

## **Khalid Ibrahim: Why the Selangor water deal is a betrayal of the people**

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**By Rafidah Mat Ruzki**

SHAH ALAM: After a more than 10-year wait, the restructuring of Selangor's water industry has finally begun, with the final water concessionaire company on its way to being acquired by the state government.

Selangor Menteri Besar, Amirudin Shari, said the takeover of Syarikat Pengeluar Air Sungai Selangor Sdn Bhd (SPLASH), with a price tag of RM2.55 billion, came at a 28 per cent discount.

However, former Selangor MB Tan Sri Abdul Khalid Ibrahim believes that the figure means that the people of Selangor has ended up paying more than 10 times what the state had offered for the purchase back in 2013.

NSTP met Khalid to seek his views on the issue and how it will impact the people of Selangor.

Q: Last Friday, you said the RM2.55 billion means that the people of Selangor will end up paying 10 times than the company's actual value. What do you mean?

A: First, let me explain in detail the concept of privatisation in Malaysia. Just about all privatisation deals in Malaysia are problematic as they are done without a clear exit strategy to enable any side to cancel or leave the deal. In addition, many of these agreements span 20 to 40 years, and usually favour the concessionaire for the sake of raking in outlandish profits. It also appears as if the risks are borne by the government.

In Malaysia, economists measure risk-free return rates with a government bond returns calculation of between 3 and 4 per cent. So when we give incentives of between 7 to 8 per cent, this is considered logical and fair. When concessionaires obtain returns which are higher than risk-free rates, we see this as cheating the public. It can leave an impression that corruption and abuse of power is involved on the government's end, and a betrayal of the people's wish to have the state's assets managed fairly.

Many concession agreement also appear to offer a guarantee that there won't be any losses. Thus, if the concessionaire incurs any loss, these losses will be borne by the people via government bailouts. This was what happened in the past in the case of Perwaja, MAS and many more.

Given such agreements, any efforts to de-privatise a project or concessionaire is difficult, almost impossible. There also appears to be no solution to efforts to reduce the income gap between the two sides. We have to realise that there is no way of resolving the problem of privatisation burdening the people when the government policies itself ensure that the companies get ridiculous profits.

If the government truly wants to save the people from being burdened by the effects of privatisation, there is only one way to do it, and that is by the government's sincerity in deciding any policies and implementation practices, by placing the interest of the people as a priority. And this case is

remarkably complex as it involves the privatisation of an industry which has four private companies given different concessions - from extracting and treating raw water; ,maintaining treatment plants; managing dams; and finally distributing treated water to consumers.

Q: How did the process of restructuring Selangor's water industry begin?

A: Upon realising that the privatisation of the water industry in Malaysia has led the people to paying a high price for water, at less than desirable service standards, two acts were approved in Parliament in June 2006. These were the National Water Services Commission Act 2006 (SPAN) or Act 654, which came into effect on February 1, 2007; and the Water Services Industry Act (WSIA) 2006 or Act 655, which came into force on January 1, 2008.

The enforcement of SPAN and WSIA helped make possible efforts to restructure the water industry, or specifically, de-privatise the Selangor water industry. For Selangor, the Federal Territory of Kuala Lumpur and Putrajaya, the restructuring of the water industry was a holistic and comprehensive process which involved:

- Equity takeover (RM1.9748 billion) for four water concessionaires, which are Syarikat

Bekalan Air Selangor Sdn Bhd (SYABAS), Puncak Niaga Sdn Bhd (PNSB), Konsortium ABASS Sdn Bhd and SPLASH. This is funded by transferring state-owned assets to Pengurusan Aset Air Bhd (PAAB) in order to avoid incurring loans from financial institutions, fundraising on the capital market or the use of state reserves.

- Assuming the liabilities (RM7.6769 billion), which are the outstanding debts of all four concessionaires to bond holders and financial institutions (in the form of bonds and loans for water services operations) which is funded all of their water-related assets to PAAB

- Merging all four concessionaire companies under Pengurusan Air Selangor Bhd (Air Selangor), which is a

special purpose vehicle (SPV) or 'newco' fully owned by the state government under Kumpulan Darul Ehsan Berhad (KDEB)

- Paying Air Selangor's mortgage repayment to PAAB for 45 years and after that period, all water-related assets which had been transferred to PAAB would be returned to Air Selangor.

Since 2008, the Selangor government was actively discussing with the Federal government, specifically the then-Energy, Technology, Green Energy and Water Ministry (KeTTHA and PAAB, as well as all concessionaires to see the restructuring through via a willing buyer, willing seller principle.

The state government, during my administration, had placed a RM10 billion ceiling price for the whole industry restructuring process so that its effects would not burden the people of Selangor. We also set a condition that SYABAS' agreement was identified as a key success factor, seeing that SYABAS was responsible for distributing treated water and has a direct impact on consumers via water bills.

