

Food for Thought

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Selangor Water Services Industry Restructuring Deadlock - Questions and Answers

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SELANGOR WATER SERVICES INDUSTRY RESTRUCTURING DEADLOCK - QUESTIONS AND ANSWERS

QUESTION 1: What is National Water Services Industry Restructuring (NWSIR)?

ANSWER 1: Water services industry includes water treatment, water supply and sewerage services. NWSIR is a national level exercise to restructure water services industry that has been performing poorly and it is implemented for Peninsular Malaysia and Federal Territory of Labuan only. Issues related to industry structure, transparency, lack of infrastructure development, Non-Revenue Water (NRW), failure in privatisation (concession agreement) and cost structure (tariff) were the main reasons Federal Government convinced the Conference of Rulers (Majlis Raja-raja) to pursue with implementation of Water Services Industry Act 2006 (WSIA) model. Eventually WSIA was passed by the parliament with relevant amendments in state enactments to give executive power to Federal Government on Water Treatment and Supply which was previously under state governments' jurisdiction.

For more information on how WSIA model functions, please log on to www.awer.org.my to download the report entitled "National Water Services Industry Restructuring – The Truth".

QUESTION 2: Is Selangor Water Bond bailout in line with NWSIR and the WSIA model?

ANSWER 2: The RM 5.8 billion Selangor water bond bailout is not in line with WSIA because Federal Government did not take over any stake that is equivalent to the bond bailout amount from the concession holders. AWER has written to (Ministry of Energy, Green Technology and Water (KeTTHA) numerous times on this but it fell on deaf ears. Moreover, when a Malaysian purchases a house and does not have enough cash flow to service his or her loan, the house will be auctioned by the bank. Once the new owner bought over, we never hear that the new owner allows the previous owner to own the house. Why there are no bailouts for the rakyat that can't service their loan since Federal Government has gorgeously bailout the Selangor Water Bond?

QUESTION 3: Is the statement by Minister of Energy, Green Technology and Water that he and the ministry does not have power to interfere in Selangor water services industry restructuring TRUE?

ANSWER 3: The ministry and Federal Government have interfered in Selangor Water Services Industry Restructuring since beginning. The Selangor Water Services Industry's bond bailout done by Federal Government was the first major interference. The second interference was to prevent opening up water concession agreement for public viewing. Thirdly, Federal Government has interfered by giving RM 726 million allocations directly to SYABAS. In fact, after WSIA was enforced beginning 1st January 2008, no allocation can be given directly to water companies. Pengurusan Aset Air Berhad (PAAB) has to implement the projects via open tenders. WSIA gives ample of space for Federal Government to interfere in water services industry to ensure it is operating at optimum cost and provide equitable tariff as well as protecting the people. This includes ending concession agreement!

QUESTION 4: What is the role of the Selangor state government in restructuring?

ANSWER 4: The state government must consolidate the water treatment and water supply companies to restructure the industry. This can be done by the state government itself or by working with Federal Government to negotiate with the water companies. Therefore, Federal Government must cooperate with State Government to consolidate the companies if the water concession holders reject the recent Selangor Government's offer amounting RM 9.65 Billion. Federal Government cannot wash its hands on this!

QUESTION 5: What is the role of Suruhanjaya Perkhidmatan Air Negara (SPAN) in restructuring?

ANSWER 5: SPAN is the regulator in charge to implement WSIA model. They regulate water services industry (including sewerage services) as well as PAAB in terms of technical, service quality and profit (economic). This allows SPAN to regulate the industry holistically and ensure equitable tariff and continuous water supply. SPAN is created to operate independently from KeTTHA and any interference must be prevented. At the moment, KeTTHA's water services sector interferes a lot in SPAN's functions. This will create a non-independent regulator that will

eventually lead towards massive failure in implementation of NWSIR.

QUESTION 6: What is the role of Pengurusan Aset Air Berhad (PAAB) in restructuring?

