

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

TWENTIETH CONGRESS
Second Regular Session

HOUSE BILL NO. 10443



Introduced by Representative Kenneth T. Gatchalian

EXPLANATORY NOTE

Electricity is a basic necessity, yet its high cost continues to burden Filipino families and businesses. The government must prioritize making electricity more affordable.

During his fifth State of the Nation Address on July 27, 2026, President Ferdinand R. Marcos, Jr. called for the immediate amendment of the Electric Power Industry Reform Act (EPIRA) and the prohibition of charging system losses to consumers, including the VAT imposed thereon.

System loss refers to the difference between the electricity delivered to a distribution system and the electricity ultimately delivered to consumers. These losses may be technical, arising from the physical delivery of electricity, or non-technical, resulting from theft, pilferage, meter tampering, and other unlawful activities.

Under existing law, distribution utilities (DUs) may recover allowable system losses from consumers through a system loss charge. In effect, consumers pay for electricity they did not use, including losses caused by inefficiencies and illegal activities.

For a MERALCO consumer using 200 kWh per month, the system loss charge averaged ₱148.95 monthly from August 2025 to July 2026, or about ₱1,787.38 annually, exclusive of VAT. The charge also increased from ₱0.64 per kWh in January 2025 to ₱0.88 in July 2026, a 37.6% increase.

This bill seeks to provide immediate relief by prohibiting DUs from imposing or recovering system loss costs from end-users, whether technical or non-technical. Any system loss costs illegally collected shall be promptly refunded to consumers. It likewise exempts from VAT the electricity corresponding to system losses.

The measure also strengthens accountability. The Energy Regulatory Commission (ERC) shall strictly enforce the prohibition and continue monitoring the system loss performance of DUs. Meanwhile, the National Electrification Administration (NEA) shall strengthen its institutional, financial, and technical support to electric cooperatives in reducing system losses.

DUs may not use the prohibition on system loss recovery as justification for reducing service quality, delaying necessary maintenance or investments, or refusing service to qualified consumers. Violations shall be subject to administrative fines and, when warranted, suspension or revocation of authority to operate.

Consumers should pay only for the electricity they actually use. This measure seeks to make electricity bills fairer, provide immediate financial relief to Filipino families, and strengthen accountability in the power sector.

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


KENNETH T. GATCHALIAN

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AN ACT
REMOVING THE BURDEN OF SYSTEM LOSS COSTS FROM CONSUMER
ELECTRICITY BILLS, PROHIBITING FOR THE PURPOSE
DISTRIBUTION UTILITIES FROM IMPOSING SYSTEM LOSS CHARGES
ON CONSUMERS AND REMOVING VALUE ADDED TAX ON THE SALE
OF ELECTRICITY THAT BECOMES SYSTEM LOSS, AND FOR OTHER
PURPOSES

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

1 **SECTION 1.** *Title.* – This Act shall be known as the “System Loss Charge
2 Abolition Act.”

3 **SEC. 2.** *Declaration of Policy.* – It is hereby the declared policy of the
4 State to ensure the affordability of electricity for consumers. Towards this end, the
5 State shall incentivize distribution utilities to operate with greater efficiency and
6 prohibit the imposition of electricity charges that unduly burden the public.

7 **SEC. 3.** *Definition of Terms.* – For purposes of this Act, the following
8 terms shall be defined as stated below: *Provided,* That other terms used in this Act
9 but not defined herein shall be understood to mean the way they are defined in
10 Republic Act No. 9136 or the Electric Power Industry Reform Act of 2001 and its
11 Implementing Rules and Regulations:

