

Food for Thought

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Water Services Industry Restructuring Is Delayed 670 Days Which Is Worse Than The Delay In Langat 2!

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WATER SERVICES INDUSTRY RESTRUCTURING IS DELAYED 670 DAYS WHICH IS WORSE THAN THE DELAY IN LANGAT 2!

Water Services Industry restructuring in Malaysia is inevitable. Ministry of Energy, Green Technology and Water (KeTTHA) has delayed the restructuring by 670 days from year 2011 as the restructuring should have completed in year 2010. Compared to the 589 days delay in construction of Langat 2 water treatment plant, delay of water services industry restructuring will cause multibillion worth losses which eventually will be passed back to people and businesses through tariff. The incompetence of Water Services Sector's officers in KeTTHA is also widely known by Malaysians. Unfortunately, there is no action taken by the senior management of KeTTHA or even the Federal Government to hold these officers responsible for all the wrong doings till date.

1. IMPACT TO WATER TARIFF DUE TO PAHANG-SELANGOR RAW WATER TRANSFER TUNNEL AND LANGAT 2 WATER TREATMENT PLANT PROJECTS

According to news report on 31st July, KeTTHA minister has mentioned that Langat 2 water treatment plant construction is estimated to cost around RM 3.744 billion. The construction of Langat 2 water treatment plant cannot be prevented due to Supply-Demand issue. However, Association of Water and Energy Research Malaysia (AWER) urges more transparency on how Federal Government derived the cost of RM 3.744 billion for Langat 2 where the bidding process has just started on 4th September. No one will announce the estimated cost of a project

before the bidding process is completed! The announcement by KeTTHA minister may cause negative repercussion in the bidding result.

In addition to that, based on the estimated cost mentioned by KeTTHA minister, AWER has conducted a financial analysis (based on amortization method) to study the impact of Pahang-Selangor Raw Water Transfer Tunnel project and Langat 2 water treatment plant project to water tariff. The financing for Pahang-Selangor Raw Water Transfer Tunnel project is via a loan provided by JICA (Japan International Cooperation Agency). AWER has raised few questions related to this loan to KeTTHA but there is no answer from KeTTHA till date. As shown in Table 1, the impact to tariff by the tunnel project is about 6 to 8 cents for every cubic meters of treated water consumed. However, if the cost of the tunnel project is paid directly by Federal Government, this estimated cost in Table 1 will not be passed to tariff. Now, Federal Government has to clarify to public whether this cost will be passed to tariff or not.

Table 2 shows the estimated impact of Langat 2 water treatment plant project to tariff. The impact to every cubic meter of treated water consumed is estimated between 10 to 12 cents. This cost will be passed to tariff. In this study, the impending tariff increase, raw water charges and other increases in operational expenditures are not included. Therefore, **Federal Government must be transparent in all issues related to these 2 projects and not just pushing for construction of Langat 2.**

Table 1: Estimated Impact to Tariff due to Pahang - Selangor Raw Water Transfer Tunnel Project

| Annual interest rate (%) | Principal (RM) | Total interest payment (RM) | Total Payment (RM) | Estimated impact to tariff (RM /m3) |
|--------------------------|------------------|-----------------------------|--------------------|-------------------------------------|
| 3 | 2,481,000,000.00 | 1,048,554,808.55 | 3,529,554,808.55 | 0.067 |
| 4 | 2,481,000,000.00 | 1,447,689,601.84 | 3,928,689,601.84 | 0.074 |
| 5 | 2,481,000,000.00 | 1,870,103,678.81 | 4,351,103,678.81 | 0.083 |

Table 2: Estimated Impact to Tariff due to Langat 2 Water Treatment Plant (Package 2A) Project

| Annual interest rate (%) | Principal (RM) | Interest payment (RM) | Total Payment (RM) | Estimated impact to tariff (RM /m3) |
|--------------------------|------------------|-----------------------|--------------------|-------------------------------------|
| 3 | 3,744,000,000.00 | 1,582,341,477.46 | 5,326,341,477.46 | 0.101 |
| 4 | 3,744,000,000.00 | 2,184,663,390.51 | 5,928,663,390.51 | 0.112 |
| 5 | 3,744,000,000.00 | 2,822,115,347.48 | 6,566,115,347.48 | 0.124 |

