POWER SECTOR ASSETS AND LIABILITIES MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2019

1. GENERAL INFORMATION

The financial statements of the Power Sector Assets and Liabilities Management (PSALM) Corporation were authorized for issue on February 14, 2020 as shown in the Statement of Management's Responsibility for Financial Statements signed by Atty. Irene Joy Besido-Garcia, President and CEO of PSALM.

PSALM was created on June 26, 2001 as a government-owned and controlled corporation by virtue of Section 49, Chapter VI of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA). It is mandated to take ownership of all the existing generation assets, independent power producer (IPP) contracts, real estate and all other disposable assets, and to assume all liabilities and obligations of the National Power Corporation (NPC).

The principal purpose of PSALM is to manage the orderly sale, disposition and privatization of NPC's assets, with the objective of liquidating in an optimal manner all of NPC's financial obligations and stranded contract costs. To strengthen the financial viability of electric cooperatives, PSALM was also tasked to assume all outstanding financial obligations of electric cooperatives with the National Electrification Administration (NEA), and other government agencies, that were incurred for financing the Rural Electrification Program (REP). Moreover, it was granted the powers to collect, administer, and apply NPC's portion of the universal charge (UC). The UC refers to the charge, if any, imposed on all electricity end-users for the following purposes:

a. Recovery of the stranded debts and stranded contract costs of NPC as well as the qualified stranded contract costs of distribution utilities resulting from the restructuring of the industry. The stranded debts of NPC refer to any unpaid obligations that have not been liquidated by the proceeds from the sales and privatization of its assets. Stranded contract costs of NPC or distribution utility refer to the excess of the contracted cost of electricity under eligible contracts over the actual selling price of the contracted energy output of such contracts in the market. Such contracts should have been approved by the Energy Regulatory Board as of December 31, 2000;

b. Missionary electrification, which refers to the provision by NPC-SPUG of power generation and its associated power delivery systems in areas that are not connected to the transmission system;

c. Equalization of taxes and royalties applied to indigenous or renewable sources of energy vis-à-vis imported energy fuels; and

d. Rehabilitation and management of watershed areas. An environmental charge equivalent to one-fourth of one centavo per kilowatt-hour (P0.0025/kWh) sales to be used solely for this purpose which shall accrue to an environmental fund to be managed by NPC.

The UC is a non-bypassable charge which is passed on and collected from all end-users on a monthly basis by the distribution utilities. The collections by the distribution utilities and National Grid Corporation of the Philippines (NGCP) in any given month shall be remitted to PSALM on or before the fifteenth (15th) of the succeeding month. Any end-user or self-generating entity not connected to a distribution utility shall remit its corresponding UC directly to NGCP.

PSALM shall exist for a period of twenty-five (25) years from the effectivity of the Electric Power Industry Reform Act of 2001 (EPIRA), unless otherwise provided by law, and all assets and liabilities of the Corporation outstanding upon the expiration of its term of existence shall revert to and be assumed by the National Government.

On October 15, 2018, the Corporation formally started its business operations at its new office located at the 24th Floor Vertis North Corporate Center 1, Astra corner Lux Drives, North Avenue, Quezon City 1105, Metro Manila, Philippines. Prior to its transfer, PSALM held its operations at the Power Center, National Power Corporation Complex.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in compliance with the Philippine Public Sector Accounting Standards (PPSAS) prescribed by the Commission on Audit through COA Resolution No. 2014-003 dated January 24, 2014.

To arrive at the financial statements, accounting policies have been consistently applied throughout the year presented.

Further, the financial statements have been prepared on the basis of historical cost, except for assets transferred from NPC which were recorded at their carrying amounts (or balances as reflected in NPC books) as of the transfer date of December 31, 2008.

The financial statements are presented in Philippine Peso, which is also the country's functional currency. Amounts shown are also in absolute value, unless otherwise stated. In the case of the Statement of Cash Flow, this is prepared using the direct method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Accounting

The financial statements are prepared on an accrual basis in accordance with the PPSAS.

3.2 Financial Instruments

a. Financial assets

i. Initial recognition and measurement

Financial assets within the scope of PPSAS 29, Financial Instruments: Recognition and Measurement, are classified as financial assets at fair value through surplus or deficit, held-to-maturity investments, loans and receivables or available-for-sale financial assets, as appropriate. PSALM determines the classification of its financial assets at initial recognition.

PSALM's financial assets include: cash and cash equivalents; trade and other receivables; loans and other loans receivables; and derivative financial instruments.

ii. Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

1. Financial assets at fair value through surplus or deficit

Financial assets at fair value through surplus or deficit include financial assets held for trading and financial assets designated upon initial recognition at fair value through surplus or deficit. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through surplus or deficit are carried in the Statement of Financial Position at fair value with changes in fair value recognized in surplus or deficit.

2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Receivables are initially measured at face value and subsequently at amortized cost. Impairment loss is recognized using an allowance account.

2.1 Power receivables

These are classified as current assets as they are expected to be collected within 12 months after the financial reporting date, except the disputed and restructured accounts which are classified as noncurrent assets.

2.2 Lease receivables

As structured, the contract, in the form of an Administration Agreement, between the Independent Power Producer Administrators (IPPAs) and PSALM, can be classified as a finance lease because it substantially transfers the risks and rewards incidental to ownership to the IPPA.

Based on PPSAS 13, the contract between the IPPA and PSALM are classified as a finance lease because, in substance, the contract contains the following indicators of a finance lease:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;

- the lease term is for the major part of the economic life of the asset even if title is not transferred; and

- the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Similarly, the IPPA structure provides that:

- full ownership of the generating plant to the IPPA at the end of the Administration Agreement;

- the Administration Agreement is for the remaining contract period of the service concession assets under the Build-Operate-Transfer (BOT) contracts with the Independent Power Producers (IPPs), which is for the most part of the economic life of the asset given that, on the average, the estimated economic life of the transferred generating plants is 30 to 40 years, based on their last revaluation in 1996; and

- the leased generating plant is of a specialized nature and size that operating this asset and managing its output require highly technical expertise and considerable financial capability that only qualified entities such as the IPPAs can bid for administration of their contracted capacities and eventually own and operate them.

The service concession asset privatized under a finance lease is presented as a lease receivable from the IPPA in the amount equal to the aggregate of the monthly payments to be made by the winning bidder throughout the contract period. The schedule of monthly payments was part of the Financial Bid of the IPPA and is made part of the Administration Agreement as Annex 1 to Schedule I.

IPPA receivables are classified as current assets as they are expected to be collected within 12 months after the financial reporting date. Otherwise, these are classified as non-current assets.

3. Held-to-Maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when PSALM has the positive intention and ability to hold it to maturity.

After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

iii. Derecognition

PSALM derecognizes a financial asset or, where applicable, a part of a financial asset or part of PSALM of similar financial assets when:

1. The contractual rights to the cash flows from the financial asset expired or waived; and

2. The Corporation has transferred its contractual rights to receive the cash flows of the financial assets, or retains the contractual rights to receive the cash flows of the financial assets but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions set forth in PPSAS 29, Financial Instruments: Recognition and Measurement; and either the entity has:

    - transferred substantially all the risks and rewards of ownership of the financial asset; or

    - neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred the control of the asset.

iv. Impairment of financial assets

PSALM assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include the following indicators:

1. The debtors or a group of debtors are experiencing significant financial difficulty

2. Default or delinquency in interest or principal payments

3. The probability that debtors will enter bankruptcy or other financial reorganization

4. Observable data indicates a measurable decrease in estimated future cash flows (e.g., changes in arrears or economic conditions that correlate with defaults)

Particularly for loans and receivables, PSALM adopted a revised accounting policy in 2014 to adequately provide allowance for doubtful accounts as follows: (i) for regular accounts, an initial 10% impairment allowance is recognized for accounts that are outstanding for more than one year, and a ten percent increase is thereafter provided for every year past due; (ii) for accounts with dispute, a 15% allowance for impairment is provided, unless a more specific amount is agreed upon by both parties in its initial proceedings; and (iii) for dormant as well as closed accounts, these are provided 100% impairment allowance.

v. Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, PSALM first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If PSALM determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in surplus or deficit. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or transferred to PSALM. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in surplus or deficit.

b. Financial liabilities

i. Initial recognition and measurement

Financial liabilities within the scope of PPSAS 29 are classified as financial liabilities at fair value through surplus or deficit, or loans and borrowings, as appropriate. PSALM determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

PSALM's financial liabilities include trade and other payables and loans and borrowings.

ii. Subsequent measurement

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well through the amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

iii. **Derecognition**

A financial liability is derecognized when the obligation under the liability expires or is discharged or cancelled.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in surplus or deficit.

c. **Derivative financial instruments**

PSALM uses derivative financial instruments such as Principal Only Swap (POS) to hedge its foreign currency risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to surplus or deficit. PSALM does not apply hedge accounting.

3.3 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash in bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

3.4 Inventories

Upon initial recognition, Inventories Held for Consumption for operation categorized as Fuel, Oil and Lubricants are valued at cost using the weighted average method under PPSAS No. 12 – Inventories, while other supplies and materials which are non-fuel items are valued using the moving-average method.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of PSALM.

3.5 Investment Property

Investment property, similar to NPC-transferred assets, are initially measured at their carrying amounts as stated in NPC books as of the transfer date of December 31, 2008.

Investment property are derecognized when they have been disposed of. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. PSALM uses the cost model for the measurement of investment property after initial recognition.

3.6 Property, Plant and Equipment and Depreciation

a. Recognition

An item is recognized as property, plant, and equipment (PPE) if it meets the characteristics and recognition criteria as a PPE.

The characteristics of PPE are as follows:

- tangible items;
- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one reporting period.

An item of PPE is recognized as an asset if:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity;
- the cost or fair value of the item can be measured reliably; and
- the cost is at least P15,000.00.

b. Measurement at recognition

For the preparation of the financial statements, PSALM followed COA Circular No. 2017-04 issued on December 13, 2017, which now requires the adoption of the cost model for all classes of PPE, as oppose to the previous manner of using the appraised value in reporting PPE.

An item recognized as PPE is measured at cost. The cost of the PPE is the cash price equivalent.

Cost includes the following:

(i) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

(ii) expenditure that is directly attributable to the acquisition of the items; and

(iii) initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

However, a PPE acquired through non-exchange transaction, such as power, energy, and electrification structures transferred from NPC, is recognized in PSALM's books at their carrying amounts as stated in NPC books as of the transfer date of December 31, 2008.

c. Measurement after recognition

After recognition, all PPE are stated at cost less accumulated depreciation and impairment losses.

When significant parts of PPE are required to be replaced at intervals, PSALM recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the PPE as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognized as expense in surplus or deficit as incurred.

For PPE transferred from NPC, major maintenance, which are done on periodic three- to five-year intervals, are deferred, amortized and charged to operations over the number of year's interval. Rehabilitation expenditures that would result in improvement of the plant's efficiency beyond five years are capitalized and transferred to plant cost upon completion of work orders. Regular annual maintenance, repairs and minor replacements are charged to expense in surplus or deficit as incurred.

On January 9, 2009, PSALM filed with the Energy Regulatory Commission (ERC) its petition for the adoption of proposed asset valuation guidelines using an indexation method to revalue NPC's assets to its current cost level in lieu of the conduct of an appraisal by an external appraiser.

The public consultation on the petition was held on February 23, 2009, whereupon ERC directed PSALM to revise the Asset Valuation Guidelines based on comments from interested parties. This called for the application of the revaluation method of reporting NPC-transferred PPE.

However, PPSAS 17 requires the adoption of the cost model for all classes of PPE for purposes of uniformity and consistency. Thus, beginning January 1, 2017, PSALM derecognized the accumulated revaluation, and adopted the cost model for all classes of PPE.

d. Depreciation

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

i. Initial recognition of depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

For simplicity and to avoid proportionate computation, the depreciation is for one month if the PPE is available for use on or before the 15th of the month. However, if the PPE is available for use after the 15th of the month, depreciation is for the succeeding month.

ii. Depreciation method and Estimated Useful Life

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Economic Life
Power plants transferred from NPC:	
1. Hydraulic Production	40 years
2. Thermal Production (Oil- and Coal-Fired)	35 years
3. Geothermal Production	30 years
4. Other Production (Combined-Cycle, Diesel, Barge, Gas Turbine)	20 years
Buildings and Other Structures	30-50 years
Furniture, fixtures and equipment	5-10 years
Transportation equipment	7 years
Computers and accessories	5 years
Leased Assets Improvements	Over the useful life of the improvement or the lease term, whichever is shorter. The lease term would include any renewal option

	periods where extension of the lease is expected.
Service Concession Assets	Over the useful life of the service concession asset or the term of the service concession arrangement, whichever is shorter. The term of the service concession arrangement would include any renewal option periods where extension of the service concession arrangement is expected.
Other Property, Plant and Equipment	2-15 years

For PPE transferred from NPC, the average remaining useful life was determined by subtracting the age of the asset from the estimated standard economic life.

iii. Residual value

PSALM uses a residual value equivalent to ten per cent of the cost of the PPE.

iv. Impairment

The carrying amount is reviewed for impairment when changes in circumstances indicate that the carrying amount may not be recoverable or may have diminished. If any such indication exists, and where the carrying amount exceeds the estimated recoverable amount or recoverable service amount, the assets are written down to their recoverable amount, or recoverable service amount, and impairment loss is recognized in profit or loss.

v. Derecognition

PSALM derecognizes items of PPE and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognized.

3.7 Leases

a. PSALM as a lessee

i. Finance lease

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased item to PSALM.

Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. PSALM also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured at the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the PSALM will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

ii. Operating lease

Operating leases are leases that do not transfer substantially all the risks and rewards incidental to ownership of the leased item to the PSALM. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

b. PSALM as a lessor

i. Finance lease

PSALM recognizes lease payments receivable under a finance lease as assets in the statement of financial position. The assets are presented as receivable at an amount equal to the net investment in the lease.

The finance revenue is recognized based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease.

ii. Operating lease

Leases in which the PSALM does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term.

Rent received from an operating lease is recognized as income on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

3.8 Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

Provisions are recognized when PSALM has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provisions are reversed.

b. Contingent liabilities

PSALM does not recognize a contingent liability, but discloses details of any contingencies in the notes to financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

c. Contingent assets

PSALM does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the PSALM in the notes to financial statements.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset’s value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

3.9 Changes in Accounting Policies and Estimates

PSALM recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy were applied prospectively if retrospective application is impractical.

PSALM recognizes the effects of changes in accounting estimates prospectively by including in surplus or deficit.

It also corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- Restating the comparative amounts for prior period(s) presented in which the error occurred; or

- If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

3.10 Foreign Currency Transactions

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date.

At each reporting date:

- Foreign currency monetary items are translated using the closing rate;

- Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and

- Nonmonetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items; or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements, are recognized in surplus or deficit in the period in which they arise, except as those arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation.

3.11 Revenue from Non-Exchange Transactions

a. Recognition and measurement of assets from non-exchange transactions

An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset are recognized as an asset if the following criteria are met:

i. It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and

ii. The fair value of the asset can be measured reliably.

An asset acquired through a non-exchange transaction is initially measured at its fair value as at the date of acquisition.

b. Recognition of revenue from non-exchange transactions

An inflow of resources from a non-exchange transaction recognized as an asset is recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

c. Measurement of revenue from non-exchange transactions

Revenue from non-exchange transactions is measured at the amount of the increase in net assets recognized by the entity, unless a corresponding liability is recognized.

d. Measurement of liabilities on initial recognition from non-exchange transactions

The amount recognized as a liability in a non-exchange transaction is the best estimate of the amount required to settle the present obligation at the reporting date.

e. Government Grants (Subsidy from National Government)

An unconditional government grant is recognized in Statement of Comprehensive Income as other income when the grant becomes receivable. A conditional government grant is recognized only when there is reasonable assurance that (a) the entity will comply with any conditions attached to the grant; and (b) the grant will be received.

The grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

3.12 Revenue from Exchange Transactions

a. Sale of owned and operated power plants

Revenue/gain from sale of the generation plants is recognized in full upon the successful turnover of the asset. The sale price is payable in cash or on installment. Normal terms for installment are 40% upfront cash and the 60% balance payable in 14 equal semi-annual payments at an agreed interest. The 60% deferred payment is recorded as Asset Sale Receivable.

b. Privatization of IPP power plants

Gain from the privatization of IPPs is recorded as Other Deferred Credits – Unearned Finance Income. The earned portion will subsequently be recorded as Finance Income over the life of the Administration Agreement.

c. Dividends

Dividends or similar distributions are recognized when PSALM's right to receive payments is established.

d. Rental income

Rental income arising from a Land Lease Agreement (LLA) on investment property is accounted for on a straight-line basis over the lease terms and included in revenue.

e. Other revenues

Other revenues are recognized when it is probable that future economic benefits will be received and such future benefits can be measured reliably.

3.13 Budget Information

The annual budget is prepared on a cash basis and is published in the government website.

A separate Statement of Comparison of Budget and Actual Amounts (SCBAA) is prepared since the budget and the financial statements are not prepared on comparable basis. The SCBAA is presented showing the original and final budget and the actual amounts on comparable basis to the budget.

The annual budget figures included in the financial statements are for the controlling entity, PSALM, and therefore exclude the budget for its subsidiary, the National Transmission Corporation (TransCo). The budgets of PSALM are not made publicly available. These budget figures are those approved by the governing body both at the beginning and during the year following a period of consultation with the public.

3.14 Subsidiary

As a wholly owned subsidiary of PSALM, TransCo remits its income for the period to the former thru declaration of dividend. PSALM would then recognize the dividend income in its Statement of Comprehensive Income for the period.

3.15 Service Concession Agreements

PSALM analyzes all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, PSALM recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price.

Such is the case with the Build-Operate-Transfer (BOT) contracts entered into by NPC with the IPPs, which were eventually turned over by NPC to PSALM during the Asset-Debt Transfer in 2008. Arising from the government's efforts to mitigate the growing problem in the supply of electricity in the late 1980s to 1990s, private entities were designated by the government to build additional facilities to ensure a long-term and stable source of electricity that would reach more end-users. These BOT contracts constitute service concession agreements thereby resulting to recognition of service concession assets and service concession arrangement payables. BOT lease obligations, stated in nominal amounts, represent obligations to Independent Power Producers (IPP). These facilities were operated and maintained by the private entities for a certain period before turning them over to the government. The arrangement resembled a finance lease wherein the paying entity (in this case, the government), has the option to acquire ownership of the property after the private sector partners recover most of the asset's costs. Hence, the commissioned capacities were classified as Service Concession Arrangements Payable.

