



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila
Twentieth Congress
Second Regular Session



HOUSE BILL NO. 10307

Introduced by Representative Carlos A. Loria

EXPLANATORY NOTE

In his fifth State of the Nation Address delivered on July 27, 2026, President Ferdinand R. Marcos Jr. called on Congress to immediately amend Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), to remove the systems loss charge and its corresponding value-added tax (VAT) that distribution utilities and electric cooperatives currently pass on to electricity consumers. The President emphasized that "the systems loss is not the consumer's fault" and that it is therefore "not right that they should be made to pay for it."

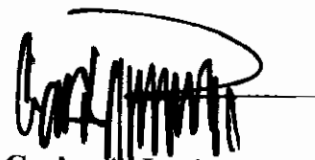
Systems loss refers to the difference between the electric energy a distribution utility or electric cooperative purchases or generates and the electric energy it actually delivers to, and can bill against, its end-users. It is composed of technical losses, which are inherent in the transmission of electricity through wires and transformers, and non-technical losses, which arise from pilferage, illegal connections, and meter tampering. Under the present framework, both types of loss — up to a cap fixed by the Energy Regulatory Commission (ERC) pursuant to Republic Act No. 9136 and Republic Act No. 7832 — are recovered from consumers as a separate, itemized charge on the electricity bill, and that charge is in turn subjected to twelve percent (12%) value-added tax under Section 108 of the National Internal Revenue Code of 1997 (NIRC), as amended. Consumers therefore pay twice for electricity they never received: once as the system loss charge itself, and again as VAT on that charge.

This practice is difficult to justify. Much of the loss it recovers is within the control of the distribution utility or electric cooperative rather than the consumer. Studies by the Philippine Institute for Development Studies and the World Bank's Electric Cooperative System Loss Reduction Project show that well-managed utilities keep system loss within five to eight percent (5-8%), while some electric cooperatives report losses exceeding thirty percent (30%) — evidence that a significant share of the burden currently billed to consumers is avoidable through better infrastructure, metering, and pilferage control.

This bill implements the President's directive by amending Sections 40, 43(f), and 60 of Republic Act No. 9136, and Section 10 of Republic Act No. 7832, as amended, to prohibit distribution utilities and electric cooperatives from billing system loss as a separate, itemized charge to consumers. System loss cost is not eliminated; it is instead absorbed into the utility's or cooperative's general operating costs and remains recoverable through the distribution rate that the ERC already regulates, subject to efficiency and loss-reduction standards the ERC may prescribe. The bill further amends Section 108 of the NIRC to exclude the system loss component from the VATable base of the distribution charge, since electricity that was never delivered to a consumer cannot properly be treated as a service rendered to that consumer.

Consistent with the President's call for balance, this bill is deliberately calibrated on both sides of the ledger. It preserves the distribution utility's and electric cooperative's legitimate corporate income: prudent and reasonable system loss costs remain fully recoverable, only through the regular ERC rate-setting process rather than as a separate consumer-facing charge, so the reform targets how the cost is billed and taxed, not whether it is recovered. It likewise safeguards the government's tax collection: the VAT exclusion is confined strictly to the system loss component and does not extend to the distribution, supply, metering, and other charges for electricity actually consumed, which remain fully taxable under Section 108 of the NIRC.

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



Carlos A. Loria
2nd District, Albay



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila
Twentieth Congress
Second Regular Session

HOUSE BILL NO. 10307

Introduced by Representative Carlos A. Loria

**AN ACT REMOVING THE SYSTEMS LOSS CHARGE AND ITS
CORRESPONDING VALUE-ADDED TAX FROM THE ELECTRICITY BILLS OF
CONSUMERS, AMENDING FOR THE PURPOSE SECTIONS 40, 43(f), AND 60 OF
REPUBLIC ACT NO. 9136, OTHERWISE KNOWN AS THE "ELECTRIC POWER
INDUSTRY REFORM ACT OF 2001", SECTION 10 OF REPUBLIC ACT NO. 7832,
AS AMENDED, OTHERWISE KNOWN AS THE "ANTI-ELECTRICITY AND
ELECTRIC TRANSMISSION LINES/MATERIALS PILFERAGE ACT OF 1994",
AND SECTION 108 OF THE NATIONAL INTERNAL REVENUE CODE OF 1997,
AS AMENDED, AND FOR OTHER PURPOSES**

*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 "Systems Loss and VAT
Relief Act of 2026."

SECTION 2. Declaration of Policy. — It is the policy of the State to protect electricity
consumers from unreasonable and inequitable charges, and to promote transparency,
accountability, and efficiency in the electric power industry. Towards this end, the State shall
ensure that the cost of system losses arising from technical deficiencies, pilferage, and other
non-technical causes is borne by the distribution utility or electric cooperative primarily
responsible therefor, and is not passed on to consumers as a separate, itemized, and separately-
taxed charge, without unduly impairing the financial viability of distribution utilities and
electric cooperatives or diminishing legitimate government revenue collection.

SECTION 3. Definitions. — As used in this Act:

- a) **System Loss** — refers to the difference between the electric energy delivered to the distribution system of a distribution utility or electric cooperative and the electric energy actually delivered to and billed against its end-users, inclusive of both technical and non-technical losses.
- b) **Technical Loss** — refers to the loss of electric energy inherent in the transmission and distribution of electricity through wires, transformers, and other equipment.
- c) **Non-Technical Loss** — refers to loss of electric energy arising from pilferage, illegal connections, meter tampering, defective metering, and other causes not inherent in the distribution system.
- d) **Distribution Utility (DU)** — refers to any electric cooperative, private corporation, government-owned utility, or existing local government unit with a franchise to operate a distribution system, as defined under Republic Act No. 9136.
- e) **Electric Cooperative (EC)** — refers to a distribution utility organized pursuant to Presidential Decree No. 269, as amended, or Republic Act No. 10531.
- f) **Energy Regulatory Commission (ERC)** — refers to the independent, quasi-judicial regulatory body created under Republic Act No. 9136.

