

Republic of the Philippines
House of Representatives
Quezon City, Metro Manila

TWENTIETH CONGRESS
Second Regular Session

House Bill No. 10306



INTRODUCED BY REP. PATRICK MICHAEL "PM" D. VARGAS

AN ACT
RATIONALIZING SYSTEM LOSS CHARGES IN ELECTRICITY
DISTRIBUTION, STRENGTHENING CONSUMER PROTECTION, AND
AMENDING FOR THE PURPOSE REPUBLIC ACT NO. 9136, OTHERWISE
KNOWN AS THE "ELECTRIC POWER INDUSTRY REFORM ACT OF 2001
(EPIRA)"

EXPLANATORY NOTE

Electricity is a basic necessity for Filipino households and a critical driver of economic activity. However, consumers continue to bear the burden of system loss charges, including costs arising from inefficiencies and losses that do not directly correspond to actual electricity consumption.

Under Republic Act No. 9136, or the Electric Power Industry Reform Act of 2001 (EPIRA), distribution utilities may pass on system losses to consumers, subject to caps set by the Energy Regulatory Commission (ERC). These losses include both technical losses, which are inherent in power delivery, and non-technical losses, such as pilferage, illegal connections, and operational inefficiencies.

Data from the Manila Electric Company (MERALCO), which serves over 8 million customers, show that system loss accounts for around 5% of electricity bills, with reported system loss levels at approximately 5.99% in 2024—still translating to significant costs passed on to consumers. Meanwhile, some utilities have demonstrated much lower loss levels, with entities such as Clark

Electric reporting rates as low as 2.28%, indicating that improved efficiency is achievable.

Regulatory findings have also raised concerns about transparency. In 2020, the ERC directed MERALCO to refund around ₱1.4 billion in over-collections, including system loss-related charges, underscoring the need for stronger oversight.

While technical losses may be unavoidable, it is fundamentally unjust for consumers to shoulder the cost of inefficiencies and non-technical losses. There is a clear need to recalibrate existing policy to ensure that only reasonable and efficiently incurred costs are passed on to the public.

This bill seeks to rationalize system loss charges by imposing stricter caps, prohibiting the recovery of non-technical losses from consumers, and strengthening transparency and accountability mechanisms for distribution utilities.

By doing so, the measure protects consumers, promotes efficiency in the power sector, and upholds the principle that consumers should pay only for the electricity they actually use.

In view of the foregoing, the immediate passage of this bill is earnestly sought.


REP. PATRICK MICHAEL "PM" D. VARGAS
Fifth District of Quezon City

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Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. Short Title. – This Act shall be known as the "*System Loss Rationalization Act*."

SECTION 2. Declaration of Policy. – It is hereby declared the policy of the State to ensure the provision of reliable, affordable, and transparent electric power to all consumers. Toward this end, the State shall protect electricity end-users from undue and excessive charges, promote efficiency in the operation of distribution utilities, and ensure that only justifiable costs are passed on to consumers. The State further recognizes that system losses, particularly those arising from inefficiencies and non-technical causes, should not be unfairly borne by consumers.

SECTION 3. Definition of Terms. – For purposes of this Act:

- a) *System Loss* refers to the difference between the total electricity purchased and the electricity sold by a distribution utility.

b) *Technical Loss* refers to energy losses inherent in the transmission and distribution of electricity due to physical and engineering limitations of the system.

c) *Non-Technical Loss* refers to losses arising from pilferage, illegal connections, meter tampering, billing errors, and other inefficiencies not related to the physical delivery of electricity.

d) *Distribution Utility (DU)* refers to any electric cooperative, private corporation, government-owned utility, or local government unit that operates a distribution system.

SECTION 4. Cap on Recoverable System Loss Charges. – Notwithstanding any provision of Republic Act No. 9136 or any existing regulation to the contrary, the maximum allowable system loss that may be recovered from consumers shall not exceed:

a) Four percent (4%) of total electricity purchased for distribution utilities operating in urbanized and highly urbanized areas; and

b) Six percent (6%) for electric cooperatives and distribution utilities operating in rural or missionary areas.

Any system loss in excess of the prescribed cap shall not be recoverable from consumers and shall be borne by the distribution utility.

SECTION 5. Non-Recoverability of Non-Technical Losses. – Non-technical losses shall not, under any circumstance, be passed on to consumers.

Distribution utilities shall bear full responsibility for losses arising from pilferage, inefficiencies, and other non-technical causes, and shall implement necessary measures to minimize such losses.

SECTION 6. Gradual Reduction of System Loss Caps. – To promote efficiency and modernization of distribution systems, the caps provided under Section 4 shall be subject to a gradual reduction as follows:

- Within two (2) years from effectivity:
Urban cap reduced to five percent (3%);
- Within five (5) years from effectivity:
Urban cap reduced to four percent (2%).

The Energy Regulatory Commission (ERC) may recommend corresponding adjustments for rural electric cooperatives, taking into consideration geographic and operational constraints.

SECTION 7. *Performance-Based Incentives and Penalties.* The ERC shall establish a performance-based mechanism whereby:

- a) Distribution utilities that consistently maintain system loss levels below the prescribed cap may be granted incentives, including retention of a portion of efficiency gains;
- b) Distribution utilities exceeding the cap shall be subject to administrative penalties, including fines, disallowance of recovery, and other sanctions as may be determined by the ERC.

SECTION 8. *Transparency and Reporting Requirements.* All distribution utilities are hereby mandated to:

- a) Publicly disclose, on a monthly basis, their system loss rates, including a breakdown between technical and non-technical losses;
- b) Publish such information on their official websites and in at least one (1) newspaper of general circulation or through accessible digital platforms;
- c) Submit to the ERC audited annual reports on system loss performance.

The ERC shall conduct periodic independent audits to verify compliance.

SECTION 9. *Protection of Vulnerable Consumers.* Lifeline consumers, including senior citizens and marginalized households, shall not be charged system loss beyond a maximum of three percent (3%).

The ERC shall ensure that appropriate subsidies or adjustments are implemented to protect these sectors from undue burden.

SECTION 10. *Implementing Rules and Regulations.* – Within ninety (90) days from the effectivity of this Act, the Energy Regulatory Commission, in coordination with the Department of Energy, shall promulgate the necessary rules and regulations for its effective implementation.

SECTION 11. *Separability Clause.* – If any part or provision of this Act shall be held unconstitutional or invalid, other provisions hereof which are not affected thereby shall continue to be in full force and effect.

SECTION 12. *Repealing Clause.* All laws, decrees, executive orders, rules and regulations, and other issuances or parts thereof inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

SECTION 13. Effectivity. – This Act shall take effect fifteen (15) days after its publication in the *Official Gazette* or in a newspaper of general circulation.

Approved,