The state government finally made offers to all four concessionaires, based on the purchase of company equities at a return rate of 12 per cent annually minus compounds, and minus any past dividend payments. The evaluation method used was a clause which existed in the Private Concessions Agreement. Therefore, the use of this method was consistent with the terms and conditions of the agreement and in line with the concept of legally preserving the sanctity of the contract. The 12 per cent return of equity (ROE) was logical and not excessive.

The details of the offer to the four concessionaires can be seen here:

SYABAS - Equity: RM520.5 million

- Assets / Liability: RM3,827.4 million

- Total: RM4,347.8 million

PNSB - Equity: 1,117.5 million

- Assets / Liability: RM1,359.5 million

- Total: RM2,477 million

ABASS - Equity: 86.2 million

- Assets / Liability: RM906 million

- Total: RM992.2 million

SPLASH - Equity: 250.6 million

- Assets / Liability: RM1,584 million

- Total: RM1,834.6 million

TOTAL: RM9,651.6 million

Evaluation method: 12 per cent annually without compounds and minus past dividend payments.

Q: You left the Menteri Besar post in 2014. Yet, the restructuring of the state's water industry has yet to be completed. Why is that?

A: Three concessionaires - SYABAS, PNSB and ABASS - accepted the state government's offers and an agreement on the restructuring was inked. However, SPLASH turned down the offer which led to the failure of the restructuring efforts. SPLASH rejected the annual return of equity method. Instead, it wanted to use the Net Book Value (NBV) or Discounted Cash Flow (DCF) method, which is generally the chosen method to estimate fair value in mergers and acquisitions.

The state government at the time felt this wasn't fair. It would be illogical if non-uniform methods were used just to fulfil the demands of one company. The state government also opined that if the equity income was more than

100 per cent of the equity value, it would be akin to robbing state resources and swindling the people.

Q: What is being done by the present Selangor administration?

A: The state government is giving special treatment to SPLASH and may be paying equity compensation based on a rate demanded by SPLASH, which is

by Net Book Value. I stress again, this method is wrong and cannot be used as it is calculated using profits and cash flow, based on a one-sided water privatisation contract. The bulk service rate also still uses the rates in the old privatisation agreement.

We have to remember that the people of Selangor had objected to the privatisation of water and demanded that it be canceled. The state government had also pledged to reduce the people's burden by taking over the concessionaire companies. What's the use of taking over the company but at the same time, take into account and acknowledge that the company's profits were gained from a shaky agreement? The state government had also failed and were negligent by reducing the bulk service rate charged by the concessionaire, when the state is the true owners of the Selangor water industry.

The state government's failure to set a new bulk service rate led to an increase in the company's cash flow, which then led to a higher equity takeover. Based on my calculations, had the state government placed a new bulk service rate, the equity returns would probably not exceed 8 per cent.

This is why I'm saying that the state government did not try to get a reasonable value for the people of Selangor and instead, focused on how to pay more to the concessionaire by providing a simple justification to the people. This is a clear betrayal of the trust given by the people of Selangor to them. By using the NBV method without revising the bulk service rate, and taking into account the water tariff hike that I defended when I was the Menteri Besar, the state is now prepared to pay RM2.55 billion in equity value, which is more than 10 times from the original RM250 offer to SPLASH. This straight away increases the overall industry restructuring cost to RM13 billion, way more than the RM9.6516 billion during my administration.

Q: What are the effects of the cost increase in the water industry restructuring?

A: When I was Menteri Besar, I always paid attention to cost and the burden of the people. That's why I set the restructuring ceiling cost at RM10 billion, no more. If the acquisition cost exceeded the ceiling cost, the state government would be in trouble and Air Selangor, which manages the state's water industry, would incur losses due to high operational costs.

As such, with the state government today paying more than RM13 billion, I am confident that these effects will soon follow:

- The 'free water' policy for the first 20 cubic metres per household consumer will be reviewed, suspended and ultimately, abolished.
- A rise in the water tariff quantum is inevitable - speculation is that a 27 per cent tariff increase every three years is being discussed, far exceeding the 15 per cent guaranteed by the previous administration.

- The state government will apply for a loan from the Federal government (in the end, the people will bear the burden of the principal loan repayments)
- Even more water-related assets owned by the state, which were valued at more than RM2 billion before this, will have to be mortgaged to PAAB in exchange for a federal loan
- An adjustment of terms and conditions of the mortgage agreement between PAAB and Air Selangor, perhaps the mortgage rental, will be raised and the mortgage period extended even further from the current 45 years.
- Opening of the floodgates, whereby SYABAS, PNSB and ABASS may soon be compelled to make the same demands to review the methodology used in their previous agreement, even though the takeover is complete
- Awarding of Air Selangor shares to the people of Selangor who are qualified, based on initial public offering before the 14th General Election, will be stunted, and possibly even fail to take off altogether

These lies to the people must end. The state government should not forget how the people had fought against the privatisation of the water industry by the previous government, as they want a good water service at a fair rate.

Unfortunately, it appears that the people's demands have fallen on

deaf ears. I am confident that the people only want a fair deal; were that to happen, the state's leaders would always have the people's blessings. Is that not what we all want in this world?

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