SECTION 4. Section 40 of Republic Act No. 9136 Amended. — Section 40 of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), is hereby amended to read as follows:

"Sec. 40. Retail Rate. — Under the distribution rate structure, the components of the distribution charge may include, but are not limited to, return on capital, operating and maintenance costs, and other charges authorized by law: Provided, That system losses shall not be included as a recoverable or separately billable component from consumers; the same shall instead be treated as part of the operating costs of the distribution utility and shall be subject to the efficiency and loss-reduction standards imposed by the Energy Regulatory Commission."

SECTION 5. Section 43(f) of Republic Act No. 9136 Amended. — Section 43(f) of Republic Act No. 9136 is hereby amended to read as follows:

"(f) Power to Fix Rates. — The ERC shall have the power to fix charges for distribution utilities, transmission utilities, and suppliers, subject to such rules and regulations as it may promulgate: Provided, That no distribution utility shall be allowed to recover system losses as a separate charge from consumers; system losses shall be treated as an operating cost of the distribution utility and shall be managed within the ERC-approved efficiency and loss-reduction framework."

SECTION 6. Section 60 of Republic Act No. 9136 Amended. — Section 60 of Republic Act No. 9136 is hereby amended to read as follows:

"Sec. 60. Electric Cooperatives. — Electric cooperatives that are members of the distribution utilities' system shall meet the loss-reduction targets for technical and non-technical losses and shall bear the same as part of their operating costs: Provided, That such losses shall not be passed on as a separate charge to consumers. Compliance with these targets shall be reflected in the electric cooperatives' performance-improvement plans and shall be subject to the ERC's monitoring and enforcement mechanisms."

SECTION 7. Section 10 of Republic Act No. 7832 Amended. — Section 10 of Republic Act No. 7832, otherwise known as the Anti-Electricity and Electric Transmission Lines/Materials Pilferage Act of 1994, as amended, is hereby further amended to read as follows:

"Sec. 10. System Loss Cap. — x x x: Provided, further, That no cap on recoverable system losses under this Section shall be construed as authorizing a distribution utility or electric cooperative to pass on system loss costs as a separate charge to consumers; such losses shall be borne by the distribution utility or electric cooperative as part of its operating costs and shall be subject to the loss-reduction standards under Republic Act No. 9136 and the rules of the Energy Regulatory Commission."

SECTION 8. Section 108 of the National Internal Revenue Code of 1997 Amended. Section 108 of the National Internal Revenue Code of 1997, as amended, is hereby further amended by inserting a new proviso, to read as follows:

"Sec. 108. Value-Added Tax on Sale of Services and Use or Lease of Properties. — x x x: Provided, finally, That the value of system loss — being electric energy delivered to the distribution system but not actually delivered to and consumed by the end-user — shall not form part of the gross receipts of a distribution utility or electric cooperative subject to value-

added tax under this Section, notwithstanding its inclusion in the utility's or cooperative's operating cost recovery under Republic Act No. 9136."

SECTION 9. Rate Recovery and Continued Viability of Distribution Utilities and Electric Cooperatives. — Nothing in this Act shall be construed to deny a distribution utility or electric cooperative the recovery of prudent and reasonable costs attributable to system loss. Such costs shall continue to be recovered as part of its allowed operating expenses within the general distribution rate approved by the Energy Regulatory Commission under its applicable rate-setting methodology, subject to the efficiency benchmarks and loss-reduction standards the ERC may prescribe. The removal of system loss as a separate, itemized charge under this Act is intended only to end its direct pass-through to, and separate taxation upon, the individual consumer, and not to impair the reasonable return on investment or continued financial viability of distribution utilities and electric cooperatives.

SECTION 10. Scope of Value-Added Tax Exclusion. — The exclusion of system loss charges from value-added tax under Section 8 of this Act shall apply only to the portion of a distribution utility's or electric cooperative's charges corresponding to system loss and shall not extend to, diminish, or otherwise affect the value-added tax due on the distribution, supply, metering, and other charges for electricity actually delivered to and consumed by the end-user, which shall remain subject to value-added tax under Section 108 of the National Internal Revenue Code of 1997, as amended.

SECTION 11. Repealing Clause. — All laws, decrees, executive orders, issuances, rules and regulations, or parts thereof inconsistent with the provisions of this Act are hereby repealed, amended, or modified accordingly.

SECTION 12. Separability Clause. — If any provision of this Act is declared unconstitutional or invalid, the remaining provisions not affected thereby shall continue to be in full force and effect.

SECTION 13. 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 and the Bureau of Internal Revenue, shall promulgate the rules and regulations necessary for its effective implementation, including revised rules on distribution rate unbundling, system loss accounting, and billing disclosure, to ensure that no distribution

utility or electric cooperative reflects system loss as a separate, itemized, or value-added-tax-bearing charge in the electricity bill of any consumer.

SECTION 14. Effectivity. — This Act shall take effect fifteen (15) days after its complete publication in the Official Gazette or in a newspaper of general circulation.

Approved,