

AGREEMENT BETWEEN THE GOVERNMENT OF THE
REPUBLIC OF INDIA AND THE ROYAL GOVERNMENT
OF BHUTAN REGARDING THE TALA HYDROELECTRIC PROJECT

The Government of the Republic of India and the Royal Government of Bhutan,

Bearing in mind the friendly relations subsisting between the two Governments and their peoples and the mutual trust, understanding and cooperation shown in the successful completion of the Chukha Hydroelectric Project,

Noting the desire of the two Governments to develop additional hydropower potential in the Wangchu basin for their mutual benefit and their willingness to cooperate in the construction and operation of hydroelectric projects to attain this objective,

Have, with respect to the Tala Hydroelectric Project, agreed as follows:

Article 1

1. M/s Water and Power Consultancy Services Ltd. (WAPCOS), a Government of India undertaking, has prepared in December, 1993 a Detailed Project Report on the Tala Hydroelectric Project in Bhutan (hereinafter called "the Project"). The project envisages the construction of the following:

- i) a dam consisting of a spillway, overflow and non-overflow sections, penstocks, a power house and switchyard having an installation of 6 units of 170 mw each in an underground cavern;
- ii) a 22.25 km. long and 6.8 m dia head race tunnel;
- iii) three 400 KV single circuit transmission lines from the Project upto the Indo-Bhutan border; and,
- iv) other works that may become necessary and are agreed upon between the two Governments.

2. The scope of the project shall include all auxiliary, ancillary works and all activities necessary for the execution of the project.

Article 2

The Project shall be owned solely by the Royal Government of Bhutan.

Article 3

The project is estimated to cost Rs.1408 crores. The Government of the Republic of India agree to provide funds for the financing of the project. For this purpose, the Government of the Republic of India will make available to the Royal Government of Bhutan :

- a) a sum of Rs.844.80 crores equivalent to 60 % of the estimated total cost of Rs.1408 crores as grant; and
- b) a sum of Rs.563.20 crores equivalent to 40 % of the estimated total cost of Rs.1408 crores as a loan. The loan shall carry an interest rate of 9% per annum and be repayable in twelve equated annual instalments, the first repayment commencing from the date of commercial operation.

The Government of the Republic of India agree to provide additional funds, as mutually determined, for the completion of the project, in the same proportion and on the same terms.

Article 4

1. A " Tala Hydroelectric Project Authority " (hereinafter called the Authority) shall be set up for the construction, operation and maintenance of the project and for the evacuation of surplus power from the Project. The Authority will be constituted as an autonomous body. It shall have a Chairperson, and seven Directors who shall be Bhutanese or Indian nationals. The Chairperson and four Directors of the Authority shall be nominated by the Royal Government of Bhutan. Three Directors of the Authority shall be nominated by the Government of the Republic of India. All powers of the Authority shall be vested in the Chairperson. The General Manager of the Project, to be appointed by the Authority with the approval of the two Governments, will function as the Secretary of the Authority. The Directors shall assist the Chairperson in the administrative, technical, financial and organisational matters of the Project. The Authority will frame its own rules of business.

2. Chief Engineers and the Financial Advisor and Chief Accounts Officer of the Project will be permanent invitees at the meetings of the Authority.

3. The General Manager of the Project will be in the overall charge of the Project under the supervision and guidance of the Authority and the Chairperson. He will be vested with sufficient powers to enable him to function in an effective manner and implement and operate the Project as per schedule. There will be a suitable organisation for the Project under the General Manager to assist him.

Article 5

1. M/s Water and Power Consultancy Services Ltd. (WAPCOS), a Government of India Undertaking, will be the consultants for the Authority.

Article 6

1. The requirement of funds for the construction of the Project will be worked out by the Authority in accordance with the programme and progress of the construction. The release of funds on the basis of the recommendations of the Authority will be mutually decided by the two Governments from time to time based on the progress of work.

Article 7

1. The recruitment of labour force, technical, administrative and other personnel of the Authority or any contractor/supplier engaged on the Project will be confined to nationals of either country.