- 1 a. *Distribution Utility (DU)* refers to any electric cooperative, private
2 distribution utility, government-owned or existing local government
3 unit-owned utility, which has a franchise to operate a distribution system
4 including those whose franchise covers economic zones;
- 5 b. *Electric Cooperative (EC)* refers to a distribution utility
6 organized pursuant to Presidential Decree No. 269, as amended, or as
7 otherwise provided in Republic Act No. 9136, otherwise known as the
8 Electric Power Industry Reform Act of 2001;
- 9 c. *Distribution Charge* refers to the charge imposed by a DU on its end-
10 users for the conveyance of electricity through its distribution system
11 and for the construction, operation, maintenance, repair, rehabilitation,
12 improvement, replacement, and expansion of the facilities directly
13 necessary for such conveyance;
- 14 d. *Energy Input* refers to the energy, in kilowatt-hour (kWh), delivered into
15 the distribution system by the transmission system, embedded
16 generating plants, other distribution systems, and user systems with
17 generating facilities;
- 18 e. *Energy Output* refers to the energy, in kWh, delivered by the DU to its
19 customers metering point, including energy for the DU's own use;
- 20 f. *Non-Technical Losses* refer to the component of System Loss that is not
21 related to the physical characteristics and functions of the electrical
22 system, and is caused primarily by human action, whether intentional or
23 not. Non-Technical Loss includes but shall not be limited to the energy
24 lost due to pilferage, tampering of meters, and erroneous meter reading;
- 25 g. *Metering Charge* refers to the charge imposed by a DU on its end-
26 users for the provision of revenue-metering services necessary to
27 measure, record, validate, process, and communicate an end-user's
28 electricity consumption or demand for billing and settlement purposes;

- 1 h. *System Loss* refers to the difference between the electric energy
2 delivered to the distribution system (Energy Input) and the energy
3 delivered to the end-users and other entities connected to the system
4 (Energy Output): *Provided*, That it shall be calculated in accordance
5 with Section 4 of this Act;
- 6 i. *Supply Charge* refers to the charge imposed by a DU upon its end-
7 users for the provision of retail customer services that are separate from
8 the generation, transmission, distribution, and metering of electricity,
9 including but not limited to billing, collection, customer assistance, and
10 associated services; and
- 11 j. *Technical Losses* refer to the component of System Loss that is inherent
12 in the physical delivery of electric energy. It includes conductor loss,
13 transformer core loss, and metering equipment.

14 **SEC. 4. *System Loss Calculation.*** – For purposes of calculating the
15 System Loss as defined in this Act and for any regulation in relation thereto, the
16 following formula for System Loss shall be followed unless
17 otherwise determined by the ERC:

18 Total System Loss = S Energy delivered by the Transmission System + S Energy
19 delivered by the Embedded Generators + S Energy delivered by other Distribution
20 Systems + S Energy delivered by User Systems with Generating Units - S Energy
21 delivered to the Users of the Distribution System – Distribution Utility Use

22 **SEC. 5. *Prohibition on Recovery of System Losses.*** – Notwithstanding the
23 provisions of any law, rule, regulation, or other issuance to the contrary, no DU
24 shall impose upon, collect from, or recover from any end-user the cost of any
25 system loss, whether technical or non-technical in nature.

26 No system loss or cost attributable thereto shall be included, directly or
27 indirectly, in the distribution charge, supply charge, metering charge, or any other
28 charge imposed by the DU on its end-users in any billing statement. No DU shall

1 directly or indirectly recover a prohibited system loss cost by changing its
2 accounting classification, billing designation, contractual treatment, or regulatory
3 presentation.

4 Any agreement, accounting treatment, cost-allocation method, adjustment
5 mechanism, corporate arrangement, or similar subterfuge intended to evade or
6 defeat the prohibition under this Section shall be void.

7 Upon the effectivity of this Act, the Energy Regulatory Commission (ERC)
8 shall adopt the necessary rules and regulations to actively monitor and enforce the
9 provisions of this Section and ensure that DUs are prevented from recovering
10 system loss costs through any of the means enumerated herein, or through any
11 similar means, whether directly or indirectly.

12 **SEC. 6. *Refund of Prohibited Collections.*** – Any amount collected from
13 end-users in violation of Section 5 of this Act shall be refunded automatically,
14 without need of demand, together with interest at the legal rate computed from the
15 date of collection until full refund.

16 The refund shall be applied as a cash refund or bill credit within the period
17 prescribed by the ERC and shall not be offset by any new or increased charge.

18 **SEC. 7. *Monitoring of System Loss Performance.*** – The ERC shall
19 require DUs to disclose, from time to time as it may provide, information on its
20 system loss performance, including data on technical and non-technical system
21 losses incurred as well as measures undertaken by the DU to reduce system losses.

22 **SEC. 8. *Review of System Loss Performance of ECs.*** – Within one
23 hundred and eighty (180) days from the effectivity of this Act, the National
24 Electrification Administration (NEA) shall conduct and complete a comprehensive
25 review of the system loss performance of ECs with the end view of implementing
26 strengthened programs to provide institutional, financial, and technical support to
27 ECs in decreasing system losses and ensuring continued quality of services to
28 consumers. The NEA shall furnish the ERC and the Department of Energy

(DOE)with a report on its findings within thirty (30) days from completion of the review. The Secretary of Energy shall inform both chambers of Congress in writing of any legislation, including supplemental appropriations, that may necessary to improve the system loss performance of ECs based on the report submitted by the NEA.