In the books, total capacity fees for the duration of the cooperation period are capitalized and recognized as an asset. A liability corresponding to the unpaid portion of the capital recovery fees is set up under Service Concession Arrangements Payable. Kalayaan 3 & 4 and Mindanao Coal are the remaining BOT assets which are amortized over 40 years and 25 years, respectively.

Upon turnover of the privatized BOT plant to the appointed Independent Power Producer Administrators (IPPA), the asset is derecognized from the books of PSALM. However, the corresponding BOT lease obligations/Service Concession Arrangements Payable are not derecognized because they are not transferred to the appointed IPPA.

3.16 Taxes

Taxes and the related fines and penalties were recognized when collected or when these were measurable and legally collectible. Taxes for current and prior periods were, to the extent unpaid, recognized as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess payment was recognized as an asset.

Unlike the NPC, whose Charter provides that it shall be exempt from direct and indirect taxes, the EPIRA does not contain a provision that exempts PSALM, as an entity, from taxation.

While PSALM as an entity is not tax-free per se, there are certain transactions of this Corporation which are exempt from taxation. As set forth and further clarified in BIR Revenue Memorandum Circular (RMC) No. 11-2012 dated March 22, 2012, which supersedes previous BIR Ruling No. 020-02 dated May 13, 2002, the tax treatment of PSALM's transactions is summarized as follows:

a. On the Sale of the NPC Generation Assets and Other Real Properties in View of the Privatization

No income and withholding taxes are due from the sale of the NPC generation assets and other real properties to winning bidders.

PSALM, the principal purpose of which is to manage the orderly sale, disposition, and privatization of NPC generation assets and other real properties, with the objective of liquidating all NPC financial obligations and stranded contract costs in an optimal manner, will not derive gain from the said sale of the NPC generation assets and other real properties. Accordingly, no income tax and consequently withholding tax is due from PSALM on its sale of the NPC generation assets and other real properties.

The sale by PSALM of the NPC generation assets and other real properties to winning bidders, is subject to Value-added Tax (VAT).

In 2005, Republic Act No. 9337 or the R-VAT law was enacted. RA 9337 imposed 12 percent Value-Added Tax (VAT) on the sale of electricity, except for the sale of electricity sourced from renewable resources such as, but not limited to, biomass, solar, wind, hydropower, geothermal, ocean energy and other emerging energy resources, which is subject to zero percent rate VAT. Thus, the sale by PSALM of generated power shall be subject to VAT at 12 percent or zero percent rate as may be applicable.

Moreover, BIR Revenue Regulations (RR) No. 16-2005 was accordingly amended by BIR RR 04-2007, and subjected the sale of real properties not primarily held for sale or for lease, but used in business, to VAT.

b. The sale by PSALM of the NPC generation assets and other real properties is subject to Documentary Stamp Tax (DST)

Pursuant to Section 196 of the Tax Code of 1997, as amended, the sale of real properties by PSALM will be subject to DST at the rate of P15 for every P1,000 based on the consideration contracted to be paid for such realty or its fair market value determined in accordance with Section 6(E) thereof, whichever is higher. When one of the contracting parties is the Government, the tax to be imposed shall be based on the actual consideration subject to the proviso that, where one party to the transaction is exempt, the other party shall pay the tax. (Section 173 of the Tax Code of 1997)

Accordingly, the sale of the NPC generation assets and other real properties by PSALM pursuant to the privatization will be subject to DST based on the fair market value or the actual consideration that PSALM will receive, whichever is higher.

The rental income of PSALM from the NPC generation assets and other real properties, prior to its sale to winning bidders, is subject to income tax and VAT.

After the transfer of the NPC generation assets and other real properties to PSALM but prior to the privatization, PSALM enters into contracts of lease with private entities where the subject of the lease are the NPC generation assets and other real properties transferred to PSALM. The income received by PSALM from the lease is subject to corporate income tax provided under Section 27(A) of the Tax Code of 1997, as amended.

Thus, while no income tax is due on PSALM on its mandate to sell the NPC generation assets and other real properties to winning bidders, revenues derived by PSALM from its leasing activities are nevertheless subject to income tax. Moreover, gross receipts of PSALM from the lease of NPC transferred assets and other assets are deemed in the ordinary course of trade or business, hence, subject to VAT under the Tax Code of 1997, as amended.

c. On the Operation of the Generation Facilities

i. Income and Withholding Tax

Currently, government-owned and/or controlled corporations (GOCCs) are now subject to income tax pursuant to Section 27 (C) of the Tax Code except for the four (4) government corporations specifically enumerated therein. PSALM is not one of the exempt GOCCs under the said provision of the Tax Code of 1997, as amended. The operation by PSALM of the NPC assets transferred to it is not its principal purpose but only incidental to its mandate to privatize the generating plants of NPC in order to avoid a massive interruption in the supply of electricity. In this regard, any income derived therefrom is subject to income tax imposed under Section 27(A) and (E) of the Tax Code of 1997, as amended.

ii. Value-added Tax

Since the sale of the electricity and sale of service by PSALM are deemed made in the course of its business, the same is subject to VAT under Section 108 of the Tax Code of 1997 (as amended by RA 9337).

d. Miscellaneous Activities

Other income/receipts derived by PSALM from miscellaneous activities such as forfeiture of performance bonds, interest income from persons other than the winning bidders, and from other activities not related with its mandate are subject to all applicable taxes under the Tax Code of 1997.

e. Deferred Tax Asset and Deferred Tax Liability

Deferred tax assets are recognized as Management believes that the Corporation will have sufficient taxable profits in the near future against which the deferred tax assets will be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax liabilities are recognized for all deductible temporary differences, carry forward benefit of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carry forward benefits of MCJT and NOLCO can be utilized.

The above accounts are subject to further reconciliation and these will be properly recognized once reconciled.

f. Real Property Tax

The amount due as Real Property Tax (RPT) is determined based on the plants' category, whether it is classified as an owned and/or operated or an IPP plant. After determining this, PSALM refers to relevant provisions of the Local Government Code of the Philippines (LGCP) for owned and/or operated plants, while it refers to Executive Order Nos. 27 s. 2011 (E.O. 27) and 173 s. 2014 (E.O. 173) for IPP plants.

There is a specific treatment for IPP plants. Following the Supreme Court ruling that the taxable entity is the IPP, the RPT billings were directly forwarded to the IPP by the concerned Local Government Units (LGUs) using a maximum of 80 percent assessment level for all machineries and equipment pursuant to the LGCP.

However, based on the Purchase Power Agreement entered into by and between NPC and the IPP, the entity responsible for the payment of RPT is

NPC. As such, PSALM, as the entity created by law to assume the assets and liabilities of NPC, settled the RPT liabilities of the IPPs upon the instruction of the PSALM's Board of Directors that RPT covering power generation facilities of IPPs under BOT contracts must be settled within the parameters of E.O. 27 and 173, i.e., the tax due shall be computed based on an assessment level of 15 percent of the fair market value of the property, machinery and equipment depreciated at the rate of two percent per annum, less any amounts paid, while all fines, penalties and interest on deficient RPT shall be condoned.

Hence, settlements of all IPP-related RPT was made under the framework of E.O. 27 and 173, with the IPP remitting in advance the RPT payment to the LGUs and correspondingly reimbursed by PSALM pursuant to the terms and conditions set forth in the Reimbursement Agreement entered into by and between PSALM and the IPP.

It should be noted that on April 27, 2017, President Rodrigo R. Duterte issued Executive Order No. 19 (E.O. 19) reducing the RPT assessed on the power generation facilities of IPPs under BOT contracts with GOCCs, including any special levies accruing to the Special Education Fund, for the years 2015 and 2016 to an amount equivalent to the tax due if computed based on an assessment level of 15 percent of the fair market value of the property, depreciated at the rate of two percent per annum, less any amounts already paid by the IPPs. All interests on such deficiency real property tax liabilities were also condoned and the concerned IPPs are relieved from payment thereof. Further, Section 2 of E.O. 19 provides that if any real property tax payments for 2015 and 2016 have been made by IPPs in excess of the reduced amount under Section 1 of the E.O. 19, such excess shall be applied to their RPT for the succeeding years.

On July 25, 2018, President Rodrigo R. Duterte issued Executive Order No. 60 (E.O. 60) reducing the RPT assessed on the power generation facilities of IPPs under BOT contracts with GOCCs, including any special levies accruing to the Special Education Fund, for the year 2017 to an amount equivalent to the tax due if computed based on an assessment level of 15 percent of the fair market value of the property, depreciated at the rate of two percent per annum, less any amounts already paid by the IPPs. All interests on such deficiency real property tax liabilities were also condoned and the concerned IPPs are relieved from payment thereof. Further, Section 2 of E.O. 60 provides that all real property tax payments made by the IPPs over and above the reduced amount under Section 1 of the E.O. 60 shall be applied to their real property tax liabilities for the succeeding years.

Similar to E.O. 60, on August 13, 2019, President Rodrigo R. Duterte issued Executive Order No. 88 (E.O. 88)) reducing all RPT liabilities, including any special levies accruing to the Special Education Fund, for calendar year (CY) 2018, on property, machinery and equipment actually and directly used by IPPs for the production of electricity under a Build-Operate-Transfer scheme and similar contracts (whether denominated Power Purchase Agreements, Energy Conversion Agreements or other contractual agreements) with GOCCs, assessed by LGUs and other entities authorized to impose real property tax for all years up to CY 2018, to an amount equivalent to the tax due if computed based on an assessment level of fifteen percent (15%) of the fair market value of said property, machinery and equipment depreciated at the rate of two percent (2%) per annum, less any amounts already paid by the IPPs. E.O 88 further states that all interests on such deficiency real property tax liabilities are also condoned and the concerned IPPs are relieved from payment thereof. Consequently, Section 2 of E.O. 88 provides that all real property tax payments made by the IPPs over and above the reduced amount under Section 1 of the E.O. 88 shall be applied to their real property tax liabilities for the succeeding years.

On the other hand, the RPT payments remitted to the respective LGUs for owned and/or operated plants were based on the provisions of Sections 218 (d) and 234 (c) and (e) of the LGCP, which categorically provided that the assessment level for GOCCs engaged in the generation and transmission of electric power is at 10 percent, and that machineries and equipment that are actually, directly, and exclusively used in the generation and transmission of electric power, and those used for pollution control and environmental protection must be exempted, respectively.

3.17 Borrowing Costs

For loans borrowed directly by PSALM, the allowed alternative treatment is used.

3.18 Employee Benefits

The employees of PSALM are members of the Government Service Insurance System (GSIS), which provides life and retirement insurance coverage.

PSALM recognizes the undiscounted amount of short-term employee benefits, like salaries, wages, bonuses, allowance, etc., as expense unless capitalized, and as a liability after deducting the amount paid.

3.19 Assumption and Condonation of Rural Electric Cooperatives' (REC) Loans

In accordance with the EPIRA, a Memorandum of Agreement was entered into by and between the National Electrification Administration (NEA) and PSALM on October 3, 2003 to implement the assumption and condonation by PSALM of duly audited REC loans. The basis in recording the amount of REC loans to be assumed by PSALM is the initial amount recorded by the NEA, confirmed by the REC and validated by COA. This amount is subsequently credited with the actual amount audited, condoned, and paid by PSALM to NEA. This condonation will benefit the consumers in terms of reduced electricity rates and improved services by the electric cooperatives as well as NPC/PSALM in terms of making current settlement of electricity bills with the electric cooperatives.

3.20 Administration of the Universal Charge

PSALM administers the Special Trust Funds created in accordance with the Guidelines on the Remittance and Disbursements duly promulgated by PSALM, concurred by the Department of Finance (DOF) and approved by the Energy Regulatory Board as provided for in the EPIRA.

PSALM maintains separate books of accounts for these Special Trust Funds and records.

The Universal Charge (UC) refers to the charge imposed on all electricity end-users to cover payment of NPC's stranded debts and stranded contract cost, missionary electrification, preservation of NPC's watershed, and any forms of cross-subsidies for a period not exceeding three (3) years. It also serves to equalize the taxes and royalties applied to indigenous or renewable sources of energy vis-à-vis imported energy fuels.

3.21 Measurement Uncertainty

The preparation of financial statements in conformity with PPSAS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

4. CASH AND CASH EQUIVALENTS

Particulars	2019	2018
Cash on Hand	148,660	81,735
Cash in Bank-Local Currency	2,976,579,365	1,401,753,268
Cash in Bank-Foreign Currency	364,554,529	468,164,610
Cash Equivalents	27,065,734,214	10,161,757,237
Total Cash and Cash Equivalents	**30,407,016,768**	**12,031,756,850**

Cash equivalents are highly liquid investments of the Corporation in the form of short-term placements.

5. INVESTMENTS

5.1 Financial Assets

a. Reconciliation of the Current Financial Assets

CURRENT FINANCIAL ASSETS As at December 31, 2019				
Particulars	Financial Assets at Fair Value through Surplus or Deficit	Financial Assets - Held to Maturity	Financial Assets – Others	Total
Beginning balance as at Jan. 1, 2019	0	1,000,000,000	0	**1,000,000,000**
Less: *Investments sold/collected*	0	(1,000,000,000)	0	**(1,000,000,000)**
Balance as at Dec. 31, 2019	0	0	0	**0**

b. Reconciliation of the Non-Current Financial Assets

Particulars	Financial Assets - Held to Maturity	Financial Assets – Others	Total
Beginning balance as at Jan. 1, 2019	7,000,000,000	1,739,206,001	**8,739,206,001**
Fair value increase[1/]	0	380,952,902	**380,952,902**
Balance as at Dec. 31, 2019	**7,000,000,000**	**2,120,158,903**	**9,120,158,903**

[1/] *consists of interest earned and revaluation as of the period*

c. Financial Assets

Particulars	As at December 31, 2019	As at December 31, 2018
Total Current Financial Assets	0	1,000,075,000
Total Non-Current Financial Assets	9,120,158,903	8,739,206,001
Total	**9,120,158,903**	**9,739,281,001**

Particulars	Financial Assets at Fair Value through Surplus or Deficit	Financial Assets - Held to Maturity	Financial Assets – Others	Total
Beginning balance as at Jan. 1, 2019	0	8,000,000,000	1,739,206,001	**9,739,206,001**
Less: *Investments sold/collected*	0	(1,000,000,000)	0	**(1,000,000,000)**
Fair value increase[1/]	0	0	380,952,902	**380,952,902**
Balance as at Dec. 31, 2019	**0**	**7,000,000,000**	**2,120,158,903**	**9,120,158,903**

[1/] *consists of interest earned and revaluation as of the period*

Financial Assets-Held to Maturity

This account consists the carrying amount of the (1) ten-year Retail Treasury Bond; and (2) LBP long-term negotiable certificate of time deposit both acquired in 2013 with an interest rate of 3.25% and 3.75%, respectively.

Financial Assets-Others

This account pertains to the carrying amount of the principal-only-swap executed in July 2007 to cover PSALM's maturing obligation on 2028 amounting to USD300 million.

5.2 Investment in Subsidiaries

This account represents to the cost of investments in TransCo acquired pursuant to EPIRA. It is a reciprocal account adjusted appropriately in the books for adjustments and corrections of TransCo's account balances prior to the transfer of asset-debt accounts, the funding of Right-of-Way prior to privatization and TransCo's appraisal capital and any movement thereof.

Particulars	Amount
Beginning Balance as at January 1, 2019	154,954,153,015
Add: Fund transfers for Right of Way	1,415,450,000
Less: Adjustments, net	33,037,124
Balance as at December 31, 2019	**156,402,640,139**

6. RECEIVABLES

6.1 Loans and Receivables

Accounts	2019			2018		
	Current	Non-Current	Total	Current	Non-Current	Total
Accounts Receivable (A/R)-Power	74,799,841,353	1,947,915,172	76,747,756,526	75,639,721,437	1,088,755,406	76,728,476,843
Less: Allowance for Bad Debts	(45,866,220,869)		(45,866,220,869)	(43,913,852,836)	0	(43,913,852,836)
A/R-Power, Net of Allowance	28,933,620,484	1,947,915,172	30,881,535,657	31,725,868,601	1,088,755,406	32,814,624,007
Add: Recovery/ (Refund)	17,084,603,378		17,084,603,378	21,317,685,811	0	21,317,685,811
Output Tax Receivable	5,196,684,327	83,885,654	5,280,569,982	5,551,239,883	76,093,841	5,627,333,724
A/R-Power, Net	**51,214,908,189**	**2,031,800,826**	**53,246,709,017**	**58,594,794,295**	**1,164,849,247**	**59,759,643,542**
A/R-Generation Payments	**32,504,679,007**	**0**	**32,504,679,007**	**27,244,575,039**	**0**	**27,244,575,039**
Receivables from UC-SCC	625,275,648	0	625,275,648	0	0	0
Receivables from UC-SD	6,864,407,226	24,018,988,654	30,883,395,880	3,904,934,428	17,640,284,807	21,545,219,235
A/R-Universal Charge	**7,489,682,874**	**24,018,988,654**	**31,508,671,528**	**3,904,934,428**	**17,640,284,807**	**21,545,219,235**
Interests Receivable - Power	7,568,476,695	0	7,568,476,695	7,834,910,940	0	7,834,910,940
Less: Allowance for Impairment	0	0	0	0	0	0
Interests Receivable, Net	**7,568,476,695**	**0**	**7,568,476,695**	**7,834,910,940**	**0**	**7,834,910,940**
Interest Receivable - Placements	**17,144,537**	**0**	**17,144,537**	**79,730,740**	**0**	**79,730,740**
TOTAL	**98,794,891,303**	**26,050,789,481**	**124,845,680,784**	**97,658,945,442**	**18,805,134,054**	**116,464,079,496**

Accounts Receivable - Power consists of trade receivables for power generation charges, including Ancillary Service Charges and restructured power receivables, net of refunds to power customers resulting from ERC decisions. It pertains to the outstanding balances of power customers, most of which were transferred by NPC to PSALM, which is subject to continuous validation and confirmation. Its main composition includes regular power accounts, restructured power accounts, deferred accounting adjustments (DAA), and accounts under dispute/delinquent accounts.

