

Bearing burden of MRT project

GAMUDA BHD announced to Bursa Malaysia last Friday that its jointly-controlled entity, MMC Gamuda KVMRT (PDP) Sdn Bhd, has executed the Project Delivery Partner Agreement with Mass Rapid Transit Corporation Sdn Bhd in respect of the implementation of the project known as the Klang Valley Mass Rapid Transit Project-Sungai Buloh-Kajang line (KVMRT-SBK).

Assuming the “successful” delivery of the KVMRT within the agreed target cost, it shall be paid a fee which is equivalent to 6 per cent fee of the aggregate of all the awarded works contracts.

First of all, a six per cent project fee is almost unheard of in a project of this scale. Based on an estimate that the KVMRT-SBK is expected to cost RM18 billion, the fees to the PDP alone will be RM1.08 billion.

This fee will only be reduced if the PDP wins the tender for the underground tunnelling works – in which case, the value of the tunnelling works will be excluded from the calculation of the fee.

The reason why the fee

is so high is simple – not only was there no competitive tenders, which would surely have brought the fees down, the government has chosen to award the contract and commenced work on the KVMRT a year ago before the fee was even agreed upon.

Such recklessness on the part of the government has resulted in it being beholden to the PDP with little room to manoeuvre or negotiate.

Any ordinary man on the street will know that it is ridiculous to ask a contractor to start the kitchen renovation without first agreeing to the cost.

On top of the fees, the PDP will also be separately reimbursed for “overheads, fees for engineering consultancy, quantity surveyors and system integration works and fees for site investigations and topographical survey” amounting to RM2.85 billion.

Adding the reimbursables to the estimated PDP fee of RM1.08 billion, the PDP will effectively collect RM3.93 billion for playing the role of a project manager.

What’s worse, despite the supposed role of the PDP having to bear any cost-overrun for the KVMRT, the PDP has managed to negotiate into its contract a 15 per cent “allowed contingency”.

This means that if the cost of the overall project were to increase by up to 15 per cent, the PDP will still collect every sen of its fee including a six per cent of the 15 per cent “allowed contingency”. A 15 per cent variation based on a RM18 billion project value for the SBK line would be a possible cost increase of up to a massive RM2.7 billion without penalty to the MMC-Gamuda joint-venture.

Secondly, and perhaps more critically, not only has the PDP contract been awarded with no open or competitive tender, the structure of the agreement is such that the overall cost of the project is incentivised to be inflated.

Given that the PDP is being paid on a percentage of contract cost and has to bear any cost-overrun beyond the 15 per cent “allowed contingency”, the



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PDP which has to help the government evaluate the various tender proposals will be incentivised to pick the bids with higher prices than the lower ones.

For example, if there are five bids to construct the MRT terminal at Taman Tun Dr Ismail (TTDI), there is greater incentive for the PDP to recommend the bid with the highest or higher prices, instead of the lower priced ones. The simple reason is that the higher priced ones will translate into a higher fee for the PDP given the fixed 6 per cent structure.

The entire MRT project has been awarded and

structured in such a reckless manner that the consequences in a few years’ time may have a devastating impact on the KVMRT’s viability.

The higher-than-necessary cost for the project would necessitate the imposition of higher MRT fares on the Klang Valley commuters, which will in-turn negate the intention of shifting the population to public transport.

Finally, given the size of the project, a drastic increase in cost will have an over-bearing impact on Malaysia’s financial position as the KVMRT is expected to be financed entirely by

debt. As it stands, we are already weighed down with a RM462 billion federal government debt.

The government must explain, with full details and transparency, how these issues will be addressed to ensure that Malaysians and our children will not be burdened by its reckless implementation.

TONY PUA
DAP NATIONAL PUBLICITY
SECRETARY AND MP FOR
PETALING JAYA UTARA