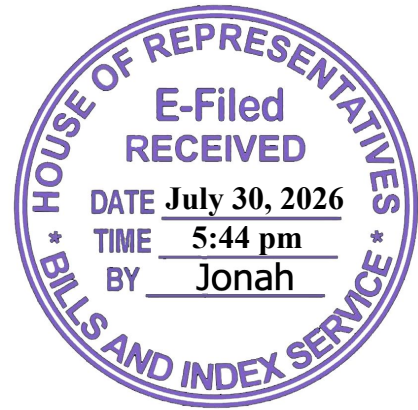


Republic of the Philippines  
**HOUSE OF REPRESENTATIVES**  
Quezon City, Metro Manila  
Twentieth Congress  
Second Regular Session

**HOUSE BILL NO. 10461**



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Introduced by Representative Marcelino "Marcy" R. Teodoro

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### **EXPLANATORY NOTE**

In his fifth State of the Nation Address delivered on 27 July 2026, President Ferdinand R. Marcos Jr. declared before the nation: "Therefore, we, the people, request — no, we demand — the immediate amendment of the EPIRA and to prohibit the charging of system loss against consumers, including the value-added tax thereon." The President underscored that system loss is not the fault of the consumer — "hindi naman kasalanan ng consumer kung bakit nagkaroon ng systems loss" — and that it is therefore unjust for consumers to continue paying for electricity that never reached their homes. This bill answers that directive.

System loss is the difference between the electric energy that a distribution utility or electric cooperative receives into its system and the energy it actually delivers to and bills against its end-users. It consists of technical losses inherent in wires, transformers, and other equipment, and non-technical losses arising from pilferage, illegal connections, and defective or tampered metering. Under Section 43(f) of Republic Act No. 9136, or the Electric Power Industry Reform Act of 2001 (EPIRA), in relation to Republic Act No. 7832, distribution utilities and electric cooperatives are permitted to recover system loss from consumers as a separate, itemized charge on the monthly electricity bill, up to caps fixed by the Energy Regulatory Commission (ERC). That charge is then subjected to the twelve percent (12%) value-added tax under Section 108 of the National Internal Revenue Code of 1997 (NIRC), as amended. The consumer thus pays twice over for energy never consumed: first for the loss itself, and again for the tax upon it.

The burden is far from trivial. For the country's largest distribution utility, the system loss charge accounts for roughly five to fifteen percent of a typical monthly bill. For the working families of Marikina and of every city and province

in the country, that is real money taken for phantom electricity, at a time when the Philippines already records among the highest residential power rates in Southeast Asia.

This bill therefore amends Sections 40, 43(f), and 60 of Republic Act No. 9136, Section 10 of Republic Act No. 7832, and Section 108 of the NIRC to: (a) prohibit distribution utilities and electric cooperatives from billing system loss to consumers as a separate, itemized, or pass-through charge; (b) treat prudent and reasonable system loss instead as an ordinary operating cost, recoverable only through the general distribution rate that the ERC approves, and subject to efficiency benchmarks and loss-reduction targets; and (c) exclude the value of undelivered electricity from the VAT-able gross receipts of distribution utilities and electric cooperatives, since energy that never reached the consumer cannot, in law or in logic, be a service rendered to that consumer.

The measure is deliberately balanced. It does not deny distribution utilities and electric cooperatives the recovery of legitimate costs, nor does it impair their financial viability: prudent system loss remains recoverable, but through regulated rate-setting rather than an unexamined pass-through, thereby restoring the incentive to invest in better infrastructure, accurate metering, and vigorous anti-pilferage enforcement. Neither does it erode the tax base: the VAT exclusion is confined strictly to the system loss component, and the distribution, supply, metering, and other charges for electricity actually consumed remain fully taxable. What the bill removes is only what should never have been there — a charge, and a tax on that charge, for electricity the consumer never received.

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



MARCELINO "MARCY" R. TEODORO  
First District, Marikina City

Republic of the Philippines  
**HOUSE OF REPRESENTATIVES**  
Quezon City, Metro Manila  
Twentieth Congress  
Second Regular Session  
**HOUSE BILL NO. 10461**

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**Introduced by Representative Marcelino "Marcy" R. Teodoro**

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**AN ACT**  
**PROHIBITING THE PASS-THROUGH OF SYSTEM LOSS CHARGES TO**  
**ELECTRICITY CONSUMERS AND EXCLUDING SYSTEM LOSS FROM THE**  
**COVERAGE OF THE VALUE-ADDED TAX, AMENDING FOR THE PURPOSE**  
**SECTIONS 40, 43, AND 60 OF REPUBLIC ACT NO. 9136, OTHERWISE KNOWN AS**  
**THE "ELECTRIC POWER INDUSTRY REFORM ACT OF 2001," 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 "Electricity Consumers' System Loss Relief Act of 2026."