Accounts Receivable - Generation Payments are receivables due from Independent Power Producer (IPP) Administrators for the operating costs incurred by the corresponding BOT IPP plant. As of December 31, 2019, this account has a balance of P32.505 billion due from the following IPP Administrators:

IPP Administrators	2019	2018
South Premiere Power Corp. (SPPC)	27,308,041,950	21,954,410,636
Good Friends Hydro Resources Corp. (GFHRC)	1,064,151,812	1,064,151,812
FDC Misamis Power Corporation (FMPC)	1,027,302,383	1,027,302,383
Northern Renewable Energy Corporation (NREC) *	996,837,595	578,901,286
FDC Utilities, Inc. (FDCUI)	775,136,372	775,136,372
Thermal Luzon Inc. (TLI)	546,484,909	539,471,333
Unified Leyte Geothermal Energy, Inc. (ULGEI)	333,920,798	339,747,167
San Miguel Energy Corporation (SMEC)	220,991,805	244,783,783
Strategic Power Development Corp. (SPDC)	134,904,123	164,258,253
Waterfront Mactan Casino Hotel, Inc. (WMCHI)	95,264,735	71,595,412
Vivant Energy Corporation (VEC)	1,145,050	144,669,593
Aboitiz Energy Solutions, Inc. (AESI)	497,475	340,147,009
Total A/R-Generation Payments	**32,504,679,007**	**27,244,575,039**

* *Formerly Vivant Sta. Clara Northern Generation Corp (VSCNGC)*

Universal Charge-SCC Receivable represents the approved amount of Stranded Contract Cost (SCC) and Stranded Debts (SD) that will be recovered through the Universal Charge (UC).

6.2 Aging/Analysis of Accounts Receivables

Accounts	Total	Not Past Due	Past Due		
			< 30 days	30-60 days	> 60 days
A/R - Power*	**76,747,756,526**	**6,474,184,123**	**283,596,927**	**349,588,524**	**69,640,386,952**
Distribution Utility	55,487,771,616	3,049,807,106	106,682,647	166,939,721	52,164,342,142
Electric Cooperative	15,311,264,865	2,992,874,860	144,227,678	151,969,788	12,022,192,539
Industry	5,614,726,348	426,508,979	28,262,864	26,860,879	5,133,093,626
Government	331,899,502	4,748,941	3,850,154	3,228,696	320,071,711
Others	2,094,195	244,237	573,584	589,440	686,934

Accounts	Total	Not Past Due	Past Due		
			< 30 days	30-60 days	> 60 days
A/R - Universal Charge	**31,508,671,528**	**31,508,671,528**	**0**	**0**	**0**
A/R - Generation Payments	**32,504,679,007**	**6,527,217,040**	**231,833,560**	**126,211,198**	**25,619,417,210**
SPPC – Ilijan	27,308,041,950	5,930,621,665	187,174,384		21,190,245,901
GFHRC - Unified Leyte	1,064,151,812				1,064,151,813
FMPC - Mt. Apo I & II	1,027,302,383				1,027,302,383
NREC - Bakun	996,837,595	34,570,397	41,372,905	125,579,336	795,314,958
FDCUI - Unified Leyte	775,136,372				775,136,372
TLI - Pagbilao	546,484,909	73,199,799			473,285,110
AESI - Unified Leyte	333,920,798	24,010,196	3,286,271		645,469
ULGEI - Unified Leyte	220,991,805	134,825,925			196,981,609
SMEC - Sual	134,904,123				78,198
VEC - Unified Leyte	95,264,735			243,120	95,021,614
SPDC - San Roque	1,145,050			145,621	999,429
WMCHI - Unified Leyte	497,475			243,120	254,355

* *without considering allowance for bad debts, recovery/(refund) not yet billed, and output tax receivable*

Not Past Due *– pertains to receivables not yet past due date*

<30 Days Past Due *– pertains to unpaid receivables that are already one (1) to twenty-nine (29) days past their due date*

30-60 Days Past Due *– pertains to unpaid receivables that are already thirty (30) to sixty (60) days past their due date.*

>60 Days Past Due*– pertains to unpaid receivables that are over sixty (60) days past their due date.*

From the above table, it could be gleaned that the bulk of the Accounts Receivable-Generation Payments is due from SPPC, with P17.920 billion already past due. The overdue amount arose from disputed items and differences in interpretation of certain provisions of the IPP Administration Agreement, as shown below:

Expressed in thousand pesos

26 Jun. 2010 - 25 Dec. 2012 (Period A) 1/	4,622,001
26 Dec. 2012 - 31 Dec. 2018 (Period B) 2/	11,515,882
Value added tax	4,995,740
Subtotal	**21,133,623**
Add: Other charges	243,798
Total	**21,377,421**

[1/] *Refers to the period coinciding with the term of MERALCO Transition Supply Contracts (TSCs) that resulted to disputed items.*

[2/] *Refers to the period after the expiration of MERALCO TSCs, when SPPC's payments were not in accordance with Schedule J of the Administration Agreement. (See Note 32.2)*

6.3 Lease Receivables

Accounts	2019			2018		
	Current	Non-Current	Total	Current	Non-Current	Total
Finance Lease Receivable	**42,157,050,659**	**170,680,023,847**	**212,837,074,506**	39,684,226,723	214,142,469,093	**253,826,695,816**
Less: Allow. for Impairment	0	0	**0**	0	0	**0**
Net Value – Finance Lease Receivable	**42,157,050,659**	**170,680,023,847**	**212,837,074,506**	**39,684,226,723**	**214,142,469,093**	**253,826,695,816**

Finance Lease Receivables refer to the Monthly Payments that are paid by IPP Administrators (IPPAs) to PSALM at fixed amounts based on an agreed amortization schedule representing their payment for the administration of the IPP plant.

These IPPAs are qualified independent entities who were appointed by PSALM by means of a public bidding, pursuant to Section 51 of the EPIRA, who will administer, conserve, and manage the contracted energy output of NPC/PSALM IPP contracts.

As of December 31, 2019, PSALM has successfully bid out and transferred a total of seven (7) IPPs to thirteen (13) IPPAs, as shown below:

IPPA	Power Plant	Cooperation Period (mm/dd/yyyy)
San Miguel Energy Corporation (SMEC)	Sual	From 10/01/2009 to 10/01/2024
Therma Luzon, Inc. (TLI)	Pagbilao	From 10/01/2009 to 08/01/2025
Strategic Power Dev. Corp. (SPDC)	San Roque	From 01/26/2010 to 04/26/2028
Northern Renewable Energy Corporation (NREC) *	Bakun	From 01/26/2010 to 01/26/2026
South Premiere Power Corp. (SPPC)	Ilijan	From 06/26/2010 to 06/26/2022
FDC Misamis Power Corp. (FMPC)	Mt. Apo I	From 12/26/2014 to 02/15/2022
FDC Misamis Power Corp. (FMPC)	Mt. Apo II	From 12/26/2014 to 06/17/2024
Good Friends Hydro Resources Corp. (GFHRC)	Unified Leyte	From 12/26/2014 to 08/10/2017
FDC Utilities, Inc. (FDCUI)	Unified Leyte	From 12/26/2014 to 09/04/2017
Phinma Energy Corporation (PEC) **	Unified Leyte	

IPPA	Power Plant	Cooperation Period (mm/dd/yyyy)
Aboitiz Energy Solutions, Inc. (AESI)	Unified Leyte	From 12/26/2014 to 10/25/2019
Unified Leyte Geothermal Energy, Inc. (ULGEI)	Unified Leyte	From 12/26/2014 to 07/25/2021
Waterfront Mactan Casino Hotel Inc. (WMCHI)	Unified Leyte	From 12/26/2014 to 10/17/2019
Vivant Energy Corporation (VEC)	Unified Leyte	From 12/26/2014 to 10/25/2019

** Formerly Vivant Sta. Clara Northern Generation Corp.*
*** Formerly Trans-Asia Oil and Energy Development Corp.*

As of end 2019, receivable from IPPAs for the Monthly Payments stood at P212.84 billion, broken down as follows:

IPPA	Plant	2019			2018		
		Current	Non-Current	Total	Current	Non-Current	Total
SMEC	Sual	14,079,311,740	63,058,471,500	**77,137,783,240**	12,128,307,933	80,155,802,448	**92,284,110,381**
TLI	Pagbilao	8,886,960,000	48,187,072,000	**57,074,032,000**	9,178,474,500	58,218,472,000	**67,396,946,500**
SPDC	San Roque	3,957,196,049	33,397,740,698	**37,354,936,747**	4,036,551,812	38,104,044,910	**42,140,596,722**
SPPC	Ilijan	9,646,085,633	14,469,128,449	**24,115,214,082**	9,839,883,573	24,599,708,935	**34,439,592,508**
NREC	Bakun	5,587,497,237	11,567,611,200	**17,155,108,437**	4,501,008,905	13,064,440,800	**17,565,449,705**
Total Finance Lease Receivable		**42,157,050,659**	**170,680,023,847**	**212,837,074,506**	**39,684,226,723**	**214,142,469,093**	**253,826,696,816**

It should be noted that on October 31, 2018, Northern Renewables Energy Corporation filed its manifestation and motion praying for the approval of a third Revised Rehabilitation/Payment Plan. On December 12, 2019, the Court issued an order granting NREC's Manifestation. (See Note 32.4)

6.4 Inter-Agency Receivables

Accounts	2019	2018
Due from National Government Agencies	4,935,316,773	4,935,367,304
Due from Government Corporations	4,797,309,012	10,015,025,118
Total Inter-Agency Receivables	**9,732,625,785**	**14,950,392,422**

a. Due from National Government Agencies

This account consists of the following:

Particulars	2019	2018
Bureau of Internal Revenue	3,813,080,472	3,813,080,472
Dept. of Budget and Management	1,115,347,953	1,115,347,953
Dept. of Finance/Bureau of Treasury	6,584,239	6,580,887
Department of Energy	304,109	357,992
Total Due from NG Agencies	**4,935,316,773**	**4,935,367,304**

Bureau of Internal Revenue (BIR)

This account pertains to deferred taxes and duties corresponding to taxes paid under protest in the amount of P3.8 billion for the sale of Pantabangan-Masiway and Magat Hydroelectric Power Plants. In a Decision dated August 8, 2017, the Supreme Court reinstated the Decisions dated March 13, 2008 and January 14, 2009 of the Secretary of Justice in OSJ Case No. 2007-3, stating that it was erroneous for the BIR to hold PSALM liable for deficiency VAT. The P3,813,080,472 deficiency VAT remitted by PSALM under protest should therefore be refunded to PSALM.

Department of Finance (DOF)/Bureau of Treasury (BTr)

The amount due from DOF/BTr represents advances made by NPC for the Bataan Nuclear Power Plant (BNPP).

b. Due from Government Corporations

This account consists of the following:

Particulars	2019	2018
Metropolitan Waterworks and Sewerage System	0	5,198,293,631
National Transmission Corporation	4,797,309,012	4,797,309,012
National Power Corporation	0	19,422,475
Total Due from Gov't Corporations	**4,797,309,012**	**10,015,025,118**

Metropolitan Waterworks and Sewerage System (MWSS) represents energy and capacity losses incurred by the Angat Hydroelectric Power Plant (AHEPP) due to the implementation of MWSS Angat Water Supply Optimization Project (AWSOP). The Memorandum of Understanding between NPC and MWSS on February 9, 1990 provides that MWSS shall compensate NPC the energy and capacity losses, if any, which the latter may incur as a result of the operation of the former's Auxiliary Unit No. 5.

On June 18, 2019, PSALM received COA's Decision authorizing the settlement of accounts receivable subsisting between MWSS and PSALM. COA interposes no objection to the agreement indicating that MWSS' remaining net claim is P102,301,506.88, inclusive of tax, to be paid by PSALM subject to the submission of the duly signed Settlement Agreement of the parties concerned pursuant to Section 34 of Presidential Decree No. 1445.

Finally, on December 27, 2019, PSALM cleared its dues and paid MWSS the full amount of P102,301,506.88 in accordance with the duly signed Settlement Agreement of both parties.

6.5 Other Receivables

Accounts	2019	2018
Receivables-Disallowances/Charges	42,489,331	33,816,416
Due from Officers and Employees	400,481	367,523
Universal Charge Receivable	1,209,794,284	1,147,249,734
Other Receivables	4,346,098,552	4,337,877,700
Total Other Receivables	**5,598,782,648**	**5,519,311,373**

Other receivables pertain to transferred accounts of NPC from various private corporations, government agencies, suppliers and persons. The account is subject to validation upon submission of supporting documents/further details by NPC.

Particulars	As at December 31, 2019	As at December 31, 2018
Total Current Receivables	156,283,350,394	157,812,875,960
Total Non-Current Receivables	196,730,813,328	232,947,603,147
Total	**353,014,163,722**	**390,760,479,107**

7. INVENTORIES

Accounts	2019	2018
Office Supplies Inventory		
Carrying Amount, January 1, 2019	**1,896,842**	2,547,811
Additions/acquisitions during the year	1,650,194	1,215,574
Expensed during the year except write-down	(1,676,886)	(1,866,543)
Carrying Amount, December 31, 2019	**1,870,150**	**1,896,842**
Fuel, Oil and Lubricants Inventory		
Carrying Amount, January 1, 2019	1,493,198,269	1,619,816,233
Additions/acquisitions during the year	1,367,634,420	1,256,481,018
Expensed during the year except write-down	(1,463,799,674)	(860,593,592)
Write-down	(974,728)	(22,764,663)
Sale	(1,674,079)	(499,740,727)
Carrying Amount, December 31, 2019	**1,394,384,208**	**1,493,198,269**
Other Supplies and Materials Inventory		
Carrying Amount, January 1, 2019	857,685,989	534,198,366
Additions/acquisitions during the year	172,442,473	323,487,623
Carrying Amount, December 31, 2019	**1,030,128,462**	**857,685,989**
Semi-Expendable Machinery and Equipment		
Carrying Amount, January 1	**14,199**	**0**
Additions/Adjustments during the year		**14,199**
Expensed during the year except write-down	**(14,199)**	
Write-down during the year		
Reversal of Write-down during the year		
Carrying Amount, December 31	**0**	**14,199**
Total Carrying Amount, December 31, 2019	**2,426,382,820**	**2,352,781,100**

Fuel, Oil and Lubricants Inventory represents the cost of Heavy Fuel Oil, Industrial Diesel Oil, Coal, and Lube Oil used for the operation of heavy equipment and other machineries for operation of power plants.

8. INVESTMENT PROPERTY

This pertains to properties of PSALM that are held to earn rentals under a Land Lease Agreement (LLA). Any cash generated from this is considered part of the Corporation's privatization proceeds. Details of the properties are as follows:

Particulars	2019			2018		
	Investment Property - Land	Investment Property - Building	Total	Investment Property - Land	Investment Property - Building	Total
Carrying Amount, Jan. 1	**1,537,433,644**	**0**	**1,537,433,644**	**1,604,592,494**	**0**	**1,604,592,494**
Transfers from inventories/ owner-occupied property	0	0	**0**	0	0	**0**
Total	**1,537,433,644**	**0**	**1,537,433,644**	**1,604,592,494**	**0**	**1,604,592,494**
Other Changes	1,025,114	0	**1,025,115**	(67,158,850)	0	**(67,158,850)**
Carrying Amount, Dec. 31 (as per Statement of Financial Position)	**1,538,458,758**	**0**	**1,538,458,758**	**1,537,433,644**	**0**	**1,537,433,644**

Other Changes made during the year refers to the sale of land, adjustments of identified TransCo owned and re-classification of non-LLA lot.

9. PROPERTY, PLANT AND EQUIPMENT

This consists of PSALM-acquired and NPC-transferred Property, Plant and Equipment (PPE), as follows:

PSALM-Acquired Assets	Furniture, Fixtures & Equipment	Transportation Equipment	Total
Carrying Amount, January 1, 2019	**35,947,896**	**3,790,465**	**39,738,361**
Additions/Acquisitions	3,804,366	13,492,648	17,297,014
Total	**39,752,262**	**17,283,113**	**57,035,375**
Disposals	(12,930,335)	(415,617)	(13,345,952)
Depreciation (as per Statement of Financial Performance)	(3,197,726)	(840,181)	(4,037,907)
Carrying Amount, December 31, 2019 (as per Statement of Financial Position)	**23,624,201**	**16,027,315**	**39,651,516**

PSALM-Acquired Assets	Furniture, Fixtures & Equipment	Transportation Equipment	Total
Gross Cost (Asset Account Balance per Statement of Financial Position)	**188,113,087**	**32,334,878**	**220,447,965**
Accumulated Depreciation	(164,488,886)	(16,307,563)	(180,796,449)
Accumulated Impairment Losses	0	0	0
Carrying Amount, December 31, 2019 (as per Statement of Financial Position)	**23,624,201**	**16,027,315**	**39,651,516**

In the PSALM financial report as of December 31, 2016, it presented a Revaluation Surplus/Appraisal Capital as part of its Equity. This arose from the revaluation of power plant related assets in 2010 after the asset-debt transfer from National Power Corporation (NPC) to PSALM in December 31, 2008. The revaluation is in compliance to the Energy Regulatory Commission (ERC) Order dated February 8, 2010 granting PSALM and the National Power Corporation (NPC) the provisional authority to implement the new generation rate in relation to the joint application of PSALM and NPC under the ERC Case No. 2009-004 RC, otherwise, the provisional authority shall be revoked. Thus, PPE transferred from NPC had the following carrying value before the adoption of PPSAS 17:

NPC-Transferred Assets	Land	Buildings & Other Structures	Machinery & Equipment	Total
Carrying Amount, Jan. 1, 2019	**7,990,784,241**	**2,815,191,764**	**6,916,606,971**	**17,722,582,976**
Additions/Acquisitions	86,197,540	0	1,311,158,608	1,397,356,148
Total	**8,076,981,781**	**2,815,191,764**	**8,227,765,579**	**19,119,939,124**
Adjustments	(96,236,521)	(1,034,486,832)	175,009,007	(955,714,346)
Depreciation (as per Statement of Financial Performance)	0	(268,936,969)	(1,015,007,294)	(1,283,944,263)
Carrying Amount, Dec. 31, 2019 (as per Statement of Financial Position)	**7,980,745,260**	**1,511,767,963**	**7,387,767,292**	**16,880,280,515**

As mentioned in Note 3.6 b, PSALM followed COA Circular No. 2017-04 issued on December 13, 2017, which now requires the adoption of the cost model for all classes of PPE, as oppose to the previous manner of using the appraised value in reporting PPE. The new carrying amount of the NPC-transferred assets is as follows:

NPC-Transferred Assets	Land	Buildings & Other Structures	Machinery & Equipment	Total
Gross Cost (Asset Account Balance per Statement of Financial Position)	**7,980,745,260**	**13,382,951,383**	**98,115,342,341**	**119,479,038,984**
Accumulated Depreciation	0	(11,871,183,420)	(90,727,575,049)	(102,598,758,469)
Accumulated Impairment Losses	0	0	0	0
Carrying Amount, December 31, 2019 (as per Statement of Financial Position)	**7,980,745,260**	**1,511,767,963**	**7,387,767,292**	**16,880,280,515**

9.1 Service Concession Assets

This account represents the total computed capacity fees of remaining Build-Operate-Transfer (BOT) projects for the duration of the cooperation period, net of accumulated amortization, as follows:

Particulars	Total Capacity Fee	Accumulated Amortization	Net
Kalayaan 2 Unit 3	17,387,881,744	6,991,377,451	10,396,504,293
Kalayaan 2 Unit 4	17,387,881,743	6,991,377,451	10,396,504,292
Mindanao Coal Fired 1	13,738,656,531	7,265,948,790	6,472,707,741

Particulars	Total Capacity Fee	Accumulated Amortization	Net
Mindanao Coal Fired 2	13,660,516,257	7,133,855,290	6,526,660,967
Total	**62,174,936,275**	**28,382,558,982**	**33,792,377,293**

9.2 Construction Work in Progress

Construction Work-In-Progress (CWIP) totaling to P1,622,328,916 represents the cost of the uprating project in Agus VI HEPP (Units 1 and 2) and various construction of structures in the Mindanao Generation Office in the amount of P1,498,350,562 and P123,978,354, respectively. This will form part of the NPC-transferred assets once the project is completed and unitized.