SEC. 9. *Non-Diminution of Service Obligations.* – The prohibition on recovery of system loss costs shall not relieve any DU of its obligation to provide adequate, reliable, efficient, safe, and reasonably priced electricity service, maintain and improve its distribution system, prevent electricity theft, replace defective meters and equipment, and undertake all investments reasonably necessary to reduce system losses.

A DU shall not invoke the non-recoverability of system losses as justification for reducing service quality, deferring prudent maintenance or investment, or refusing service to qualified end-users.

SEC. 10. Section 109 of Republic Act No. 8424, as amended, is hereby further amended to read as follows:

“SEC. 109. *Exempt Transactions.* – The following shall be exempt from the VAT:

(A) xx xx

xx xx

(DD) xx xx

(EE) SALE, SUPPLY, TRANSMISSION, WHEELING, DISTRIBUTION, SETTLEMENT, OR DELIVERY OF ELECTRICITY, TO THE EXTENT THAT SUCH ELECTRICITY BECOMES SYSTEM LOSS: *PROVIDED*, THAT THE ENERGY REGULATORY COMMISSION SHALL COORDINATE WITH THE BUREAU OF INTERNAL

1 **REVENUE TO ESTABLISH THE PROPER ADMINISTRATIVE**
2 **MECHANISM TO IMPLEMENT THIS PROVISION.**

3 **SEC. 11. *Administrative Offenses and Penalties.*** – The following shall be
4 considered administrative offenses committed by DUs under this Act:

- 5 a. Imposition on, or collection or recovery from end-users of system loss
6 charges, whether directly or indirectly, under Section 5;
- 7 b. Entering into or implementing any agreement, accounting treatment,
8 cost-allocation method, adjustment mechanism, corporate arrangement,
9 or similar subterfuge intended to evade or defeat the prohibition on
10 recovery of system losses under Section 5;
- 11 c. Refusal or failure to refund prohibited collections within the period
12 prescribed by the ERC under Section 6;
- 13 d. Failure or refusal to furnish the ERC with system loss performance data
14 or information under Section 7;
- 15 e. Invoking the non-recoverability of system losses as justification for
16 reducing service quality, deferring prudent maintenance or investment,
17 or refusing service to qualified end-users, as provided under Section 9.

18 After due hearing and deliberation, the ERC shall impose the following
19 penalties on DUs found guilty of the offense charged:

- 20 a. First offense – Fine of Five Million Pesos (PhP5,000,000.00);
- 21 b. Second offense – Fine of Ten Million Pesos (Php10,000,000.00);
- 22 c. Third and subsequent offenses – Suspension or revocation of the
23 certificate of public convenience and necessity or equivalent authority
24 to operate as a distribution utility.

25 Any official or employee of the ERC or any government agency or
26 instrumentality who aids or abets the commission of any of the administrative
27 offenses defined under this Section shall suffer the penalty of suspension or

1 dismissal from public service, at the discretion of the proper disciplining
2 authority.

3 **SEC. 12. *Implementing Rules and Regulations.*** – Within ninety (90) days
4 from the effectivity of this Act, ERC, in coordination with DOE, NEA, the
5 Department of Finance, and the Bureau of Internal Revenue, and in consultation
6 with stakeholders, shall promulgate the necessary rules and regulations to
7 implement the provisions of this Act.

8 **SEC. 13. *Separability Clause.*** – If any provision or part of this Act is held
9 invalid or unconstitutional, the remaining parts or provisions not affected shall
10 remain in full force and effect.

11 **SEC. 14. *Repealing Clause.*** – Section 10 of Republic Act No. 7832 is
12 hereby repealed. Section 43(f) of Republic Act No. 9136 is hereby amended
13 or modified insofar as it is inconsistent with the provisions of this
14 Act. Any other law, presidential decree, executive order, letter of instruction,
15 rule, regulation, or other executive or administrative issuance inconsistent with the
16 provisions of this Act is hereby repealed or modified accordingly.

17 **SEC. 15. *Effectivity.*** - This Act shall take effect fifteen (15) days after
18 publication in the Official Gazette or in two (2) national newspapers of general
19 circulation.

Approved,