**SEC. 2. Declaration of Policy.** — It is the declared policy of the State to ensure the quality, reliability, security, and affordability of the supply of electric power, and to protect the public interest as it is affected by the rates and services of electric utilities. Consistent therewith, the State shall ensure that the cost of electric energy lost in the distribution system — energy that was never delivered to nor consumed by the end-user — is not billed to consumers as a separate, itemized, or pass-through charge, nor subjected to value-added tax, but is instead borne and managed by the distribution utility or electric cooperative concerned as an ordinary cost of doing business, subject to the efficiency and loss-reduction standards of the State's regulatory agencies, without impairing the recovery of prudent and reasonable costs through the regular rate-setting process or diminishing the legitimate revenue collection of the government.

**SEC. 3. Definition of Terms.** — As used in this Act:

(a) *Distribution Utility* refers to any electric cooperative, private corporation, government-owned utility, or existing local government unit which has a franchise to operate a distribution system in accordance with Republic Act No. 9136;

(b) *Electric Cooperative* refers to a distribution utility organized pursuant to Presidential Decree No. 269, as amended, or as otherwise provided under Republic Act No. 10531;

(c) *ERC* refers to the Energy Regulatory Commission created under Section 38 of Republic Act No. 9136;

(d) *Non-Technical Loss* refers to electric energy lost by reason of pilferage, illegal connections, meter tampering, defective or inaccurate metering, billing and administrative errors, and other causes not inherent in the physical delivery of electricity;

(e) *System Loss* refers to the difference between the electric energy received into the distribution system of a distribution utility and the electric energy actually delivered to and billed against its end-users, comprising both technical and non-technical losses;

(f) *System Loss Charge* refers to any charge, fee, line item, rider, or billing component, howsoever denominated, by which the cost of system loss is billed to, collected from, or otherwise passed on to an end-user; and

(g) *Technical Loss* refers to electric energy inherently lost in the conveyance of electricity through lines, transformers, and other distribution equipment.

**SEC. 4. Prohibition on the Pass-Through of System Loss.** — No distribution utility or electric cooperative shall bill, collect, or otherwise pass on to any end-user a system loss charge, whether as a separate line item, as a component of any other charge, or in any other form or denomination. The distribution utility or electric cooperative shall bear the cost of system loss as part of its operating costs, and prudent and reasonable system loss costs shall be recoverable only through the general distribution rate approved by the ERC pursuant to Section 8 of this Act.

**SEC. 5.** Section 40 of Republic Act No. 9136, otherwise known as the “Electric Power Industry Reform Act of 2001,” is hereby amended to read as follows:

“SEC. 40. *Retail Rate.* — The retail rates charged by distribution utilities for the supply of electricity in their captive market shall be subject to regulation by the ERC based on the principle of full recovery of prudent and reasonable economic costs incurred, or such other principles that will promote efficiency as may be determined by the ERC: **PROVIDED, THAT SYSTEM LOSS SHALL NOT BE BILLED TO OR RECOVERED FROM END-USERS AS A SEPARATE, ITEMIZED, OR PASS-THROUGH CHARGE; SYSTEM LOSS SHALL BE TREATED AS PART OF THE OPERATING COSTS OF THE DISTRIBUTION UTILITY, RECOVERABLE ONLY TO THE EXTENT PRUDENT AND REASONABLE AND ONLY THROUGH THE GENERAL DISTRIBUTION RATE APPROVED BY THE ERC, SUBJECT TO THE EFFICIENCY BENCHMARKS AND LOSS-REDUCTION STANDARDS THE ERC SHALL PRESCRIBE.**”

SEC. 6. Paragraph (f) of Section 43 of the same Act is hereby amended to read as follows:

"SEC. 43. *Functions of the ERC.* — x x x

"(f) In the public interest, establish and enforce a methodology for setting transmission and distribution wheeling rates and retail rates for the captive market of a distribution utility, taking into account all relevant considerations, including the efficiency or inefficiency of the regulated entities: **PROVIDED, THAT NO DISTRIBUTION UTILITY OR ELECTRIC COOPERATIVE SHALL BE ALLOWED TO RECOVER SYSTEM LOSS FROM END-USERS AS A SEPARATE, ITEMIZED, OR PASS-THROUGH CHARGE; SYSTEM LOSS SHALL BE MANAGED BY THE DISTRIBUTION UTILITY OR ELECTRIC COOPERATIVE AS AN OPERATING COST WITHIN THE EFFICIENCY AND LOSS-REDUCTION FRAMEWORK PRESCRIBED BY THE ERC, WHICH SHALL FIX PROGRESSIVE LOSS-REDUCTION TARGETS AND MAY DISALLOW THE RECOVERY OF IMPRUDENT, UNREASONABLE, OR NON-TECHNICAL LOSSES IN RATE-SETTING;**

"x x x."