9.3 Leasehold Improvements

In addition to the foregoing, PSALM incurred leasehold improvements amounting to P50,960,119 for its new office located at 24th Floor Vertis North Corporate Center 1, Astra corner Lux Drives, North Avenue, Quezon City 1105.

All in all, the total property, plant and equipment as of December 31, 2019, net of accumulated depreciation, is P52,374,132,332.

Particulars	As at December 31, 2019
PSALM-Acquired Assets, Net	39,651,516
NPC-Transferred Assets, Net	16,880,280,515
Service Concession Assets, Net	33,792,377,293
Construction Work in Progress	1,622,328,916
Leasehold Improvements, Net	39,494,092
Total	**52,374,132,332**

10. INTANGIBLE ASSETS

Particulars	2019			2018		
	Computer Software	Other Intangible Assets	Total	Computer Software	Other Intangible Assets	Total
Carrying Amount, January 1	**1,291,786**	**0**	**1,291,786**	**0**	**0**	**0**
Additions-Purchased/Acquired thru exchange on non-exchange transaction	0	0	**0**	1,291,786	0	**1,291,786**
Total	**1,291,786**	**0**	**1,291,786**	**1,291,786**	**0**	**1,291,786**
Amortization recognized (As per Statement of Financial Performance)	(2,607,107)	0	**(2,607,107)**	0	0	**0**
Other Changes	12,924,242	0	12,924,242	0	0	**0**
Total	**11,608,921**	**0**	**11,608,921**	**1,291,786**	**0**	**1,291,786**

Particulars	2019			2018		
	Computer Software	Other Intangible Assets	Total	Computer Software	Other Intangible Assets	Total
Gross Cost (Balance per Statement of Financial Position)	**26,946,509**	**0**	**26,946,509**	**1,291,786**	**0**	**1,291,786**

Accumulated Amortization (including accumulated impairment loss)	15,337,588	0	15,337,588	0	0	0
Carrying Amount, December 31 (As per Statement of Financial Position)	**11,608,921**	**0**	**11,608,921**	**1,291,786**	**0**	**1,291,786**

11. OTHER ASSETS

Particulars	2019			2018		
	Current	Non-Current	Total	Current	Non-Current	Total
Advances	268,561	0	**268,561**	460,250	0	**460,250**
Prepayment	22,865,778,386	0	**22,865,778,386**	21,119,182,128	0	**21,119,182,128**
Deposits	23,023,769	0	**23,023,769**	23,068,941	0	**23,068,941**
Restricted Fund	0	4,853,237,969	**4,853,237,969**	0	5,593,519,364	**5,593,519,364**
Others	9,054,387,685	287,215,621	**9,341,603,306**	9,194,910,282	143,598,274	**9,338,508,556**
Total	**31,943,458,401**	**5,140,453,590**	**37,083,911,991**	**30,337,621,601**	**5,737,117,638**	**36,074,739,239**

12. FINANCIAL LIABILITIES

12.1 Payables

Particulars	2019			2018		
	Current	Non-Current	Total	Current	Non-Current	Total
Payables						
Accounts Payable	15,424,076,593	0	**15,424,076,593**	14,092,693,452	0	**14,092,693,452**
Due to Officers and Employees	79,199,703	0	**79,199,703**	101,622,466	0	**101,622,466**
Interest Payable	1,620,208,820	0	**1,620,208,820**	1,821,238,249	0	**1,821,238,249**
Service Concession Arrangement Payable	38,034,707,507	134,618,956,444	**172,653,663,951**	39,505,096,046	174,647,641,957	**214,152,738,003**
Total	**55,158,192,623**	**134,618,956,444**	**189,777,149,067**	**55,520,650,213**	**174,647,641,957**	**230,168,292,170**

As of December 31, 2019, the Corporation still has an outstanding payable due to Southern Philippines Power Corporation (SPPC) pursuant to Supreme Court's Decision in G.R. No. 219627 amounting to P357 million.

Service Concession Arrangement Payable due to the IPP proponent representing Capital Recovery Fees of the BOT power plants during the cooperation period indicated in the BOT contracts. This account also includes Fixed Cost payable to BOT plants under IPPAA.

12.2 Bills/Bonds/Loans Payable

This account pertains to outstanding financial obligations, which consist mainly of domestic and foreign borrowings. The details of the account are as follows:

Particulars	2019		2018	
	Current	Non-Current	Current	Non-Current
Bonds Payables-Domestic	700,000,000	15,050,000,000	175,000,000	15,750,000,000
Bond Issue Cost – Domestic	(20,576,943)	(43,028,009)	(4,563,959)	(78,422,667)
Net Value	**679,423,057**	**15,006,971,991**	**170,436,041**	**15,671,577,333**

Particulars	2019		2018	
	Current	Non-Current	Current	Non-Current
Bonds Payables-Foreign	11,583,635,000	100,700,333,776	51,774,229,864	116,303,237,696
Discount on Bonds Payable-Foreign	(388,227,537)	(151,846,847)	(32,128,338)	(635,013,760)
Premium on Bonds Payable-Foreign	0	0	590,202	2,164,041
Bond Issue Cost – Foreign	(49,534,559)	(198,567,196)	(18,990,763)	(303,738,671)
Net Value	**11,145,872,904**	**100,349,919,733**	**51,723,700,965**	**115,366,649,306**
Loans Payable - Domestic	20,650,000,000	69,637,500,000	8,250,000,000	73,287,500,000
Loan-Related Cost	(40,566,163)	(17,439,286)	(9,262,937)	(87,511,666)
Net Value	**20,609,433,837**	**69,620,060,714**	**8,240,737,063**	**73,199,988,334**
Loans Payable - Foreign	**8,388,007,450**	**47,468,511,170**	**15,842,396**	**39,605,985**
Other Bills/Bonds/Loans Payables	**14,170,706**	**118,381,565**	**5,295,089**	**118,381,565**
Total	**40,836,907,954**	**232,563,845,173**	**60,156,011,554**	**204,396,202,523**

The current portion of the ***Other Bills/Bonds/Loans Payables*** pertains to the guarantee fee payable to the Asian Development Bank (ADB) for the Nomura Bond issued back in December 2002.

13. INTER-AGENCY PAYABLES

Particulars	2019		2018	
	Current	Non-Current	Current	Non-Current
Due to BIR	682,210,866	0	711,734,642	0
Due to GSIS	157,162	0	6,764,401	0
Due to Pag-IBIG	34,729	0	96,696	0
Due to PhilHealth	375,175	0	251,981	0
Due to Government Corporations	1,805,161,525	0	1,805,161,525	0
Due to Subsidiaries/Joint Venture/Associates/Affiliates	100,629,393,238	0	101,931,070,524	0
Due to Treasurer of the Philippines	39,741,548,658	0	38,402,164,934	0
Income Tax Payable	305,893,602	0	1,404,154,627	0
Total	**143,164,774,955**	**0**	**144,261,399,330**	**0**

Due to Government Corporations corresponds to the outstanding Assumed Rural Electrification Program (REP) Loans or financial obligations of the electric cooperatives (ECs) to the National Electrification Administration (NEA) and other government agencies incurred for the purpose of financing the REP that was assumed by PSALM as provided in Section 60 of the EPIRA.

Section 60 of the EPIRA provides that all outstanding financial obligations of the ECs to the NEA and other government agencies incurred for the purpose of financing the REP shall be assumed by PSALM in accordance with the program approved by the President of the Philippines within one year from the effectivity of the Act which shall be implemented and completed within three years from the effectivity of the Act. Section 2, Rule 31 of the Implementing Rules and Regulations (IRR) of the EPIRA states that the assumption covers all outstanding REP-related financial obligations of the ECs as of June 26, 2001.

The Act also provides that ERC shall ensure a reduction in the rates of ECs commensurate with the resulting savings due to the removal of the amortization payments of their loans. However, any EC that shall transfer ownership or control of its assets, franchise or operations within five years shall repay PSALM the total debts including accrued interests thereon.

To carry out the aforementioned objective and that of Executive Order (EO) No. 119, Restructuring Program for Electric Cooperatives, PSALM and NEA entered into a Memorandum of Agreement (MOA) on October 3, 2003 to lay down the operational legal framework upon which the financial obligations of ECs to NEA shall be lawfully assumed by PSALM. Article IV of the MOA provides that repayment by PSALM to NEA of the assumed loans shall be for the period of ten years in accordance with the amortization schedule as may be mutually agreed by the parties.

The condonation was subject to compliance with certain conditions required under EO No. 119. On September 2, 2006, EO 460 was issued amending EO 119 giving retroactive effect to the assumption by PSALM of the rural electrification loan obligations of the ECs to NEA and other government agencies.

PSALM has paid a total of P16.27 billion out of the P18.07 billion assumed rural electrification loans of ECs from NEA, other government agencies and Local Government Units (LGUs), leaving a total outstanding balance of P1.80 billion as of December 31, 2019.

However, as to the assumed loans of ECs from NEA, it was eventually discovered that even before entering into the MOA (during the period June 27, 2001 up to March 3, 2003), NEA already collected P2.22 billion from ECs for the corresponding amortizations interest/surcharges of the loans assumed by PSALM. These collections effectively decreased the condoned REP amount. Thus, with the payment of P15.82 billion and P2.22 billion by PSALM and ECs, respectively, to NEA, the condoned REP loan amount with NEA has been fully served.

Due to the Subsidiaries/Joint Venture/Associates/Affiliates corresponds to the payments received by PSALM from the National Grid Corporation of the Philippines (NGCP) for the grant of the concession to manage the transmission business of TransCo. The initial amount set up represents the payments received from NGCP for the years 2009 to 2012.

This account will be offset by: (i) any remittances made by PSALM to TransCo; (ii) the receipt of dividends from TransCo; and (iii) the reduction in value of TransCo assets, represented by the amount of depreciation.

Due to Treasurer of the Philippines corresponds to the advances made by the National Government in payment of the purchased power from NIA-Casecnan, advances for NPC debt servicing, including guarantee fees.

14. TRUST LIABILITIES

Particulars	2019		2018	
	Current	Non-Current	Current	Non-Current
Trust Liabilities	7,444,031,281	0	6,992,386,337	0
Guaranty/Security Deposits	1,884,713,131	0	1,896,946,393	0
Trust Liabilities	**9,328,744,412**	**0**	**8,889,332,730**	**0**

Trust liabilities consists of the forfeited performance bond of South Premiere Power Corporation (SPPC) (see Note 32.2), the Universal Charge being administered by the Corporation intended for the purposes identified under the EPIRA, and the pass-through spot revenues of Unified Leyte Strip Owners.

15. DEFERRED CREDITS/UNEARNED INCOME

Particulars	2019		2018	
	Current	Non-Current	Current	Non-Current
Output Tax Payable	9,865,094,397	0	7,970,025,301	0
Deferred finance lease revenue	2,600,573,721	5,833,952,256	2,600,573,721	8,434,525,978
Other deferred credits	0	14,659,599,785	0	19,068,497,329
Other unearned revenue/income	6,993,415,969	24,391,871,050	2,713,889,971	17,640,284,807
Total	**19,459,084,087**	**44,885,423,091**	**13,284,488,993**	**45,143,308,114**

Deferred Finance Lease Revenue

This account represents the difference between the lease receivable and the dropped asset resulting from the privatization of IPP contracts through the appointment of an IPP Administrator. This is equally amortized over the term of the IPPA Agreement.

In previous years, PSALM reported this as a contra asset account that reduces its Lease Receivables (formerly Receivable from IPPAs). But with the adoption of the PPSAS, this is now reported under Deferred Credits/Unearned Income.

Other Deferred Credits

This account consists of unearned land lease rentals and Deferred Income from Rate Regulated Activities.

Other Unearned Revenue/Income

This account includes Deferred Income from Universal Charge for Stranded Contract Cost (SCC) and Stranded Debt (SD).

Deferred income from UC-SCC refers to the unearned portion of the amount of UC-SCC that has been approved by the ERC through its decision in ERC Case No. 2015-139 RC.

Filed on July 24, 2015 by PSALM, the said petition sought to recover the stranded contract costs of NPC for the calendar year 2014. On June 10, 2019, the ERC approved PSALM's petition with modification for CY 2014 amounting to P5.117 billion using the same rate of P0.0543 per kilowatt-hour effective April 2019. As of December 31, 2019, this account has a balance of P2.56 billion, as shown below:

Particulars	Amount
Total UC-SCC Receivable	5,117,060,648
Less: Earned in 2019	(2,558,530,324)
Unearned portion as of December 31, 2019	**2,558,530,324**

Deferred income from UC-SD, on the other hand, refers to the unearned portion of the amount of UC-SD that has been approved by the ERC through its decision dated June 27, 2017 and March 29, 2019 in ERC Case No. 2013-195 RC.

Filed on September 30, 2013 by PSALM, ERC Case No. 2013-195 RC sought ERC's approval for the True-Up Adjustments of NPC's Stranded Debt portion of the UC from 2011 to 2012. As of December 31, 2019, this account has a balance of P24.61 billion, as shown below:

Particulars	Amount
Unearned income from Recovery of UC-SD, January 1, 2018	20,354,174,777
Add: UC-SD approved in March 2019	12,477,218,645
Less: Earned in 2019	(4,004,636,727)
Unearned portion as of December 31, 2018	**28,826,756,695**

16. PROVISIONS

Particulars	2019	2018
Other Provisions	8,404,000,000	8,404,000,000
Provisions	**8,404,000,000**	**8,404,000,000**

The above provision was recognized by PSALM in 2017 to reflect the Supreme Court's Resolution dated November 21, 2017 under G.R. No. 156208 filed by the NPC Drivers and Mechanics Association (DAMA).

Since the Resolution ruled that "petitioners who were neither rehired by the NPC or absorbed by PSALM or Transco pursuant to the 2003 reorganization and subsequently employed in the private sector shall be entitled to full back wages", PSALM accordingly recognized a provision for the claims of said former NPC employees who were not rehired. The amount recognized as provision totaled P8.40 billion, consisting of P4.70 billion principal and P3.70 billion interest as of December 31, 2017. (See Note 32.1)

17. ADJUSTMENTS-CAPITAL FROM ASSET-DEBT TRANSFER

The details of the movement to this account are accounted as follows:

Particulars	2019	2018
Closing of the transferred receivable from MWSS	(5,198,293,631)	0
Difference between transferred asset and assumed liabilities	0	(15,460,992,029)
Derecognition of TransCo's Appraisal Surplus	0	(64,528,678,859)
Recognition of movement in TransCo's Equity from PSALM	33,037,124	1,647,169,759

Particulars	2019	2018
Derecognition of the Transferred Input Tax	0	(20,910,603,246)
Recognition of GenCo assets not included in the transferred accounts	224,619,321	38,521,673
Cleaning of the transferred power receivable accounts	138,640,862	(273,093,226)
Recognition of Payable to Sem-Calaca prior asset transfer	(902,247)	(247,477,258)
Provision for DAMA (NPC)	(463,937)	(8,404,000,000)
Total	**(4,803,362,508)**	**(108,139,153,186)**

The transfer of asset and debt accounts from NPC to PSALM and the separation of books of TransCo from NPC were implemented in October 2008 with full effect in December 2008. The legality of the asset-debt transfer was affirmed with the issuance by the Office of the Government Corporate Counsel of Opinion No. 247, Series of 2008, dated October 21, 2008, which states that the clear intent of the EPIRA is the transfer of ownership of the assets of NPC to PSALM.

Moreover, the account balances transferred were the amounts recorded in NPC books. Subsequently, there were no thorough analyses, and substantiation were not fully done due to unavailability of necessary documents. As such, the account balances added to PSALM are subject to further reconciliation, and these will be returned to their proper accounts once reconciled.

