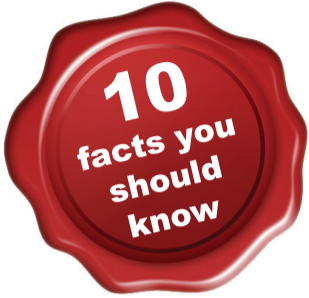




RM9.65 BILLION: AN OFFER FROM THE PEOPLE OF SELANGOR TO TAKE OVER WATER MANAGEMENT



1 Why is the State Government making this offer?

The offer is an offer from the people of Selangor to reclaim their right to affordable water by enabling the state government to restructure the water services industry in Selangor and pursue a holistic model of water management. Among the reasons this is being done is to ensure that any increments of water tariffs do not burden the rakyat.

2 How will the state government implement the restructuring process?

The water services industry restructuring will be implemented by taking over the assets and equities of four water concessionaire companies.

The Selangor State Government through its subsidiary company, Kumpulan Darul Ehsan (KDEB) has officially offered RM9.65 billion to Syarikat Bekalan Air Selangor (SYABAS), Puncak Niaga Sdn Bhd (PNSB), Konsortium ABASS Sdn Bhd (ABASS) and Syarikat Pengeluar Air Selangor Sdn Bhd (SPLASH).

KDEB will setup a Special Purpose Vehicle (SPV) company as a water treatment and distributor operator licensed under the Water Services Industry Act 2006. KDEB's SPV will take over all assets and liabilities of SYABAS, PNSB, ABASS and SPLASH and the existing operations and employees of the four companies.

Perbadanan Aset Air Berhad (PAAB) will lease the water assets to KDEB's SPV to operate as asset light with full attention on enhancing the effectiveness and efficiency of service levels as required under the license and KPI that are regulated by the National Water Services Commission.

KDEB's SPV will be regulated by the National Water Services Industry Act, whereby supervision and monitoring of operator's performance will be implemented systematically and effectively, especially in respect of economy, technical, social and

consumer protection. This will create more efficient and transparent governance where public interest is prioritized.

3 What will happen to the rakyat if the restructuring does not take place?

If the restructuring is not implemented, the rakyat may be subjected to unreasonable increase of water tariffs as stipulated in the concession agreement signed by the previous state government which stipulates a series of increments over the following years - 2009 (37%), 2012 (25%), 2015 (20%).

Disruptions of water supplies may also continue and most importantly, the people will be subjected to the whims of the people and companies monopolizing the industry.

4 Why has Selangor taken such a long time to finalise the restructuring process while it was easily implemented in Pulau Pinang, Perak, Melaka, Negeri Sembilan and Johor?

Narrow-minded politicians and disrespect for the spirit of federalism has caused the delay.

The Water Services and Industry Act 2006 (WSIA) clearly provides for the deprivatization of the water industry through a holistic restructuring that allows the state government to take control of the management of water services. In fact on January 16, 2008, the federal cabinet had decided to allow the state government to take over the water services industry. However, since Pakatan Rakyat took over state government in March 2008, this decision has not been implemented.

5 What happens if the four concessionaires reject the rakyat's offer?

The offer cannot be rejected as the concept of "willing buyer, willing seller" does not apply

to WSIA. The offer is an ordinary commercial business transaction because of the elements of public interest and welfare, and the Federal Government is responsible for ensuring the interest and welfare of the public is well taken care of.

In the event that SYABAS, PNSB, ABASS and SPLASH dispute the price, they can refer the matter to international arbitration, the results of which the state government is prepared to accept.

The State Government is of the opinion that the current offer is reasonable as it offers a 12% per annum return for the equity as well as takeover of all water related liabilities.

6 Is it true that the water concessionaire companies failed to fulfill their responsibilities?

The main reason the water industry was privatised in 2004 was to lower the rate of leakage and wastage of treated water, or non-revenue water (NRW), which at the time was in excess of 42%.

According to the terms of the concession, SYABAS was supposed to reduce the NRW rate to 19.98% in 2012 with a CAPEX expenditure of RM 784.1 million. SYABAS spent RM 1.17 billion as of 2012, yet the level of non-revenue water (NRW) still stands at 33%.

Despite this massive failure, SYABAS demanded an increase in the water tariffs of 37% in 2009, another 25% in 2012 and another 20% in 2015 based on unfair concession terms. However, the Selangor state government has blocked this move in the interest of the rakyat.

The facts above clearly show that SYABAS has FAILED to fulfill their responsibilities and that the accusation that the state government has wrongly frozen SYABAS' CAPEX is untrue, based on the figures above.

7 Will the rakyat, including apartment dwellers, continue to enjoy the free 20 cubic meters of water after the water restructuring?

Yes, the rakyat will continue receiving free water, including those who live in apartments. Apartment dwellers will only need to change their water meters to individual water meters.

The state government is confident that the new KDEB SPV can overcome this outstanding problem.

8 Is it true that the provision of free water causes wastage?

This is untrue, and insults the integrity of the rakyat. The record in the "Malaysia Water Industry Guide" report clearly shows a downward trend in the usage of water:

Year	2007	2008	2009	2010	2011
Usage (cubic meters /month)	35.0	34.8	34.5	34.0	32.8

MWIG (Malaysia Water Industry Guide) is published by the Water Association of Malaysia with the cooperation of the Energy, Green Technology and Water Ministry, JBA Malaysia, and the National Water Services Commission.

9 Will Langat 2 be continued if there is a restructuring?

The state government is of the view that the decision by BN Selangor and the federal government to build Langat 2 was made in haste without considering other options to provide sufficient water. The current state government differs in that it has identified different ways to increase the supply of water in Selangor at a much lower cost, without having to construct Langat 2.

The state government has identified a number of water resource development projects in Selangor.

Among the identified projects are:

- Reactivation of the Bukit Jelutong Water Plant, which is capable of producing 50 million litres of treated water a day.
- Development of Runoff Water Harvesting in

downstream Selangor river through the 'Hybrid Off River Augmentation System' (HORAS) system as a new source of water. Early studies by LUAS has found that HORAS has huge potential as a new water source. This will allow Water plants SSP1 and SSP3 to operate at 10% more than current capacity allowed for by its present design, and the construction of new, high capacity plants.

Studies are also being conducted to use the 'River Bank Filtration Technique' (RBF) at the Langat River Basin near Kampung Jenderam Hilir. This study follows the one done by the National Hydraulics Institute of Malaysia (NAHRIM).

In addition, the state government has appointed consultant engineers to restudy the water distribution system in Selangor and the Federal Territories and Putrajaya to identify new distribution projects.

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What can the rakyat do to defend our right to water?

The rakyat of Selangor can support this effort by ensuring that the current administration stays on to continue guaranteeing the welfare of the rakyat.

The water industry is extremely important, and needs to be placed under the care of the government so that the rights of future generations will continue to be upheld.

Privatisation may have been a severe mistake, and now is the best time to correct these mistakes and start afresh.