No compensation would be payable to the IPPs in such instance.

4.13.5 Failure to reach the milestone as in 4.13.3 above would result in a liability to pay a penalty by the IPP to the GoU, computed at the equivalent royalty revenue that would have been payable to the GoU had the project met the milestone. In case the project enjoys an exemption from royalty in the initial years, the duration of royalty exemption would be reduced by the period of delay.

4.13.6 The IPP may surrender the allotment back to GoU if on completion of the DPR, within the stipulated time frame, it has grounds to establish that the project is not techno-economically viable. On such surrender, the bank guarantees provided by the IPP in lieu of upfront premium would be released and any premium amount paid in excess of the threshold premium of Rs.5 lakhs/MW would be refunded to the IPPs by the GoU.

4.14 ROLE OF UJVNL AND UPCL

The UPCL will be responsible for preparing the standard wheeling and banking agreement draft (Para 4.6), determination of evacuation requirements (Para 4.7), and overseeing banking, dispatch, and royalty arrangements (Paras 4.8, 4.9, 4.10).

The UJVNL will be responsible for preparation of pre-feasibility studies (Para 4.3.1), carrying out the bidding process (Para 4.4) and monitoring of the development of allotted projects/delivery as per time schedule (Para 4.13).

The UJVNL will not participate in the bidding process. However, after allotment, upon request from the IPP, the UJVNL may consider participating as a minority partner (with less than 50% shareholding interest) or perform certain tasks for the bidder on a consultancy basis. Such participation would be independently negotiated between UJVNL with the IPP and is not mandatory on the part of UJVNL.

4.15 REGULATORY OVERSIGHT

Aspects of this policy that require Regulatory approvals from the concerned regulator, would be subject to such approvals being given and would apply in the manner approved by the Regulator.

4.16 DUE DILIGENCE

The Applicant /IPP shall be responsible for carrying out due diligence with regard to his compliance responsibilities under various applicable Central/State/other laws, rules and regulations, and ensure compliance with the same.

4.17 POWER TO RESOLVE DIFFICULTIES

In the event of a dispute, the interpretation of these guidelines made by the Government of Uttarakhand shall be final. In all such matters, to the extent

practicable, an opportunity shall be given to affected stakeholders to be heard before the Government takes any decision.

THE WAY FORWARD

The Government of Uttarakhand has earmarked following project sites for allocation to private developers. The Government shall be advertising and inviting participation for developing these projects in lots through sequence of RFQs and RFPs.