18. SERVICE AND BUSINESS INCOME

PSALM's service and business income consist of the following:

Particulars	2019	2018
Service Income		
Other Service Income	1,117,410	1,741,071
Total Service Income	**1,117,410**	**1,741,071**
Business Income		
Rent/Lease Income	162,769,905	41,603,124
Power Supply System Fees	40,009,794,948	35,253,880,253
Income from Hostels/Dormitories and Other Like Facilities	5,938,052	7,209,945
Dividend Income	4,803,959,408	7,086,096,187
Interest Income	563,158,075	1,919,120,925
Fines and Penalties-Business Income	722,510,821	455,589,024
Management Fees	964,286	1,071,429
Other Business Income	37,864,013,508	29,924,884,672
Total Business Income	**84,133,109,003**	**74,689,455,559**
Total	**84,134,226,413**	**74,691,196,630**

Other Service Income pertains to participation fees for the bidding documents.

Rent/Lease Income refers to earned rentals from investment properties under a Land Lease Agreement (LLA).

Power Supply System Fees represents income derived from the operations of its remaining plants (otherwise referred to as Power Generation in preceding years)

Income from Hostels/Dormitories and Other Like Facilities consists of fees charged for the use of accommodation, and other similar facilities within NPC Hotel and Resort Village.

Dividend Income pertains to TransCo's remittance of profits as a wholly owned subsidiary of PSALM pursuant to Section 8 of the EPIRA.

Dividend income for 2019 covers four (4) quarters (from the 4th quarter of 2018 to the 3rd quarter of 2019) of TransCo's profits, unlike in 2017 when it covered only five (5) quarters (from the 3rd quarter of 2017 to the 3rd quarter of 2018).

Interest Income pertains mainly to the interest earned, net of taxes, on placements and regular deposits.

Fines and Penalties-Business Income includes interest income from overdue power receivables and from late payments of IPP Administrators for Monthly and Generation billings.

Management Fees refers to the fixed monthly fee per strip to cover the administrative costs in the trading and settlement of the strips in the Wholesale Electricity Spot Market (WESM).

Other Business Income consists of income not falling under any of the specific business income accounts, such as those derived from fuel related transactions. In the case of PSALM, this also includes income derived from the operations of plants under an IPP Administration Agreement.

19. SHARES, GRANTS AND DONATION

This pertains to the Corporation's share in the Universal Charge (UC) for the recovery of both UC-Stranded Contract Cost (UC-SCC) and UC-Stranded Debt (UC-SD), as follows:

Particulars	2019	2018
Share in Universal Charge-SCC	2,558,530,324	13,698,280,000
Share in Universal Charge-SD	4,004,636,727	2,713,889,970
Total	**6,563,167,051**	**16,412,169,970**

20. GAINS

In 2019, this refers to the various sale of lands in La Union, Ilocos Norte, Camarines Sur, Cebu, and Misamis Oriental. While in 2018, this consists of Gain on sale of the optioned assets under the Land Lease Agreement for the Limay Combined Cycle Thermal Power Plant and Pantabangan Hydroelectric Power Plant.

Particulars	2019	2018
Gain on Sale of Disposed Assets	1,378,882,160	2,146,120
Total	1,378,882,160	**2,146,120**

21. PERSONNEL SERVICES

This account consists of the following:

21.1 Salaries and Wages

Particulars	2019	2018
Salaries and Wages - Regular	115,122,814	107,233,044
Salaries and Wages - Contractual	944,280	847,035
Total	**116,067,094**	**108,080,079**

21.2 Other Compensation

Particulars	2019	2018
Personnel Economic Relief Allowance (PERA)	3,851,621	3,937,791
Representation Allowance (RA)	4,310,625	4,451,875
Transportation Allowance (TA)	4,077,625	4,249,375
Clothing/Uniform Allowance	1,445,501	997,250
Honoraria	1,102,983	560,000
Overtime and Night Pay	64,529	10,974
Year End Bonus	9,856,954	17,814,358
Cash Gift	3,000	825,500
Other Bonuses and Allowances	852,500	392,500
Total	**25,565,338**	**33,239,623**

21.3 Other Personnel Benefits

Particulars	2019	2018
Terminal Leave Benefits	2,152,202	801,847
Other Personnel Benefits	24,620,243	25,296,498
Total	**26,772,445**	**26,098,345**

21.4 Personnel Benefit Contributions

Particulars	2019	2018
Retirement and Life Insurance Premiums	13,933,995	12,941,861
Pag-IBIG Contributions	192,516	199,747
PhilHealth Contributions	1,019,840	1,037,618
Employees Compensation Insurance Premiums	193,872	198,500
Total	**15,340,223**	**14,377,726**

22. MAINTENANCE AND OTHER OPERATING EXPENSES (MOOE)

22.1 Generation, Transmission and Distribution Expenses

For PSALM, this account is used to report expenses that can be associated with the generation of power by remaining plants, to wit:

Particulars	2019	2018
Purchased Power Costs	22,112,906,162	22,015,776,388
Energy Purchased from PEMC	5,986,738,422	4,618,860,152
Other OPEX	1,161,444,483	1,202,698,751

Particulars	2019	2018
OMSC	181,484,566	257,329,304
Metering/Transmission Service	38,136,209	110,634,287
Expenses related to sold plants	15,503,938	15,184,979
Total	**29,496,213,780**	**28,220,483,861**

Purchased power costs include energy fee, capital recovery fee, and O&M fee of remaining plants due to IPP proponents contracted by NPC.

***Energy purchased from* PEMC** refers to electricity outsourced from the Philippine Electricity Market Corporation (PEMC) to sustain the operations of power plants or augment power supply when a plant's generated output is insufficient to meet consumers' electricity demand.

Operation and Maintenance Service Contract (OMSC) is entered into by PSALM with the winning bidder/contractor to operate and maintain the generating assets prior to its privatization. The contractor shall be responsible for the operation, maintenance and management of the plant facility in accordance with the manual of good engineering standards and practices, environmental regulations and other pertinent national and local laws.

22.2 Supplies and Materials Expenses

Particulars	2019	2018
Office Supplies Expenses	2,084,811	1,963,445
Drugs and Medicines Expenses	0	0
Fuel, Oil and Lubricants Expenses	25,944,753,926	24,354,910,515
Semi-Expendable Machinery and Equipment Expenses	14,199	0
Other Supplies and Materials Expenses	192,950	741,663
Total	**25,947,045,886**	**24,357,615,623**

***Fuel, Oil and Lubricants* Expenses** consists of the Natural Gas and Diesel pertaining to the operations of plants under an IPPA AA and the fuel incurred in the operation of the Malaya Thermal Power Plant.

22.3 Other Maintenance and Operating Expenses

Particulars	2019	2018
Advertising, Promotional and Marketing Expenses	3,729,687	4,610,899
Printing and Publication Expenses	0	6,980
Representation Expenses	6,723,448	5,314,599
Rent/Lease Expenses	31,602,203	37,515,894
Membership Dues and Contributions to Organizations	0	259,539
Subscription Expenses	9,132,261	2,561,294
Donations	49,279	303,983
Documentary Stamps Expenses	559,392,140	285,000,000
Other Maintenance and Operating Expenses	5,048,356,468	5,026,044,179
Total	**5,658,985,486**	**5,361,617,367**

Other Maintenance and Operating Expense includes energy fees pertaining to the operations of plants under IPPA AA.

22.4 Taxes, Insurance Premiums and Other Fees

Particulars	2019	2018
Taxes, Duties and Licenses	450,188,496	364,739,324
Fidelity Bond Premiums	989,405	414,411
Insurance Expenses	55,993,817	59,327,562
Total	**507,171,718**	**424,481,297**

22.5 Professional Services

Particulars	2019	2018
Legal Services	0	0
Auditing Services	13,014,619	1,378,907
Consultancy Services	22,041,221	4,983,607
Other Professional Services	33,209,073	31,167,035
Total	**68,264,913**	**37,529,549**

22.6 General Services

Particulars	2019	2018
Janitorial Services	7,785,386	10,793,818
Security Services	4,466,036	8,334,232
Total	**12,251,422**	**19,128,050**

22.7 Traveling Expenses

Particulars	2019	2018
Traveling Expenses-Local	8,609,964	9,603,834
Traveling Expenses-Foreign	0	739,113
Total	**8,609,964**	**10,342,947**

22.8 Communication Expenses

Particulars	2019	2018
Postage and Courier Services	905,802	860,197
Telephone Expenses	2,356,586	2,201,920
Internet Subscription Expenses	1,894,412	3,642,760
Cable, Satellite, Telegraph and Radio Expenses	0	0
Total	**5,156,800**	**6,704,877**

22.9 Repairs and Maintenance

Particulars	2019	2018
Repairs and Maintenance-Buildings and Other Structures	26,668	343,500
Repairs and Maintenance-Machinery and Equipment	3,101,533	3,080,908
Repairs and Maintenance-Transportation Equipment	953,102	1,053,144
Total	**4,081,303**	**4,477,552**

22.10 Utility Expenses

Particulars	2019	2018
Water Expenses	337,145	591,987
Electricity Expenses	9,353,237	3,264,206
Total	**9,690,382**	**3,856,193**

22.11 Training and Scholarship Expenses

Particulars	2019	2018
Training Expenses	1,878,289	1,768,442
Total	**1,878,289**	**1,768,442**

22.12 Confidential, Intelligence and Extraordinary Expenses

Particulars	2019	2018
Extraordinary and Miscellaneous Expenses	649,769	644,228
Total	**649,769**	**644,228**

23. FINANCIAL EXPENSES

This consists of the following:

Particulars	2019	2018
Interest Expenses	17,740,810,925	18,091,779,437
Guarantee Fees	2,440,053,212	2,225,282,938
Bank Charges	239,766	439,224
Other Financial Charges	480,174,389	146,372,215
Total	**20,661,278,292**	**20,463,873,814**

24. NON-CASH EXPENSES

The Corporation recognizes the following non-cash expenses:

Depreciation

Particulars	2019	2018
Depreciation-Infrastructure Assets	1,096,219,925	1,416,326,323
Depreciation-Machinery and Equipment	3,141,291	8,117,428
Depreciation-Transportation Equipment	840,181	1,285,714
Depreciation-Furniture, Fixtures and Books	56,435	96,741
Depreciation-Leased Assets Improvements	11,466,027	0
Depreciation-Service Concession Assets	1,959,106,854	1,959,106,855
Depreciation-Other Property, Plant & Equipment	285,665,295	346,715,822
Total	**3,356,496,008**	**3,731,648,883**

Impairment Loss

Particulars	2019	2018
Impairment Loss-Loans and Receivables	1,952,368,033	2,759,968,253
Impairment Loss-Inventories	974,728	2,983,669
Impairment Loss-Intangible Assets	122,088	885,967

Particulars	2019	2018
Total	**1,953,464,849**	**2,763,837,889**

25. FINANCIAL ASSISTANCE/SUBSIDY/CONTRIBUTION

Particulars	2019	2018
Subsidy from National Government	0	0
Less: Financial Assistance to Local Government Units	(187,013,064)	174,957,178
Financial Assistance/Subsidy/Contribution-Others	(259,932,857)	253,014,800
Total	**(446,945,921)**	**(427,971,978)**

26. NON-OPERATING INCOME, GAIN OR LOSSES

Non-Operating Income/Gain

Particulars	2019		2018	
Gain on Foreign Exchange (FOREX):				
Realized	1,549,023,033		1,443,257,505	
Unrealized	12,397,868,583	13,946,891,616	7,296,842,030	8,740,099,535
Income from Rate Regulated Business		468,431,146		403,082,498
Total		**14,415,322,762**		**9,143,182,033**

Non-Operating Loss

Particulars	2019		2018	
Loss on Foreign Exchange (FOREX):				
Realized	952,005,272		2,181,988,053	
Unrealized	4,663,446,857	5,615,452,129	20,373,509,34	22,555,497,398
Loss from Rate Regulated Business		0		0
Other Losses		0		27,979,883
Total		**5,615,452,129**		**22,583,477,281**

The following are the exchange rates used to restate outstanding balances at financial reporting date:

	2019	2018	Gain
Philippine Peso (P) : US Dollar ($)	**50.744**	52.7240	1.9800
Philippine Peso (P):Japanese Yen (¥)	**0.4629**	0.4751	0.0122

27. SERVICE CONCESSION ARRANGEMENTS

This account represents the total computed capacity fees of remaining Build-Operate-Transfer (BOT) projects for the duration of the cooperation period of Kalayaan 2 Units 3 and 4 and Mindanao Coal Units 1 and 2, net of accumulated amortization, as follows:

Particulars	2019	2018
Service concession assets recognized	62,174,936,275	62,174,936,275
Accumulated depreciation to date	(28,382,558,982)	(26,423,452,128)
Net carrying amount	**33,792,377,293**	**35,751,484,147**

Relative to the foregoing, the Corporation has corresponding service concession liability due to the IPP proponent representing capital cost recovery fees of the BOT power plants during the cooperation period indicated in the BOT contracts, as follows:

Particulars	2019	2018
Service Concession Arrangement Payable	**172,653,663,950**	**214,152,738,003**

28. SUPPLEMENTARY INFORMATION REQUIRED IN TAXES, DUTIES AND LICENSE FEES UNDER REVENUE REGULATIONS NO. 15-2010

In compliance with the requirements set forth by the Bureau of Internal Revenue (BIR) through Revenue Regulations (RR) No. 15-2010, below are the information on the taxes, duties, and license fees paid during the taxable year 2019.

A. Vatable Revenues and Output Tax:

Particulars	Net Sales/ Receipts	Output VAT
Vatable sales	30,880,198,319	3,705,623,798
Sales to government	80,780,263	9,693,632
Zero-rated sales	61,430,595,004	0
Exempt sales	32,950,018,026	0
Total	**125,341,591,612**	**3,715,317,430**

The Corporation is engaged in the sale of services the collection of which are classified into the following:

1. ***Vatable sales*** **–** these are sales of electricity using non-renewable energy.

   The enactment of Republic Act (RA) 9337 on July 1, 2005 placed the electric power industry in the VAT System. Section 6 of this RA, amending Section 108 of the National Internal Revenue Code (NIRC), includes sales of electricity by generation companies, transmission, and distribution companies in the definition of the phrase “sale or exchange of services” to be subjected to VAT.

2. ***Sales to government*** **–** these are sales of electricity to government entities who subject their payment to PSALM to 5% withholding final VAT.

3. ***Zero-rated sales*** **–** the sale of electricity using renewable energy is VATable at 0%. Section 108(B)(7) of the NIRC, as amended by Section 6 of RA 9337, has identified such sale as subject to zero percent (0%) rate, to wit:

   > *“Sale of power or fuel generated through renewable sources of energy such as, but not limited to, biomass, solar, wind, hydropower, geothermal, ocean energy, and other emerging energy sources using technologies such as fuel cells and hydrogen fuels.”*

B. Purchases and Input Taxes:

Particulars	Input VAT
Balance at January 1, 2019	19,491,328,627
Add: Input tax on depreciation deferred from previous period	265,025,724
Total balance at January 1, 2019	**19,756,354,351**
Add: current year's domestic purchases/payments for:	
Purchase of capital goods not exceeding P1 million	0
Purchase of capital goods exceeding P1 million	97,745,473
Domestic goods	160,296,382
Imported goods	0
Services	4,769,867,854
Services rendered by non-residents	241,195
Zero-rated/Non-VAT	33,127,622,277
Subtotal	**38,155,773,181**
Total Input	**24,784,505,255**
Less: Deferred depreciation	266,987,242
Total allowable input tax for TY 2019	**24,517,518,013**
Balance at December 31, 2019	**(20,802,200,583)**

C. The Corporation has no Customs duties to report for the year.

D. The Corporation has no excise tax to report for the year.

E. The Corporation has incurred P559,392,140 of documentary stamp taxes for the year.

F. Withholding Taxes:

Particulars	Amount
VAT and other percentage taxes	2,243,190,314
Final withholding taxes	1,548,384,308
Expanded withholding taxes	1,894,998,302
Withholding taxes on compensation and benefits	20,488,215
Total	**5,707,061,139**

G. Tax proceedings involving PSALM

Considering the nature of pending tax cases and difficulty in predicting successes in favor of PSALM, losses are recorded only when they are probable to be incurred and the amount of loss can be reasonably estimated.

On August 08, 2017, the Supreme Court En Banc laid down its decision penned down by Justice Antonio T. Carpio under G.R. 198146 in the case entitled "PSALM as Petitioner versus the Commissioner of the Internal Revenue as Respondent" ordering among others that:

> *"(T)he sale of the power plants… is not subject to VAT since the sale was made pursuant to PSALM' s mandate to privatize NPC assets, and was not undertaken in the course of trade or business. In selling the power plants, PSALM was merely exercising a governmental function for which it was created under the EPIRA law (Last paragraph, page 24, G.R. 198146)."*

On July 03, 2019, the Supreme Court Second Division ruled PSALM is not liable to pay P9.57 billion in value-added taxes (VAT) assessed by the Bureau of Internal Revenue (BIR) on the sale of its power generating assets under G.R. 226556. The Court granted PSALM's petition for review and reversed the Court of Tax Appeals (CTA) decision.

These decisions will have great financial impact in favor of PSALM in cases involving BIR assessments of the Value-Added Tax reported by PSALM in the previous years.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Objectives and Policies

PSALM has significant exposure to the following financial risks primarily from its use of financial instruments:

Credit Risk, which is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation manages its credit risk mainly through the application of transaction limits and close risk monitoring.

The Corporation conducts regular internal control reviews to monitor the granting of credit and manage credit exposures.

Foreign Currency Risk, which results from the significant movements in foreign exchange rates that adversely affect the Corporation's foreign currency-denominated transactions. The Corporation's risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity.

Interest Rate Risk, which is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Corporation's exposure to changes in interest rates relates primarily to the Corporation's long-term borrowings and investments.

Liquidity Risk, which pertains to the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

PSALM's liability management program includes: (i) refinancing to ensure that the Corporation will meet all its outstanding debts and contractual obligations; (ii) hedging to mitigate foreign currency and interest risks; (iii) tariff rate application to update the cost of electricity generation to its current level and to implement the Universal Charge pursuant to the EPIRA; and (iv) monetization to guard against liquidity risks and match privatization cash flows with maturing debts.

30. RELATED PARTY TRANSACTIONS

30.1 Key Management Personnel

The key management personnel of PSALM Corporation are the President and Chief Executive Officer (CEO), the members of the PSALM Board of Directors, and the members of the Executive Committee (Execom).

In accordance with Section 52 of the EPIRA, the PSALM Board of Directors is composed of the Secretary of Finance as the Chairman, the Secretary of Budget and Management, the Secretary of the Department of Energy, the Director-General of the National Economic and Development Authority, the Secretary of the Department of Justice, the Secretary of the Department of Trade and Industry and the President and CEO of PSALM.