Article 8

1. The Authority will hand over the Project to the Royal Government of Bhutan within two years of completion of the project, at which time, the Authority shall be dissolved.

2. After the dissolution of the Project Authority, the Royal Government of Bhutan will continue to avail itself of the technical & managerial expertise of Government of the Republic of India through such arrangements as may be worked out from time to time.

Article 9

1. The Royal Government of Bhutan agree that surplus power from the project, that is, the power over and above that required for use in Bhutan, shall be sold to the Government of the Republic of India. The Government of the Republic of India agree to purchase all the surplus power from the project at mutually agreed rates.

2. The rate at which this power will be sold by Bhutan to India at the Bhutan-India border, shall be mutually determined by the two Governments at the time of commissioning of the Project, taking into account the cost of the Project, its financing costs, Operation and Maintenance charges, depreciation at rates applicable to similar Projects in India and prevalent market conditions.

3. This rate of power will thereafter be reviewed by the two Governments at the end of every three years.

4. No duty, surcharge or any other form of levy will be charged by Bhutan on the power sold by Bhutan to India.

Article 10

1. The Royal Government of Bhutan shall provide land free of cost for the project. In case the project authorities require private lands for this purpose, the compensation as per norms of the RGB shall be paid by the Project Authority.

2. The Royal Government of Bhutan shall make necessary arrangements for the acquisition of land, building, the right of way where needed and cutting of trees necessary in connection with the project and resolve administrative and other difficulties, if any. The settlement of claims or disputes arising in connection with such arrangements shall be the responsibility of the Royal Government of Bhutan, but payment of compensation if any shall be made by the Project Authority.

Article 11

1. The Royal Government of Bhutan shall receive from the Project Authority royalty for the timber, boulders, aggregates and other construction materials required from Bhutan for the project.

2. No taxes, levies/duties that are in force from time to time shall be levied by the Royal Government of Bhutan for any activity/work in connection with the construction, operation & maintenance of the project until the date of commercial operation.

3. The Government of India shall exempt from central excise duty any material/ equipment exported to Bhutan for the Project.

Article 12

1. The Royal Government of Bhutan will supply power at existing domestic rates during construction of the project from Chukha Hydel Project according to the requirement of the project. The required transmission lines and sub-station will be provided by the Authority.

2. The Government of the Republic of India and the Royal Government of Bhutan will facilitate the installation of transmission lines, telephones, telex and radio communications and construction of roads and other infrastructural facilities that are required for the construction and operation of the project at the cost of the Project.

Article 13

1. The Royal Government of Bhutan shall permit the establishment by the Project Authority of a Central School, for the benefit of the officers and staff of the Project (following the syllabus of CBSE, India), hospitals and dispensaries in the project area. These facilities shall be managed by the Royal Government of Bhutan at the cost of the Project.

Article 18

Any difference regarding the interpretation or application of any provision of this Agreement shall be resolved by mutual consultations between the two Governments.

Article 19

This Agreement shall enter into force upon signature and shall remain in effect until the two Governments, through a new agreement, adopt a decision that they deem convenient.

In witness whereof, the Parties have caused to be subscribed thereto the signature of their duly authorised representatives.

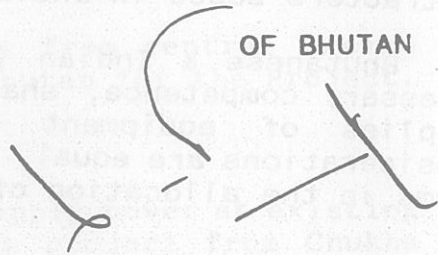
Signed in New Delhi on the Fifth Day of March, Nineteen Hundred and Ninety Six, in two originals in English.

FOR THE GOVERNMENT OF THE
REPUBLIC OF INDIA



(Pranab Mukherjee)
Minister of External Affairs

FOR THE ROYAL GOVERNMENT
OF BHUTAN



(Lyonpo Dawa Tsering)
Minister of Foreign Affairs