SEC. 7. Section 60 of the same Act is hereby amended to read as follows:

"SEC. 60. *Debts of Electric Cooperatives.* — x x x **PROVIDED, FURTHER, THAT ELECTRIC COOPERATIVES SHALL MEET THE LOSS-REDUCTION TARGETS FOR TECHNICAL AND NON-TECHNICAL LOSSES FIXED BY THE ERC AND SHALL BEAR SYSTEM LOSS AS PART OF THEIR OPERATING COSTS, WITHOUT PASSING THE SAME ON TO END-USERS AS A SEPARATE, ITEMIZED, OR PASS-THROUGH CHARGE; COMPLIANCE WITH SUCH TARGETS SHALL FORM PART OF THE ELECTRIC COOPERATIVES' PERFORMANCE-IMPROVEMENT PLANS AND SHALL BE SUBJECT TO THE MONITORING AND ENFORCEMENT MECHANISMS OF THE ERC AND THE NATIONAL ELECTRIFICATION ADMINISTRATION.**"

SEC. 8. 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. *Rationalization of System Losses by Phasing Out Pilferage Losses as a Component Thereof.* — x x x **PROVIDED, FINALLY, THAT NOTHING IN THIS SECTION, NOR ANY CAP ON RECOVERABLE SYSTEM LOSSES FIXED HEREUNDER OR PURSUANT HERETO, SHALL BE CONSTRUED AS AUTHORIZING ANY DISTRIBUTION UTILITY OR ELECTRIC COOPERATIVE TO BILL, COLLECT, OR PASS ON SYSTEM LOSS TO END-USERS AS A SEPARATE, ITEMIZED,**

**OR PASS-THROUGH CHARGE; SYSTEM LOSS SHALL BE BORNE BY THE DISTRIBUTION UTILITY OR ELECTRIC COOPERATIVE AS PART OF ITS OPERATING COSTS, SUBJECT TO THE LOSS-REDUCTION STANDARDS UNDER REPUBLIC ACT NO. 9136 AND THE RULES OF THE ENERGY REGULATORY COMMISSION."**

**SEC. 9.** Section 108(A) of Republic Act No. 8424, otherwise known as the National Internal Revenue Code of 1997", as amended, is hereby further amended by adding a new proviso to read as follows:

*"SEC. 108. Value-Added Tax on Sale of Services and Use or Lease of Properties. — (A) Rate and Base of Tax. — x x x* **PROVIDED, FINALLY, THAT THE VALUE CORRESPONDING TO SYSTEM LOSS — BEING ELECTRIC ENERGY RECEIVED INTO 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 THE RECOVERY OF PRUDENT AND REASONABLE SYSTEM LOSS COSTS AS PART OF THE OPERATING COSTS OF SUCH UTILITY OR COOPERATIVE UNDER REPUBLIC ACT NO. 9136."**

**SEC. 10. Recovery Through Rate-Setting; Continued Viability.** — Nothing in this Act shall be construed to deny any distribution utility or electric cooperative the recovery of prudent and reasonable costs attributable to system loss. Such costs shall be recoverable solely as part of allowed operating expenses within the general distribution rate approved by the ERC under its applicable rate-setting methodology, subject to the efficiency benchmarks, performance incentives and disincentives, and progressive loss-reduction targets that the ERC shall prescribe. This Act ends only the direct pass-through of system loss to, and the separate taxation of system loss upon, the individual consumer; it shall not be construed to impair the reasonable return on investment or the continued financial viability of distribution utilities and electric cooperatives.

**SEC. 11. Scope of the Value-Added Tax Exclusion.** — The exclusion under Section 9 of this Act shall apply only to the portion of a distribution utility's or electric cooperative's charges corresponding to system loss. It shall not extend to, diminish, or otherwise affect the value-added tax due on generation, transmission, 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.

**SEC. 12. Billing Transparency.** — No electricity bill issued to any end-user after the effectivity of this Act shall reflect system loss as a separate, itemized, or value-added-tax-bearing charge. The ERC shall revise its rules on distribution rate unbundling, system loss accounting, and billing disclosure accordingly. It shall require distribution utilities and electric cooperatives to report their technical and non-technical losses periodically, and such reports shall be published for public information.

**SEC. 13. Refunds and Administrative Sanctions.** — Any amount billed or collected in violation of this Act shall be refunded or credited in full to the end-user within the billing period immediately following a finding of violation, without prejudice to the administrative fines and penalties that the ERC may impose under Section 46 of Republic Act No. 9136 and other applicable laws, rules, and regulations.

**SEC. 14. Implementing Rules and Regulations.** — Within ninety (90) days from the effectivity of this Act, the ERC, in coordination with the Department of Energy, the Bureau of Internal Revenue, and the National Electrification Administration, shall promulgate the rules and regulations necessary for the effective implementation of this Act, including the revised rules on rate unbundling, loss-reduction targets, billing disclosure, and the tax treatment of system loss. The failure to promulgate such rules shall not prevent this Act from taking effect.

**SEC. 15. Transitory Provision.** — The prohibition under Section 4 of this Act shall apply to all billing periods commencing after the effectivity of this Act. Pending the promulgation of the implementing rules, distribution utilities and electric cooperatives shall cease to reflect the system loss charge and the value-added tax thereon in the bills of their end-users.

**SEC. 16. Separability Clause.** — If any provision of this Act is declared unconstitutional or invalid, the remaining provisions not affected thereby shall continue in full force and effect.

**SEC. 17. Repealing Clause.** — All laws, decrees, executive orders, rules and regulations, issuances, or parts thereof inconsistent with this Act are hereby repealed, amended, or modified accordingly.

**SEC. 18. 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,

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