30.2 Key Management Personnel Remuneration and Compensation

The aggregate remuneration received by members of the Board and Execom for CY 2019 is as follows:

Particulars	Amount
Board of Directors:	
Per Diem and Reimbursable Expenses	0
Execom:	
Salaries	7,591,417
Allowances and Benefits	4,441,046
Total	12,032,463

31. ORGANIZATIONAL DEVELOPMENT AND KEY UNDERTAKINGS

31.1 Financial Management

a. Financial Performance

PSALM's 2019 full-year results present that there was a Surplus from Current Operations for the year. Although it dropped by 24% from PhP5.516 Billion in 2018 to PhP4.199 Billion, the Total Revenue still improved by 1% or PhP0.970 Billion from PhP91.106 Billion in 2018 to PhP92.076 Billion in 2019 through the Company's results of Power Generation, Income from IPPAs, and Sale of Real Estate Assets.

But what principally affected the year's financial performance was the Peso's average performance during the year. Given that the company's financial structure is predominantly denominated in foreign currency (approximately 68%), the implication of the changes in foreign exchange rates has significant bearing to PSALM. In general, the Peso performed better against other currencies and remained stable throughout the year; which in turn, permitted the company to recognize a net forex gain of PhP8.331 Billion. This is a huge improvement compared to a year ago, when the company recognized a net forex loss of PhP13.815 Billion.

All things considered, including the net assistance/subsidy to host communities of PhP0.447 Billion, PSALM reported a net surplus for 2019 of PhP12.246 Billion.

b. Managing Cash Flow

Cash balance in 2019 increased by PhP18.4 Billion, from PhP12.0 Billion in 2018 to PhP30.4 Billion as of December 31, 2019.

Though the Corporation generated PhP52.6 Billion from its operating and investing activities, this proved to be insufficient to cover the PhP108.8 Billion financing activities. Thus, there was a cash deficit of PhP56.2 Billion.

Even with the lower scheduled principal payments for LBP Syndicated Loan, ROP Relending Facility and ROP Onshore Bond totaling PhP21.7 Billion and the PhP1.2 Billion payment in 2018 for the matured loan from Overseas Private Investment Corp., debt servicing still increased by PhP28.5 Billion on account of the PhP51.4 Billion bullet payment in 2019 for the USD1.0 Billion Deutsche/HSBC/Morgan bond.

This led the Corporation to avail a USD1.0 Billion Syndicated Term Loan in May 2019 amounting to PhP57.6 Billion and two 7-yr Term Loans from Land Bank of the Philippines in June and December 2019 amounting to PhP3.0 Billion and PhP14.0 Billion, respectively.

Other notable transactions pertain to the sale of land on Bauang Diesel Power Plant, Aplaya Diesel Power Plant, Cebu Diesel Power Plant and Laoag Diesel Power Plant totaling PhP1.5 Billion, the PhP10 Billion decrease in universal charge collections due to the full recovery in 2018 of the stranded contract costs of NPC for the years 2007 to 2010, the PhP0.7 Billion payment to the National Government's advances for guarantee fees, and the PhP99.9 million settlement of Metropolitan Waterworks and Sewerage System's (MWSS) net claim arising from projects affecting the generation of Angat Hydroelectric Power Plant.

The Corporation's investing activities and foreign exchange effect totaled PhP1.0 Billion, mostly in relation to the maturity of the invested bond.

The following table presents a condensed version of the Statement of Cash Flow:

Particulars	2019	2018
Cash flow from operations		
Proceeds from privatization[1/]	74,657,299,994	68,785,488,899
Operations	(23,001,190,244)	(12,111,541,951)
Cash Flow from operating activities	**51,656,109,750**	**56,673,946,948**

Particulars	2019	2018
Cash flow from financing		
Debt service[2/]	(79,249,865,798)	(49,680,388,821)
BOT lease obligation	(28,869,391,718)	(29,069,510,021)
Payment of advances made by NG	(711,165,000)	0
Cash Flow from financing activities	**(108,830,422,516)**	**(78,749,898,842)**
Cash Flow from Investing activities and FOREX effect	**960,172,683**	**(125,122,136)**
Surplus (deficit)	**(56,214,140,083)**	**(22,201,074,030)**
Other Sources:		
Other receipts	74,589,400,000	24,480,000,000
Cash, beginning balance	12,031,756,850	9,752,830,880
Total other sources	**86,621,156,850**	**34,232,830,880**
Cash balance and Cash Equivalent, end	**30,407,016,767**	**12,031,756,850**

[1/] *Includes proceeds from concession of transmission asset, collections from IPPAs and sale of generation assets*

[2/] *Includes payment of principal debt, interest and all loan related expenses*

c. Handling Financial Obligations (FO)

From the total financial obligations of P449.19 billion at the end of 2018, PSALM was able to make payments of long-term debts amounting to P60.01 billion and payments to IPP BOT proponents of P28.87 billion. Taking into consideration the newly availed loans amounting to PhP74.59 billion and the adjustments/restatements arising from forex impact of P12.88 billion, the total financial obligations stood at P422.01 billion as of December 31, 2019.

Notwithstanding the additional loans for the year, PSALM's outstanding financial obligations (FO), composed of long-term debts and IPP lease obligation, were still reduced by P27.18 billion or 6 percent from the P449.19 billion level in 2018 to P422.01 billion in 2019 as shown below:

Particulars	2019	2018	Inc./(Dec.)
Long-term debts	273,386,582,419	264,546,918,988	8,839,663,431
IPP lease obligation	148,624,850,041	184,642,345,369	(36,017,495,328)
Outstanding FO	**422,011,432,460**	**449,189,264,357**	**(27,177,831,897)**

i. Long-term debts

In 2019, principal debt servicing was three percent higher than in 2018. Notwithstanding payments, debts have grown by P8.84 billion on account of the three (3) additional loans availed amounting to P74.59 billion all in all.

ii. IPP lease obligation

Lease obligation decreased by P36.02 billion or 20%, from P184.64 billion in 2018 to P148.62 billion in 2019. The decline was on account of servicing lease maturities amounting to P28.87 billion in 2019.

d. Approval of Deferred Accounting Adjustment (DAA) for GRAM and ICERA

On March 26, 2012, ERC approved PSALM's petition for the recovery/refund of the P44.7 billion Deferred Accounting Adjustments (DAA) representing recovery of incremental fuel and IPP costs under the 10th to 17th GRAM and incremental costs on foreign currency exchange rate fluctuations under the 15th to 16th ICERA for the Luzon, Visayas and Mindanao Grids, effective March 26, 2012 to April 25, 2012 billing period until the end of the corresponding recovery periods or until such time that the full amount shall have been recovered/refunded, whichever comes earlier. Recovery/refund rate and period are shown in the following table:

Generation Rate Adjustment Mechanism (GRAM)		
Grid	***Rate (₱/kWh)***	***Recovery Period (Months)***
Luzon	0.3267	120
Visayas	0.4847	126
Mindanao	0.0536	54

Incremental Currency Exchange Rate Adjustment (ICERA)		
Grid	***Rate (₱/kWh)***	***Recovery Period (Months)***
Luzon	0.3637	96
Visayas	0.1213	60
Mindanao	(0.0094)	36

In an ERC Order dated June 20, 2017 under ERC Case Nos. 2008-042 RC, 2008-053 RC, 2008-063 RC, 2009-032 RC, 2009-056 RC, 2010-003 RC, 2010-068 RC, 2010-074 RC, 2010-067 RC and 2010-073 RC, the ERC granted with modification PSALM's proposed recovery scheme for the recovery of the approved 10th-17th GRAM and 15th-16th ICERA DAAs in the Decision dated March 26, 2012. The ERC authorized PSALM to implement the approved DAA allocated per customer for a period of sixty (60) months, totaling to P18,426.04 million.

However, in its Order dated October 19, 2017, the ERC resolved to defer the -implementation of the 10th-17th GRAM and 15th-16th ICERA DAAs to January 2018 billing period, pending resolution of issues raised by Private Electric Power Operators Association (PEPOA) and the result of evaluation on PSALM's Compliance dated September 8, 2017.

e. Debt Service Coverage Ratio

Debt service coverage ratio (DSCR) for 2019 was computed at 0.47:1, lower than the 0.72:1 attained in 2018. The decrease was largely due to the PhP51.4 Billion bullet payment of principal debt in 2019 for the USD1.0 Billion Deutsche/HSBC/Morgan bond.

f. Weighted Average Maturity

The Weighted Average Maturity (WAM) of the Corporation as of yearend 2019 stands at 3.70. This means that, on the average, the bulk of PSALM's debts will mature before 2023 ends, or within three (3) years and slightly more than eight (8) months. Notwithstanding the calculated WAM, PSALM has debts maturing in subsequent years, including a loan payable after its corporate life in 2028, which is secured by a principal only swap (POS) hedging transaction.

g. Peso Component of the FO

Of the P442.01 billion outstanding obligations as of December 31, 2019, 25% is denominated in Philippine Peso

h. Collection Efficiency

Collection efficiency for current sales is at 93.5% in 2019.

31.2 PSALM's Privatization Program

a. Generation Assets

As of December 31, 2019, a total of 31 generating plants with a total of 4,601.43 MW of PSALM-owned capacities have been successfully bid out and transferred to private owners.

Generating Plant	Rated Capacity (In MW)	Location	Winning Bidder	Bid Date (mm/dd/yy)	Winning Bid Price (In USD)	Turnover Date (mm/dd/yy)
Power Barge 104	32	Davao City, Davao Del Sur	SPC Power Corporation	04/15/16	$4.66 million	06/30/16
Power Barge 101	32	Bo. Obrero,	Trans-Asia Oil and Energy Development Corporation	10/30/13	$9.31 million	07/08/15
Power Barge 102	32	Iloilo City				
Power Barge 103	32	Subic, Zambales				
Angat HEPP	218	Norzagaray, Bulacan	Korea Water Resources Corporation (K-Water)	04/28/10	$438.97 million	10/31/14
Naga Power Plant	153.1	Colon, Naga, Cebu	SPC Power* Corporation	03/31/14	$30.71 million	09/25/14
Bacon-Manito Geothermal Power Plants	150	Bacon, Sorsogon and Manito, Albay	Bac-Man Geothermal, Inc.	05/05/10	$28.25 million	09/03/10

Generating Plant	Rated Capacity (In MW)	Location	Winning Bidder	Bid Date (mm/dd/yy)	Winning Bid Price (In USD)	Turnover Date (mm/dd/yy)
Power Barge 117	100	Agusan del Norte	Therma Mobile Inc.	07/31/09	$16 million	03/01/10
Power Barge 118	100	Compostela Valley	Therma Marine Inc.	07/31/09	$14 million	02/06/10
Naga Land-Based Gas Turbine Power Plant	55	Colon, Naga City, Cebu	SPC Power Corporation	10/16/09	$1.01 million	01/29/10
Limay Combined Cycle Power Plant	620	Limay, Bataan	Panasia Energy Holdings, Inc.	08/26/09	$13.50 million	01/18/10
Batangas (Calaca) Coal-Fired Thermal	600	Calaca, Batangas	Sem Calaca Power Corp.	07/08/09	$361.71 million	12/03/09
Palinpinon-Tongonan Geothermal Power Plants	305	Valencia, Negros Oriental and Kananga, Leyte	Green Core Geothermal, Inc.	09/02/09	$220 million	10/23/09
Amlan HEPP	0.8	Amlan, Negros Oriental	Amlan Hydroelectric Power Corp. (AHPC)**	12/10/08	$0.23 million	06/24/09
Tiwi-Makban Geothermal Power Plants	747.53	Tiwi, Albay and Laguna/ Batangas	AP Renewables, Inc.	07/30/08	$446.89 million	05/25/09
Panay 1 & 3-Bohol Diesel Power Plants	168.5	Dingle, Iloilo and Tagbilaran, Bohol	SPC Island Power Corporation	11/12/08	$5.86 million	03/25/09
Ambuklao-Binga Hydroelectric Power Complex	175	Bokod and Itogon, Benguet	SN Aboitiz Power Hydro Inc.	11/28/07	$325 million	07/10/08
Masinloc Coal-Fired Thermal Power Plant	600	Masinloc, Zambales	Masinloc Power Partners Co, Ltd.	07/26/07	$930 million	04/17/08

Generating Plant	Rated Capacity (In MW)	Location	Winning Bidder	Bid Date (mm/dd/yy)	Winning Bid Price (In USD)	Turnover Date (mm/dd/yy)
Magat HEPP	360	Ramon, Isabela	SN Aboitiz Power-Magat, Inc.	12/14/06	$530 million	04/25/07
Pantabangan-Masiway HEPPs	112	Pantabangan, Nueva Ecija	First Gen Hydro Power Corp.	09/06/06	$129 million	11/17/06
Cawayan HEPP	0.4	Guinlajon, Sorsogon	Sorsogon II Electric Cooperative, Inc.	09/30/04	$0.41 million	06/30/05
Loboc HEPP	1.2	Loboc, Bohol	Sta. Clara Power Corporation	11/10/04	$1.42 million	06/30/05
Agusan HEPP	1.6	Manolo Fortich, Bukidnon	FG Bukidnon Power Corp.	06/04/04	$1.53 million	03/29/05
Barit HEPP	1.8	Buhi, Camarines Sur	People's Energy Services, Inc.	06/25/04	$0.48 million	01/24/05
Talomo HEPP	3.5	Mintal and Catalunan Pequeño, Davao City	HEDCOR, Inc.	03/25/04	$1.37 million	01/19/05

* *On July 16, 2018, PSALM turned over the power plant to Therma Power Visayas, Inc. (TPVI) in accordance with the Supreme Court's final decision in October 2016*

** *Now Northern Renewable Energy Corp.*

After months of rigid evaluation and validation, PSALM obtained the definitive policy directive from the Department of Energy (DoE) to privatize the 650-megawatt Malaya Thermal Power Plant (MTTP) including its underlying land on an "as-is-where-is-basis," rescinding previous condition to operate the plant as a Must Run Unit for three years after its privatization in view of the plant's depleting condition. After the DoE ascertained that the limited capacity of the plant may not adversely affect the demand-supply situation, PSALM committed to optimally use the remaining 150- megawatt capability of Unit I when needed while the privatization process is ongoing.

On November 22, 2019, PSALM conducted the 2nd round of public bidding which was declared a failure due to only one bid received. On same date and pursuant to the bidding rules, PSALM conducted the negotiated sale with the lone bidder, D.M. Wenceslao and Associates, Inc. However, this was also declared a failure due to the offer received being below the Minimum Offer Price.

On November 27, 2019, the PSALM Board approved the 3rd round of public bidding and the negotiated sale process in case of failure of the 3rd round public bidding. The public bidding activities will commence in the first quarter of 2020 and the bid opening is set on April 15, 2020.

b. IPP and IPPA Contracts

As of December 31, 2019, the existing IPP contracts of PSALM are the following:

Plant Name	Contract Type	End of Agreement
NPC-Owned		
Caliraya HEPP	BROT-PPA	Feb-26
Botocan HEPP	BROT-PPA	Feb-26
Kalayaan HEPP 1 & 2	BROT-PPA	Feb-26
IPP-Owned		
Ampohaw	BOO-PPA	Jan-18
Unified Leyte GPP A & B	BOO-PPA	A: Jul-22 B: Jul-21
Casecnan HEPP	BOO-PPA	Apr-22
Mt. Apo GPP 1 & 2	BOO-PPA	1: Mar-22 2: Jun-24
Bakun HEPP (NMHC)	BOO-PPA	Jan-26
Kalayaan HEPP 3 & 4	BROT-PPA	Feb-26
Mindanao Coal 1 & 2	BOT	Mar-34

And through PSALM's continuous privatization efforts, it has successfully bid out and transferred a total of 3,607.52 MW of contracted capacities of seven IPPs to IPPAs as of December 31, 2019, as shown in the following table:

Plant Name	Location	Rated Capacity (in MW)	Winning Bidder
Sual Coal-Fired Power Plant	Sual, Pangasinan	1000	San Miguel Energy Corp.
Pagbilao Coal-Fired Power Plant	Pagbilao, Quezon	700	Therma Luzon Inc.
San Roque Multipurpose Hydro	San Manuel, Pangasinan	345	Strategic Power Devt. Corp.
Bakun-Mini Hydro Plant	Alilem, Ilocos Sur	70	Vivant Sta. Clara Northern Generation Corporation*
Ilijan Combined Cycle Power Plant	Batangas City, Batangas	1200	San Miguel Corporation
Unified Leyte Geothermal Power Plant (Strips of Energy)	Leyte	40	Aboitiz Energy Solutions, Inc.
		40	FDC Utilities, Inc.
		40	Phinma Energy Corporation**

Plant Name	Location	Rated Capacity (in MW)	Winning Bidder
		40	Unified Leyte Geothermal Energy Inc.
		20	Good Friend Hydro Resources Corporation
		17	Vivant Energy Corporation
		3	Waterfront Mactan Casino Hotel Inc.
Mindanao I and II(Mt. Apo 1 and 2) Geothermal Power Plants	Kidapawan, North Cotabato	92.52	FDC Misamis Power Corporation

* *Formerly Amlan Hydro Power, Inc.*

*** Formerly Trans-Asia Oil and Energy Development Corp.*

In 2017, issues arose between PSALM and some of the appointed Administrators of Unified Leyte—namely, FDC Utilities, Inc. (FDCUI), Good Friend Hydro Resources Corporation (GFHRC) and Phinma Energy Corporation (Phinma). These administrators were not able to comply with their contractual obligations under the IPP Administration Agreement. Thus, after exhausting all diplomatic steps but to little avail, PSALM declared FDCUI, GFHRC, and Phinma in Default and terminated the contracts. PSALM also availed of the relief provided under the IPPAA Agreement by drawing the Performance Bond of the said Administrators.

On December 22, 2017, PSALM also terminated its contract with FDC Misamis Power Corporation.

Most recently, in 2019, PSALM declared Waterfront Mactan Casino Hotel Inc., Aboitiz Energy Solutions, Inc. (AESI), and Vivant Energy Corporation in Default and terminated the contracts. Similar to previous cases, PSALM also availed of the relief provided under the IPPAA Agreement by drawing the Performance Bond of the said Administrators.

