



Republic of the Philippines
National Electrification Administration
Quezon City

28 May 2004

MEMORANDUM : NO. 02 - 2004
TO : ALL ELECTRIC COOPERATIVES
SUBJECT : GUIDELINES IN THE ACCOUNTING TREATMENT OF EC
CONDONED LOANS DUE TO SECTION 60 OF RA 9136
(EPIRA)

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I. BACKGROUND

The enactment of Republic Act 9136 otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA) brought about major changes and reforms in the electric power industry including the restructuring of the Electric Cooperatives (ECs). Section 60 of the said act and Rule 31 of its implementing Rules and Regulations provide that all outstanding financial obligations of Electric Cooperatives to NEA and other government agencies incurred for the purpose of financing the rural electrification program shall be assumed by PSALM Corporation in accordance with the program approved by the President of the Philippines. However, any Electric Cooperatives which shall transfer ownership or control of its assets, franchise or operations within five (5) years from the condonation of debts shall repay PSALM Corp. the total debts including accrued interest thereon. Also, Section 5 of EO 119 enumerates the terms and conditions to be complied with in order for the assumption of rural electrification loans to be effective, and failure to continually comply with these terms and conditions shall mean revocation of the assumption by PSALM of the rural electrification loans of ECs.

II. OBJECTIVES

1. To properly reflect in the ECs' books and records the assumption by PSALM of the ECs outstanding loans with NEA as of June 26, 2001.
2. To ensure uniformity on the proper accounting treatment and presentation of the condoned loans in the ECs' financial statements.

III. GUIDELINES

1. ECs' condoned loans with NEA should be presented in a separate account as Donated Capital – PSALM, under the Equities and Margins portion of the Balance Sheet.
2. The amount to be recorded as Donated Capital – PSALM shall reconcile with the Outstanding Rural Electrification Loan balances, as audited by PSALM. For this purpose, ECs can obtain the audited outstanding loan balances from the Treasury Division of

3. Social Program Loans are not considered Rural Electrification loans, hence not assumed by PSALM Corporation.
4. Pro-forma entries

4a. To record assumption by PSALM of the ECs Outstanding Rural Electrification Loans with NEA.

		DR	CR	DR	CR
221-224-00	Long Term Debt-Principal/Interest	xxx			
221-224-10	Long Term Debt- Construction			xxx	
230-239-00	Matured Long Term and Short Term Debt -Principal	xxx			
230-239-10	Matured Long Term Debt – Construction			xxx	
230-237-00	Interest Accrued	xxx			
230-237-10	Interest Accrued-Construction			xxx	
230-240-00	Matured Interest Payable	xxx			
230-240-10	Matured Interest Payable-Construction			xxx	
450-431-00	Other Interest Charges	xxx			
211-208-00	Donated Capital		xxx		
270-271-10	Donated Capital –PSALM				xxx

The accounting entry should properly explain and indicate the nature, status and the circumstance that gave rise to such accounting entry, including the details of the amount of principal, interest, surcharges and other charges of such loans.

4b. To record adjustments due to revocation of assumption of Rural Electrification Loans by PSALM for failure to continually comply with Sec. 5 of EO 119 or if within five (5) years from the assumption of PSALM, an EC transfers ownership or control of its assets, franchise or operations as provided under Sec. 60 of EPIRA.

		DR	CR	DR	CR
211-208-00	Donated Capital	xxx			
270-271-10	Donated Capital – PSALM			xxx	
221-224-00	Long Term Debt-Principal/Interest		xxx		
221-224-10	Long Term Debt-Construction				xxx
230-239-00	Matured Long Term and Short Term Debt Principal		xxx		
230-239-10	Matured Long Term Debt-Construction				xxx
230-237-00	Interest Accrued		xxx		
230-237-10	Interest Accrued-Construction				xxx
230-240-00	Matured Interest Payable		xxx		
230-240-10	Matured Interest Payable-Construction				xxx

IV. EFFECTIVITY

This memorandum shall take effect on the date of the ERC's approval of the provisional authority to reduce rates due to loan condonation.

Edita S. Bueno
EDITA S. BUENO
 Administrator

NATIONAL ELECTRIFICATION
 ADMINISTRATION

IN REPLYING, P.L.C. #ITE: #DR004903



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Ed
6/3/04