Some Parameters Used in the Impact to Water Tariff Study

Langat 2 Water Treatment Plant capacity: **1200 MLD** (MLD = million litres per day)(obtained from tender details)
Existing Water Treatment Plant capacity in Selangor: **4581 MLD** (After Mitigation Projects completed by year 2016)
Total Production Capacity by year 2016 in Selangor: **5781 MLD**
Leasing year by PAAB: **25 years** (obtained from 2011 Auditor General Report)
Cost of Pahang - Selangor Raw Water Transfer Project: **RM 2.481 Billion** (Bernama - 31/07/2012)
Estimated Cost of Langat 2 Water Treatment Plant: **RM 3.744 Billion** (Bernama - 31/07/2012)

2. FATE OF LANGAT 2 WATER TREATMENT PLANT AFTER CONSTRUCTION

Much has been said on the need to construct Langat 2 but there was no mention about its fate after construction. AWER has sent few questions related to the bidding process to SPAN which was forwarded to KeTTHA for clarification. Unfortunately, there has been total silence from KeTTHA on this matter.

If we refer to the newly completed Sg. Labu Water Treatment Plant in Selangor, it was handed over to Selangor State Government to operate upon completion. This is also a similar practice for all the states that have restructured under WSIA (Water Services Industry Act 2006) model. Therefore, **Langat 2 water treatment plant must be handed over to Selangor State Government to operate upon completion. Any other plan by Federal Government is against WSIA and can be challenged in court.**

3. WATER SERVICES SECTOR OF KeTTHA - A 'ROBIN HOOD IN REVERSE'

AWER has raised to KeTTHA that the Selangor Water Bond Bailout is not in line with WSIA since last year. Unfortunately, it fell on deaf ears. The recent Auditor General's report also did not touch on this blunder done by water services sector's officers in KeTTHA. The Federal Government had bailout Indah Water Konsortium (IWK) and took over the entire company in year 1999. This is a correct bailout process which is commonly practiced worldwide. Unfortunately, in Selangor water bond bailout, Federal Government did not take over any stake from water concessionaires that are equivalent to the bailout amount (RM 5.8 billion). **This is equal to robbing the people to help the water concessionaires because this bailout amount will be passed to tariff and we'll be paying it eventually.** Furthermore, if Federal Government has taken over the stakes that are equal to the bond bailout value, it will be easier for Federal Government to break the deadlock with Selangor State Government to restructure Selangor water services industry. **If both parties continue to lock horns, the water concessionaires will continue to be 'free bird' and be the ultimate winner. Therefore, Federal Government must discuss immediately with Selangor State Government to complete the restructuring by end of December this year!**

Besides this, the 'Robin Hoods' in KeTTHA are also interfering with Suruhanjaya Perkhidmatan Air Negara (SPAN) functions. This 'illegal' office

politic must be stopped immediately! **SPAN reports to the minister and not these 'Robin Hoods'. SPAN must uphold their stands in carrying out their functions.**

Till date, **YAB Prime Minister has not revamped the Water Services Sector in KeTTHA and remove incompetent 'Robin Hoods' [Deputy Secretary General (Green Technology and Water), Senior Undersecretary, Undersecretaries and Principal Assistant Secretaries]** even after we have written letters to him numerous times. Malaysia has a good model to restructure our water services industry. If Federal Government continues to allow incompetent officers to screw-up national water services industry restructuring, Malaysia can kiss goodbye to developed nation status by year 2020 with a 'fat' debt worth more than RM 100 billion!

Water is basic need and a basic human right. Don't screw-up!

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President

Association of Water and Energy Research Malaysia (AWER)

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