Moving forward with its remaining IPP contracts privatization, PSALM has completed the terms of reference and scope of work of a third-party consultant to be selected through a competitive public bidding whose main task is to conduct a study on viable privatization options and structures for said power assets.

PSALM will require the consultant to identify and assess the technical, contractual, legal, commercial and plant specific issues affecting the privatization or buyout of PSALM's remaining IPP plants and must include options to address such issues.

The consultant must also conceptualize the technical, commercial, financial and legal framework for the selection and appointment of the IPP Administrators (IPPAs) or IPP contract buyout when applicable.

IPP plants to be included in the study are the following: Caliraya-Botocan-Kalayaan Hydroelectric Power Plants, Mindanao Coal-Fired Thermal Power Plant and Casecnan Multi-Purpose Project.

c. Privatization of Decommissioned Plants

As of December 31, 2019, the table below lists the four (4) decommissioned plants successfully bid out by PSALM:

Plant Name	Location	Winning Bidder	Bid Date (mm/dd/yy)	Turnover Date
Sucat Thermal Power Plant	Sucat, Muntinlupa City	Riverbend Consolidated Mining Corporation	05/31/17	08/02/17
Aplaya-General Santos Diesel	Misamis Oriental & General Santos	TEC Industries Inc.	05/25/09	10/02/09
Cebu Diesel II	Talavera, Toledo City, Cebu	Taifu Metal Exchange Corporation	01/22/09	05/25/09
Manila Thermal	Manila	Gagasan Steel Inc.	04/25/08	02/20/09

On May 31, 2017, PSALM conducted the 3rdround of bidding for the ***Sucat Thermal Power Plant (STPP)*** and declared Riverbend Consolidated Mining Corporation (RCMC) as the highest bidder.

The sale included the structures, plant equipment, auxiliaries and accessories of the decommissioned 850 MW STPP. As the highest bidder, RCMC would have to undertake and perform the dismantling and clean-up on the purchased assets, the toxic substances and hazardous wastes and materials, and the STPP Site to return STPP site to ground zero.

Aside from RCMC, other bidders who prequalified were VPD Trading and G. G. Uy Bonapor Metal Contractor Company.

Apart from the abovementioned decommissioned plants, the sale and disposal of the ***Bataan Thermal Power Plant*** **(BTPP)** is still subject to resolution of court cases involving the asset, which stemmed from the non-compliance with the conditions of the Asset Purchase Agreement of Rubenori Inc., PSALM's counterparty to the negotiated sale of BTPP. This forced PSALM to issue the notice of termination, forcing the Bataan provincial government to step in to help settle the claims of about 6,000 workers laid off by BTPP.

d. Privatization of Real Estate Assets

In the conduct of its continuing benchmarking and collaboration with government agencies, PSALM saw the need to amend the Real Estate Assets strategic plan it drafted in 2015 to improve the Corporation's operational effectiveness in the realm of real estate property divestment.

In consonance with such pursuits, it began adopting new flexible and cost-efficient disposal modes with an end goal of simplifying the divestment process without jeopardizing the government's interest. It also began implementing simplified public bidding procedures to attract more bidders.

As a result of these undertakings, PSALM sold a total of 166 Lots in 2019, as follows: 92 in Bauang, La Union; 49 in Aplaya, Jasaan, Misamis Oriental; 21 in Toledo, Cebu; 2 in Masinloc; 1 in Laoag, Ilocos Norte, and 1 in Naga.

It also began exploring the possibility of entering into short-term lease agreements over certain assets of PSALM that were not yet scheduled for privatization to generate additional sources of revenue. Through such agreements, PSALM successfully sealed new deals this year with the lease of its three (3) properties (a portion of its Port Area property and the training center of its Bagac Property to the Philippine Coast Guard as well as the tiny parcel of land inside Agus 1 HEPP in Marawi City to Smart Communications, Inc.).

The lease agreement will help PSALM exercise fiscal prudence as it provides additional income to cover the expenses of maintaining the properties.

31.3 Universal Charge (UC) Administration

Pursuant to Section 51 of the EPIRA, PSALM is tasked, among others, to collect and administer the UC, and calculate and apply the Stranded Debts (SD) and Stranded Contract Costs (SCC) of NPC. The SD and SCC amount shall form part of the UC to be determined, fixed, and approved by the ERC.

By definition, *Stranded Contract Costs of NPC* refer to "the excess of the contracted cost of electricity under eligible contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. Such contracts shall have been approved by the ERB as of December 31, 2000."

On the other hand, *Stranded Debts of NPC* refer to any unpaid financial obligations of NPC which have not been liquidated by the proceeds from the sales and privatization of NPC assets.

Aside from the SD and SCC recoverable from UC, it also includes UC for Missionary Electrification (UC-ME) for NPC SPUG and UC-ME for cash incentive of Renewable Energy Developers, and the UC for Environment and Watershed Rehabilitation and Management (UC-EWRM).

The UC is collected every month by the NGCP and the distribution utilities (collectively referred to as "Collecting Entities" or CEs) based on the approval of the Energy Regulatory Commission (ERC). These collections are then remitted to PSALM every 15th of the following month.

In August 2019, PSALM sent Demand Letters to eleven (11) CEs demanding remittance of unremitted UC collections and submission of monthly UC reports as required under the ERC - approved Guidelines and Procedures Governing Remittances and Disbursement of the Universal Charge, as amended. Two (2) CEs immediately remitted in full the UC collections. As of December 31, 2019, there are nine (9) CEs with unremitted UC collections. PSALM is closely coordinating with the ERC and the National Electrification Administration (NEA) to prompt these CEs to fully comply with their obligations under the UC Guidelines.

As of December 31, 2019, UC remittances to PSALM covering the five (5) UC components have amounted to P188.29 billion, while interest earnings from deposits and placements of UC funds amounted to P0.26 billion. On the other hand, UC fund disbursements as of the end of December 31, 2019 for the beneficiaries of UC-ME, UCME-REDCI, UC-SCC and UC-SD amounted to P187 billion, leaving the UC funds with a balance of P1.55 billion.

For the period January to December 2019 alone, PSALM received P20.10 billion in UC remittances, and disbursed a total of P20.89 billion to UC beneficiaries. The amounts disbursed include prior years' fund balances and interest earnings.

- **ERC-Approved UC-SCC**

  On April 10, 2019, the ERC approved with modification the PSALM's petition for the availment of the CY 2014 UC-SCC amounting to P5,117.06 Million with a rate of PhP0.0543 per kilowatt-hour for twelve (12) months effective July 2019. As of December 31, 2019, the under recovery for the ERC approved CY 2014 UC-SCC amounted to P682.76 Million.

- **Availment of the CYs 2016, 2017 and 2018 UC-SCC**

  Three (3) UC-SCC petitions of PSALM are awaiting resolution from the ERC, as summarized below:

SCC Availments	ERC Case No.	Date Filed	Amount (PhP)	Rate (PhP/kWh)
CY 2016	2017-066 RC	06 July 2017	3,686,192,736.05	0.0429
CY 2017	2018-088 RC	31 July 2018	5,228,678,356.46	0.0582
CY 2018	2019-048 RC	25 June 2019	6,121,174,568.47	0.0620

  There was no SCC for CY 2015. On October 11 and November 30, 2018, PSALM submitted its Formal Offer of Evidence (FOE) on the CYs 2016 and 2017 UC-SCC petitions, respectively. As for the CY 2018 UC-SCC, the ERC deferred the commencement of the public hearings pending the issuance of the Implementing Rules and Regulations (IRR) of Republic Act 11371, also known as the Murang Kuryente Act (MKA), which reduces electricity rates by allocating a portion of the net national government share from the Malampaya natural gas project for the payment of UC-SCC and UC-Stranded Debts (SD).

- **True-Up Adjustments of the NPC's Stranded Debts Portion of the UC for CYs 2011 and 2012**

On September 30, 2013, PSALM filed a petition for True-Up Adjustments of the NPC's Stranded Debts (SD) Portion of the UC for CYs 2011 and 2012 docketed under ERC Case No. 2013-195 RC. In the said Petition, PSALM seeks the ERC's approval to collect P41,139 million over a 12.5-year recovery period, which translates to a UC-SD charge of P0.0382/kWh.

In a Decision dated June 27, 2017 under Case No. 2013-195 RC, the ERC approved with modification PSALM's CYs 2011-2012 UC-SD True-Up Adjustments effective next billing period or August 2017 billing, as follows:

SD True-Up (P)		Total Amount	SD Rate (P/kWh)
2011	2012		
22,514,648,707	1,684,203,528	24,198,852,235	0.0265

In an Order dated 15 January 2019, the ERC partially granted PSALM's MR for CYs 2011-2012 UC-SD True-Up Adjustments effective April 2019 billing period. The total approved SD for CYs 2011-2012 are as follows:

Particulars	Amount
Reconsidered UC-SD	12,477,218,644.68
Approved under the Decision	24,198,852,235.17
Total UC-SD	36,676,070,897.85
New SD Rate (PhP/kWh)	0.0428

As of December 31, 2019, out of the PhP36,676.07 Million ERC approved CYs 2011-2012 UC-SD, PSALM received cumulative remittances from collecting entities amounting to PhP5,792.67 Million which translates to an under recovery of PhP30,883.40 Million.

- **True-Up Adjustments of the NPC's Stranded Debts Portion of the UC for CY 2014**

On May 22, 2019, PSALM received ERC Decision dated January 15, 2019 disapproving PSALM's CY 2014 UC SD True-Up Adjustment Petition, the dispositive portion of said decision provides:

> *"WHEREFORE, the foregoing premises considered, the prayer of the Petitioner Power Sector Assets and Liabilities Management Corporation (PSALM) for the recovery of its calculated aggregate true-up adjustment for the National Power Corporation's (NPC) Stranded Debts (SD) Portion of the Universal Charge (UC) for CY 2014 is hereby DENIED.*
>
> *RELATIVE THERETO, the Commission shall consider the computed negative amount of One Billion One Hundred Ninety-One Million One Hundred Seventy-Seven Thousand One Hundred Seventeen Pesos and 68/100 (P1,191,177,117.68) in the subsequent SD applications of PSALM."*

On June 06, 2019, PSALM filed an MR on the disapproved CY 2014 Universal Charge – Stranded Debts (UC-SD) seeking to: (a) include in the calculation the CY 2014 ACRM True-up Adjustment/Refund covering ineligible plants in the amount of Two Billion Seven Hundred Sixty-Nine Million Three Hundred Forty-One Thousand Seven Hundred Sixty Pesos and 90/100 (P2,769,341,760.90); and (b) be allowed to recover the recomputed amount of One Billion Five Hundred Seventy-Eight Million One Hundred Sixty-Four Thousand Six Hundred Forty-Three Pesos and 22/100 (P1,578,164,643.22) SD portion of the UC for CY 2014. As of December 31, 2019, the ERC has yet to resolve this MR.

- **<u>True-Up Adjustments of the NPC's SD Portion of the UC for CYs 2015, 2016, 2017 and 2018</u>**

The table below shows a summary of PSALM's four (4) UC-SD petitions awaiting ERC resolution:

SD True-Up Adjustment	ERC Case No.	Date Filed	Amount (PhP)	Rate (PhP/kWh)
CY 2015	2016-150 RC	30 June 2016	27,670,386,541.73	0.0283
CY 2016	2017-069 RC	31 July 2017	34,642,180,036.26	0.0407
CY 2017	2018-087 RC	31 July 2018	11,804,635,030.22	0.0152
CY 2018	2019-047 RC	25 June 2019	4,722,490,975.31	0.0063

There was no SD for CY 2013. Similar to the CY 2018 UC-SCC, the CY 2018 UC-SD pre-trial conference and evidentiary hearing were deferred by the ERC pending the issuance of the MKA IRR.

31.4 PSALM passes the Second Follow-Up Audit for Quality Management System (QMS)

On November 28, 2019, PSALM passed the re-certification audit for ISO 9001:2015 conducted by SOCOTEC Certification Philippines, Inc. at PSALM's office at 24th floor, Vertis North Corporate Center 1, Astra corner Lux Drive, North Avenue, 1105 Quezon City.

32. COMMITMENTS AND CONTINGENCIES

32.1 Case filed by NPC Drivers and Mechanics Association (DAMA)

On December 27, 2017, PSALM received from the Office of the Government Corporate Counsel (OGCC) the Notice of Judgment issued by the Supreme Court (SC) with an attached Resolution promulgated on November 21, 2017 relative to the case filed by NPC DAMA under G.R. No. 156208. The dispositive portion of the Resolution states that:

> "**WHEREFORE**, the Court resolves to:
>
> 1. **GRANT** PSALM's prayer to lift and quash the Demand for Immediate Payment and the Notices of Garnishment issued against it and the NPC;
>
> 2. **DENY** the petitioners' request to immediately execute the judgment award; and
>
> 3. **DIRECT** the petitioners to file claim against the government before the Commission on Audit, pursuant to its rules, which shall be resolved in accordance with the guidelines herein set forth.
>
> **SO ORDERED.**"

Such Resolution clarifies that while PSALM is directly liable for the payment of the petitioner's entitlement, the petitioners are directed to follow the proper procedure to enforce a judgment against the government; that is, the petitioners have to file a separate action before the COA for its satisfaction. After which, it is for the COA to ascertain the exact amount of its liability in accordance with its audit rules and procedures.

NPC furnished PSALM with its computation of the estimated DAMA claims amounting to P30.97 billion. It considered entitlements to former NPC employees who were "Not-Rehired", "Early Leavers", "Executives", and "Re-Hired". But considering that the Supreme Court ruled that only petitioners who were neither rehired by the NPC or absorbed by PSALM or TransCo pursuant to the 2003 reorganization shall be entitled to full back wages, PSALM recognized a provision only for the amount of P8.40 billion, which is the estimated claims computed by

NPC of its former employees who were not rehired. The P8.40 billion is already inclusive of interest up to December 31, 2017 amounting to P3.70 billion. NPC's computation beyond the coverage of the Supreme Court's Resolution was not considered by PSALM's Board.

On September 24, 2019, The Commission on Audit issued a Decision of partially granting the Petition for Money Claims of the Employees of NPC terminated/separated pursuant to National Power Board Resolution Nos. 2002-124 and 2002-125 both dated November 18, 2002. NPC and PSALM were ordered to immediately update the NPC List and Computation in accordance with the decision consistent with the guidelines set forth by the SC in its Resolution dated November 17, 2017 in the case NPC Drivers and Mechanic Association, et al. vs NPC, et al.

32.2 Pending case on the termination of the Ilijan Administration Agreement (IPPAA)

On April 16, 2010, PSALM held the bidding for the Ilijan IPPA where San Miguel Corporation (SMC) garnered the highest bid with its offer of USD870,000,473 for the Ilijan contracted capacity, edging out three other groups namely: First Gen Luzon Power Corporation, Therma Power Visayas Inc., and Trans Asia Oil and Energy Development Corporation. An Assignment Agreement dated June 10, 2010 with Assumption of Obligations between SMC and South Premiere Power Corporation (SPPC) was later approved and consented by PSALM on June 16, 2010.

On June 26, 2010, after all Administrator Conditions Precedent had been met, the management and control of the contracted energy output of the Ilijan Plant was turned over by PSALM to SPPC.

As the Administrator, SPPC is entitled to trade, sell or otherwise deal with the electricity generated under the IPP contract for the Ilijan Power Plant. In consideration thereof, SPPC is bound to pay PSALM Monthly Payments and Generation Payments. These payments are considered privatization proceeds by PSALM, and are intended to pay fixed costs due to IPPs under the BOT scheme and to liquidate its financial obligations and stranded debts.

In the course of PSALM's dealings with SPPC, differences in interpretation of certain provisions in the Administration Agreement relating to the computation of generation payments covering the billing period June 26, 2010 up to December 25, 2012 (hereinafter referred to as Period A), which coincides with the term of the Transition Supply Contract (TSC) with MERALCO, arose, resulting to disputed items which formed part of IPPA Receivable due from SPPC. However, even after the expiration of the MERALCO TSC on December 26, 2012, payments made by SPPC covering generation payment bills for the billing period December 26, 2012 onwards (Period B) deviated from the provisions of Schedule J of the Administration Agreement. Accordingly, in compliance with the provisions of the

IPP AA, PSALM sent the following demand letters to SPPC to collect for the unpaid outstanding generation payments covering Period B:

1. First demand letter dated September 10, 2013;
2. Second demand letter dated October 20, 2014; and
3. Final demand letter dated August 6, 2015.

After fourteen (14) days since the final demand letter to SPPC was served, a nine-day grace period was further given to SPPC; however, despite the additional nine-day grace period which expired on September 2, 2015, SPPC failed to settle its unpaid generation payment bills covering Period B, prompting PSALM to declare SPPC in Administrator Default and entitling PSALM to terminate the IPP AA as per Clauses 1.1 (f) “Definitions”, and 19.1 “Administrator Default Termination” of the said Agreement.

On September 4, 2015, PSALM was compelled to avail of the relief provided under the IPP AA for SPPC’s failure to pay the outstanding Generation Payments for the period December 26, 2012 to April 25, 2015. With the termination, and in accordance with the Ilijan IPP AA, PSALM has also drawn on September 4, 2015 the USD60 million Performance Bond of SPPC. PSALM’s action on Ilijan IPP AA was also supported by COA in its Audit Observation Memorandum No. 2015-01-2014 dated March 23, 2015.

However, on September 8, 2015, PSALM received SPPC’s Complaint with Ex-parte Application for 72-Hour Temporary Restraining Order (TRO), and Application for 20-Day TRO and Writ of Preliminary Mandatory and Prohibitory Injunction. That same day, Hon. Executive Judge Monique A. Quisumbing-Ignacio, RTC, Branch 209, Mandaluyong City issued an order granting SPPC’s ex-parte application for a 72-hour TRO.

On September 10, 2015, PSALM filed its Opposition to the Issuance of a TRO with Very Urgent Motion to Lift 72-Hour TRO. But on September 11, 2015, the RTC, Branch 208 of Mandaluyong City, issued an Order extending for another seventeen (17) days the TRO only to preserve the status quo and to afford the Court the opportunity to hear the merits of the controversy conditioned upon payment by plaintiff of a bond in the amount of one million Pesos (P1 million).