ANSWER 6: PAAB is a wholly owned company by Ministry of Finance. PAAB is regulated by SPAN and appointed to be the financing body for water services industry infrastructure development. PAAB is a temporary set up to enable water services industries to achieve better financial rating. Once this is achieved, PAAB will be dismantled and water services industry can take direct loans with banks or other financial institutions.

QUESTION 7: Federal government recently allocated additional RM 120 million on top of RM 606 million to SYABAS. Is it appropriate and in line with WSIA?

ANSWER 7: As the restructuring process is still ongoing in Selangor, Federal Government cannot interfere in SYABAS's operations. Any emergency project can be carried out via open tender by PAAB. Unfortunately, Federal Government is continuously assisting SYABAS via back door while claiming that Federal Government does not have any power to interfere in the water services industry restructuring process. Due to this, SYABAS will want to continue to operate under concession agreement as Federal Government will continuously assist it. In other word, which company will want to surrender its concession agreement while Federal Government foolishly using tax payers' money to support its existence continuously? Funding SYABAS directly is not in line with WSIA that was developed by Federal Government. The Federal Government must practice what they preach in WSIA!

QUESTION 8: Is the 12% return on equity announced by Selangor State Government a reasonable deal in the recent RM 9.65 Billion takeover offer?

ANSWER 8: If we observe the response from concession holders, especially Puncak Niaga, they are asking "many clarifications" to kill time and prolong the restructuring. It is the same strategy used over and over again since year 2008. Based on explanation given by Selangor State Government, AWER views the 12% return on equity as a very good offer compared to all the previous offers. This is mainly because the investment risk in water services industry is very low. Therefore, the offer from Selangor State Government can be placed similar to fixed deposit returns by banks. Currently, fixed deposit returns are around 4% and Selangor State Government is offering 3 times of what these concession holders deserve. If the concession holders ask for more, it is pure 'piratism'. If the Golden Share holder (Federal Government) supports for higher returns on equity, then they will be supporting PIRATES and act against WSIA.

QUESTION 9: How should Federal Government and Selangor State Government resolve the Selangor water services industry restructuring

deadlock?

ANSWER 9: In case the recent takeover offer worth RM 9.65 Billion by Selangor State Government is rejected by concession holders, AWER has a proposal for Selangor State Government and Federal Government to end the Selangor water concession agreements.

First of all, Federal Government must take over the stakes that are equal to the Selangor water bond bailout value (RM 5.8 Billion). Then, this stakes can be handed over to Selangor State Government to complete the restructuring process. This is the easy way for Federal Government to break the deadlock with Selangor State Government and to restructure Selangor water services industry if both parties are serious in protecting the interest of the rakyat.

QUESTION 10: What would be the impact to people and businesses if the Selangor water services industry restructuring is delayed?

ANSWER 10: Cost would be the biggest impact. If we take a micro view of economies around Southeast Asia, ASEAN countries are going through rapid development and eventually will be developing water services infrastructures to attract more Foreign Direct Investment (FDI). Good water services are a prerequisite for developing economy locally in any country. This will put huge demand for components of the infrastructure that are metal, polymer and other raw material based as well as increasing the cost of constructing new infrastructures around the ASEAN region. Delay in water services industry restructuring in Malaysia mainly will increase future costing of the infrastructure development as well as financial losses due to Non-Revenue Water (NRW). All these costs will be passed directly to tariff.

The delay in implementing WSIA will definitely impact any state's economy adversely. AWER has repeatedly passed this message to all the relevant parties. Unfortunately, they are just too busy politicising the restructuring issue.

CONCLUSION

AWER urges both Federal Government and Selangor State Government to follow actual WSIA implementation. We also would like to suggest both parties to have open meeting that can be viewed by public via media and online services. People have the right to know how their elected representatives and government servants (paid via tax money) are working. When someone is paid to work, he or she has to deliver outputs and not to confuse the rakyat whom are the actual boss. Federal Government initiated WSIA to protect public interest, and AWER is urging Federal Government to uphold the promises it made in WSIA. Janji MESTI Ditepati!

Piarapakaran S.

President

Association of Water and Energy Research Malaysia (AWER)

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