

Reforming Small Power Systems under Political Volatility: The Case of Nepal

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Rabindra Nepal and Tooraj Jamasb

The pioneering electricity sector reforms in developing Latin American countries (LAC) like Chile starting 1978-79 and Argentina beginning 1992 have redefined the notion of 'successful and comprehensive electricity reforms' in many less-developed countries like Nepal. Nepal's power sector began experiencing major reforms after the establishment of Nepal Electricity Authority (NEA) in 1985. After two decades of power reform experience in Nepal; the current state of the hydroelectricity dominated energy sector is regarded as being unsustainable and uncertain. The purpose of this paper is to primarily assess the performance of the power sector since 1990 after electricity reforms garnered pace in the country. The contributions of this paper are two-fold. Firstly, this paper provides important electricity reform lessons to several monolithic state-owned and controlled 'small systems' in Asia and Africa reeling upon growing political instability.

We conclude that reforming small electricity systems like NEA and other low income countries across the globe is a complicated issue especially under the twin conditions of growing political instability and rapidly increasing electricity demand. However, a cautious and gradual reform process based on a piece-meal approach with constant self-adaptation through error corrections as in the Brazilian context is more suitable in many small systems. In the short and medium term, focus should be towards tariff and subsidies restructuring and creating an effective independent regulatory body. The regulatory authorities should design a framework which includes clearly describing the regulatory objective coupled with designing the regulatory mechanism and implementing contracts and property rights for ownership purposes. IPPs entry should be facilitated and encouraged by minimizing unnecessary market barriers while providing appropriate entrepreneurial incentives. In the long run, focus can be towards complete vertical separation of the networks and privatization of them



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while creating a wholesale market by horizontally splitting the generation segment. Moreover, accounting separation of the segments is encouraged in the short term to promote transparency and accountability.

The paper suggests that the role of the state in Nepal be based on the principle of subsidiarity prioritising economic logics before vested interests and personal gains as in the Chilean reform context. Although the role of state is still crucial and important across small systems; it is necessary to redefine and revisit this role in the light of market-oriented reforms so as to insulate the sector from political instability and increasing electricity demand across small systems like Nepal.

Contact
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rn71@hw.ac.uk
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