On September 28, 2015, the Court issued an Order granting Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPP AA while the main case is pending.

A Motion for Reconsideration to the September 28, 2015 Order granting Preliminary Injunction was filed by PSALM on October 14, 2015, followed by a Motion to Dismiss SPPC’s Complaint on October 15, 2015. On October 22, 2015, PSALM received an Order dated October 19, 2015 granting MERALCO’s Motion to Intervene.

However, on July 18, 2016, PSALM received the Order issued by the RTC Branch 208 of Mandaluyong City, denying the three (3) pending motions: (1) PSALM's Motion for Reconsideration of the RTC Order Granting the Writ of Preliminary Injunction, (2) PSALM's Motion for Reconsideration of the RTC Order granting MERALCO's Intervention, and (3) PSALM's Motion to Dismiss the Complaint filed by SPPC. PSALM filed its Answer Ad Cautelam on July 25, 2016.

The Mediation and Judicial Dispute Resolution were unsuccessful. On 13 October 2017, PSALM filed a Position Paper with Motion for Inhibition which was granted in the Order dated December 18, 2017. The case was then re-raffled to RTC, Branch 212, of Mandaluyong City.

On February 26, 2018, PSALM received SPPC's Pre-Trial Brief, together with Interrogatories and Request for Admission. On February 28, 2018, PSALM received SPPC's Motion for Production of Documents. On March 6, 2018, PSALM filed a Manifestation with Motion to Hear Affirmative Defense and Omnibus Objections Ad Cautelam. On October 29, 2018, PSALM received an Order issued by the RTC Branch 212 of Mandaluyong City denying PSALM's Motion to Hear Affirmative defense and directed PSALM to answer SPPC's interrogatories and Request for Admission and to produce copies of the documents enumerated in SPPC's Motion for Production of Documents. On November 14, 2018, PSALM filed its Motion for Reconsideration, which is still pending resolution.

On June 13, 2019, PSALM submitted its Answer Ad Cautelam to Interrogatories executed by its officers. On June 21, 2019, PSALM complied with the Court's Order for production of the documents by the plaintiff. On August 01, 2019, the Court issued an Order directing PSALM to produce in court the documents subject of Plaintiff's Motion for Production of Documents. On August 22, 2019, PSALM filed its Motion for Reconsideration to the said Order.

On November 18, 2019, the Court issued an Order denying PSALM's Motion for Reconsideration Ad Cautelam for lack of merit and setting the case for production of documents on December 12, 2019. Continuation of hearing is set in first quarter of 2020.

Proceedings before the Court of Appeals

On September 16, 2016, PSALM filed a Petition for Certiorari (with urgent prayer for the issuance of a Temporary Restraining Order and/or Preliminary Mandatory Injunction) with the Court of Appeals. SPPC and PSALM filed its respective Memoranda on June 29 and July 10, 2017, respectively. The Court of Appeals, in its Decision promulgated on December 19, 2017, denied the Petition. PSALM filed a Motion for Reconsideration on January 22, 2018 which was denied by the Court of Appeals in its Resolution promulgated on July 12, 2018.

On July 26, 2019, PSALM filed its Petition for Certiorari with the Court of Appeals with Prayer Temporary Restraining Order and/or Preliminary Mandatory Injunction, under the Rule 65, Section 4 of the Rules of Court. PSALM prays for the Honorable Court to REVERSE and SET ASIDE the RTC's September 24, 2018 and April 29, 2019 Orders for having been issued with grave abuse and discretion.

On August 23, 2019, the CA issued a Resolution denying the Petition for Certiorari.

On September 2019, PSALM filed it Motion for Reconsideration, which is still pending resolution.

Proceedings before the Supreme Court

On September 7, 2018, PSALM filed a Petition for Review on Certiorari with urgent prayer for the issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction, under Rule 45 of the Rules of Court.

On May 17, 2019, PSALM through the OGCC received the SC Notice of Resolution denying Petition. On May 31, 2019, PSALM filed its Motion for reconsideration.

On August 01, 2019, PSALM filed its Motion for Leave to File Omnibus Motion. On August 05, 2019, the SC issued a resolution denying the Motion for Reconsideration with finality

32.3 Case involving the sale of excess capacity of the Sual Coal-Fired Power Plant

On May 20, 1994, NPC and CEPA Pangasinan Electric Limited (CEPA) entered an Energy Conversion Agreement (ECA), wherein the latter was obliged to build a 1,000 MW coal fired thermal power plant in Sual, Pangasinan. However, CEPA constructed a 1,200 MW power plant, giving rise to an excess capacity of 200 MW. CEPA, thereafter assigned its rights and obligations in the ECA to Mirant Philippines Corporation, and to Team Sual Corporation (TSC) thereafter. On the other hand, PSALM assumed all the rights and obligations of NPC under the existing IPP contracts, which in this case is the Sual Coal-Fired Power Plant, pursuant to the EPIRA.

On June 18, 2009, PSALM, TSC and Team Philippines Energy Corporation (TPEC), the trading arm of TSC, entered into a Memorandum of Agreement (MOA) - wherein TSC, by itself or through TPEC - has the right to market, offer, sell and supply the excess capacity to any customer, provided that it procures the fuel requirement for generation and/or dispatch of electricity from the available excess capacity.

Later, on August 28, 2009, PSALM held a public bidding for the Sual Coal-Fired Power Plant, where San Miguel Energy Corporation (SMEC) submitted the highest bid amount of USD1.072 billion.

Under the terms of the IPPA Agreement, SMEC has the right to administer the operations of the Sual Coal-Fired Power Plant for 1,000 MW, and take over the functions of PSALM thereon. At the end of a term, SMEC will be entitled to the ownership of the Sual Power Plant, but subject to its fulfilment of the Transaction Documents. Furthermore, SMEC assumed the rights and obligations of PSALM, including the right to trade and sell the contracted energy produced by Sual thru the facilities of WESM and thru bilateral contracts with third parties for SMEC account at its own risk and cost.

SMEC willingly entered into the IPPA Agreement despite being aware of the existence of the MOA in respect of the excess capacity of the Sual Power Plant executed on June 18, 2009.

In 2015, however, SMEC began to question the legality of the MOA on excess capacity of the Sual Power Plant.

On March 2, 2016, SMEC remitted P9.28 million to PSALM pertaining to the sale of the excess capacity, explaining on a later date that such amount was remitted because the MOA is null and void for being in violation of law since TSC is obligated to dedicate the entire power station output to PSALM. PSALM, however, returned the entire amount, advising SMEC to faithfully comply with and adhere to its obligations under the IPPAA.

On June 17, 2016, SMEC filed a Complaint for Consignation against PSALM with the RTC of Pasig City. PSALM, in collaboration with the Office of the Government Corporate Counsel (OGCC), filed its Answer on August 19, 2016. PSALM then filed a Motion for Set Preliminary Hearing on the Special and Affirmative Defenses on September 23, 2016. In this motion, PSALM requested that a hearing on its defenses be set so that the complaint may be dismissed without the rigors of trial. SMEC, on its part, filed an Omnibus Motion: (1) to Admit Supplemental Complaint; and (2) to allow Future Consignations Without Tender. In its Motion, SMEC informed the court that on three (3) separate dates, it tendered to PSALM amounts constituting the proceeds of the excess capacity of Sual Power Station but it was refused. Thus, it requested the court to allow it to consign all future proceeds of the excess capacity without formally tendering payment and serving notices of consignation to PSALM. PSALM filed a Comment/Opposition to this motion on November 7, 2016.

On October 17, 2017, PSALM filed its Comment/Opposition to San Miguel Energy Corporation's Motion to Admit Second Supplemental Complaint dated July 5, 2017.

On May 22, 2018, the Court issued an Order dismissing the complainant for lack of jurisdiction. However, on July 04, 2018 SMEC filed its Motion for Reconsideration which awaits order/resolution.

On July 26, 2018 PSALM, through the OGCC, filed its Comment/Opposition to plaintiff's Motion for Reconsideration.

On June 07, 2019, PSALM received SMEC's Motion to Admit Supplemental Motion for Reconsideration. On June 24, 2019, PSALM filed its Comment/ Opposition to the Motion.

On November 19, 2019, the Court issued an order inhibiting voluntary or otherwise recuse herself from further hearing the case. Because of the recusal, the resolution of the Motion for Reconsideration and Motion to Admit Supplemental Motion for Reconsideration is left upon the discretion of the receiving court. Upon verification of PSALM, the case was re-raffled to Regional Trial Court Branch 268.

32.4 Case involving the IPPA of Bakun AC Hydro Power Plant

PSALM is currently dealing with a case involving Vivant Sta. Clara Northern Renewables Generation Corporation (VSNRGC), otherwise known as "Northern Renewables" (NR), who is the IPPA for the Bakun AC Hydro Power Plant.

On May 16, 2017, NR filed a petition with the RTC, Cebu City for corporate rehabilitation pursuant to the Financial Rehabilitation Rules of Procedure. On May 26, 2017, the RTC Branch 11, Cebu City issued a Commencement/Stay Order (Civil Case No. R-CEB-17-03542-SP), declaring NR under rehabilitation.

On June 29, 2017, the initial hearing was conducted, during which the parties presented their respective arguments. The Court gave the Rehabilitation Receiver a period of thirty (30) days to submit a Revised Rehabilitation Plan.

On July 26, 2017, NR submitted a Revised Rehabilitation Plan, with a motion to allow presentation in open court in the next hearing. PSALM manifested its opposition to the Revised Rehabilitation Plan and maintained its position that the IPPA AA with Northern Renewables should be terminated to prevent further financial losses to PSALM on August 29, 2017 hearing.

On October 31, 2018, NR filed its manifestation and motion praying for the approval of a third Revised Rehabilitation/Payment Plan. On December 07, 2018, PSALM filed its comment/opposition to the manifestation with motion.

On September 25, 2019, the PSALM Board approved the revised repayment plan of VSNRGC. On November 21, 2019, VSNRGC filed a Manifestation regarding Submission of Revised Repayment Plan with Motion to Approve Initial Payment to Creditors.

On December 12, 2019, the Court issued an order granting VSNRGC's Manifestation. On December 27, 2019, PSALM received its initially payment of P800 million and a post-dated check in the amount of P400 million.

32.5 Case involving the IPPA of Mt. Apo 1 and 2

On December 8, 2017, PSALM received a copy of a Petition for Issuance of Interim Measures of Protection (With Extremely Urgent Application for an Ex-Parte

20-day Temporary Order of Protection) filed by FDC Misamis Power Corporation (FMPC), who is the Administrator of Mt. Apo 1 and 2. On the same day, PSALM was served with a formal notice that FMPC is rescinding its IPPA AA for Mt. Apo 1 and 2.

Pursuant to Clause 3.a.3 (Compliance with Laws) in relation to Clause 1(a) Administrator Default (k) of the IPPA AA, PSALM declared FMPC in default due to its baseless and unilateral rescission of the IPPA AA. Subsequently, PSALM demanded for the full settlement of FMPC's unpaid obligations to PSALM. However, FMPC failed to do so. Thus, on December 21, 2017, PSALM exercised its rights under the IPPA AA, which include PSALM's right to manage and control the output of Mt. Apo.

On April 10, 2018, PSALM received FMPC's Motion for Leave to Withdraw the Petition which was granted in an Order dated October 2, 2018.

On April 17, 2018, PSALM received a Notice of Arbitration pursuant to Clause 29 of the IPP AA. On May 11, 2018, PSALM, through OGCC, filed a Response to the Notice of Arbitration with Counterclaim.

As of December 31, 2019, the continuation of arbitration proceedings is set on the first quarter of 2020.

32.6 Rescission of the IPPA Administration Agreement with Good Friends Hydro Resources Corporation

On August 13, 2019, PSALM filed its Manifestation that it poses on objection for the Honorable Court retention of the instant case for further proceedings. November 04, 2019, PSALM filed its Motion to Refer the Case for Arbitration.

On November 08, 2019, the Court issued an Order requiring the plaintiff to file a comment to the Motion to Refer the Case for Arbitration within ten (10) days from receipt of notice. Thereafter, the motion is submitted for resolution.

32.7 Arbitration filed by NGCP against PSALM and TransCo

On February 14, 2018, PSALM and TransCo received a notice of arbitration filed by NGCP under the rules of the Singapore International Arbitration Centre (SIAC) for alleged violations of the Concession Agreement.

On December 24, 2018, NGCP filed its Statement of Claim/Memorial. On October 11, 2019, PSALM and TransCo filed their Counter-Statement of Claim/Counter Memorial. The Parties submitted their respective draft list of issues on November 15, 2019 and Request for Document Production on November 29, 2019. The Document Production is scheduled on the second quarter of 2020. Pursuant to the Revised Procedural Timetable, the hearing will begin on the second quarter of 2021.

No further information can be provided on this proceeding in compliance with the confidentiality requirements under Republic Act No. 9285 (2004) or the Alternative Dispute Resolution Act of 2004. The foregoing notes to these Financial Statements may be affected by the on-going arbitration proceedings.

32.8 Other Legal Proceedings Involving PSALM

In addition to the tax proceedings and formal assessments, PSALM is involved in various legal and administrative proceedings, including litigation and proceedings related to electricity charges and challenges to certain provisions of the EPIRA. Because the outcome of these proceedings is difficult to predict, PSALM will record the provision for a loss when it is both probable that a loss will be incurred and the loss can be reasonably estimated. Nevertheless, a summary of notable cases that are pending resolution is provided in the table below:

Case Title	Nature
Civil Case No. 07-CV-2382 Province of Benguet vs. NPC and PSALM	Complaint for collection of Franchise Taxes from 2001-2007 covering the operations of the Binga Hydro-Electric Power Plant
G.R. No. 217352 PSALM vs. Danilo Tumang, et al. (Civil Case No. 04-CV-2072, RTC-Br. 10, La Trinidad, Benguet)	Complaint of Recovery of Possession, Forfeiture of Improvements, etc. of private land within the Binga Hydro-Electric Power Plant
G.R. No. 205193 PSALM vs. Felisa Agricultural Corporation, et al. **(Civil Case No. 01-11356,** RTC-Br. 49, Bacolod City, Felisa Agricultural Corporation vs. NPC)	Complaint of Recovery of Possession and Payment for Just Compensation with Damages involving property owned by plaintiff which was traversed by the transmission towers and transmission lines of respondent NPC located in Barangay Felisa, Bacolod City.
G.R. No. 187359, Supreme Court – 1st Division (NAPOCOR Employees Consolidated Union (NECU) and NAPOCOR Workers Union (NEWU) vs. NPC and PSALM)	This is a Petition for Injunction praying for issuance of Temporary Restraining Order (TRO) against both NPC and PSALM restraining/enjoining them from implementing and/or continuance of implementation/enforcement of the Operations and Maintenance Agreement (OMA) – at the very least so far as it compromised/transferred the control and ownership of gross revenues from those generated sales of its remaining generation assets by NPC in favor of PSALM. Per petitioners, the OMA would prevent petitioner from recovering from NPC the judgment obligation for unpaid

Case Title	Nature
Note: Consolidated with G.R. No. 187420	Cost of Living Allowance (COLA) in the amount of P6.5 billion which was awarded by the Regional Trial Court (Br. 84) of Quezon City in Civil Case No. Q-07-61728.
ERC Case No. 2011-064MC, Team (Philippines) Energy Corporation vs. NPC, et al.	The Complaint concerns, and seeks respondents' payment to TPEC of, NPC's obligations to TPEC arising from the Agreement, which was signed by respondent Tampinco for and on behalf of NPC, which relates to the sale of excess capacity of the Sual Plant and Pagbilao Plant in 2008 and 2009, pursuant to agreements and transactions entered into by TPEC and NPC and NPC's use of excess capacity from the Pagbilao Plant.
G.R. No. 219977, PSALM vs. ERC, MERALCO and PEMC **ERC Case No. 2008-083MC, Petition for Dispute Resolution –** MERALCO vs. PEMC, TransCo, NPC and PSALM (Line Rentals)	Two costs involved in the instant case. The first case cost involves PSALM's line loss cost. The other cost involves the actual line loss cost paid by MERALCO to the PEMC for its WESM transactions which does not inure to the benefit of PSALM.
G.R. No. 215415 (E.B. Case No. 1065 and CTA Case No. 8552), PSALM vs. CIR	This is a Petition for Review under Rule 45 of the 1997 Rules of Procedure, filed by PSALM seeking the REVERSAL of: 1) The CTA First Division's 2 May 2013 Resolution, dismissing PSALM's appeal in CTA Case No. 8552; 2) The CTA First Division's 14 August 2013 Resolution denying PSALM's Motion for Reconsideration to the 2 May 2013 Resolution; and 3) The CTA En Banc's 12 November 2014 Decision affirming the 2 May 2013 and 14 August 2013 Resolutions of the First Division.
G.R. No. 226556 (CTA En Banc 1282 and CTA Case No. 8475), PSALM vs. CIR	This is a Petition for Review seeking the PARTIAL REVIEW of CTA Third Division's 02 December 2014 Decision, as well as its 25 February 2015 Resolutions
CTA Case No. 8587, PSALM vs. CIR	This is a Petition for Review before the First Division of the CTA seeking to CANCEL the CIR's 15 November 2012 Final Decision (FDDA) on Disputed Assessment on PSALM's protest to the Formal Letter of Demand and Final Assessment Notice (FLD and FAN).

Case Title	Nature
CTA Case No. 9235, PSALM vs. CIR	This is a Petition for Review before the CTA seeking to CANCEL the CIR's Final Decision on Disputed Assessment (FDDA) dated 10 December 2015 on PSALM's protest to the Formal Letter of Demand and Final Assessment Notice (FLD and FAN), dated 5 February 2013. The petition only questions the assessment for the deficiency EWT and Final VAT and compromise penalties.

33. NON-WAIVER DECLARATION

The statements contained herein shall be without prejudice to and shall not constitute a waiver of PSALM's and/or TransCo's rights and remedies under any contract, relevant laws and regulations, and jurisprudence, or any of PSALM's and /or TransCo's claims, defenses, etc. under any pending litigation or arbitration to which PSALM and/or TransCo is a party.

34. RESTATEMENT OF ACCOUNTS

The presentation of figures in CY 2019 financial statements has made it necessary, for comparative purposes, to restate relevant figures in CY 2018.