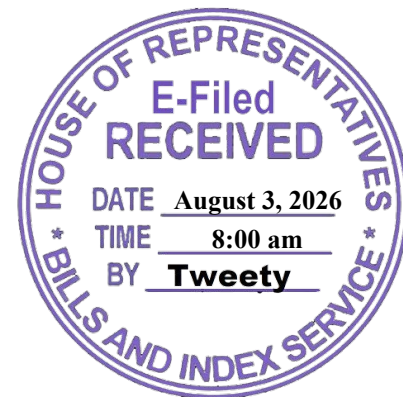




Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

TWENTIETH CONGRESS
Second Regular Session

HOUSE BILL NO. 10470



Introduced by Representative Ma. Victoria Co-Pilar

EXPLANATORY NOTE

Filipino consumers continue to pay among the highest electricity rates in Southeast Asia. Despite efforts to improve the country's power sector, consumers remain liable for charges that do not correspond to the electricity they actually consume.

Under Section 10 of Republic Act No. 7832, distribution utilities and electric cooperatives are allowed to recover a prescribed level of distribution system losses from consumers through electricity rates. Section 43(f) of Republic Act No. 9136, or the *Electric Power Industry Reform Act of 2001 (EPIRA)*, authorizes the Energy Regulatory Commission (ERC) to establish the methodology for determining recoverable system loss charges. Pursuant to this authority, the ERC through its Resolution No. 20, s. 2017, currently allows private distribution utilities to recover up to 5.5% system losses, while electric cooperatives may recover 8.25% to 12%, depending on their classification.

The rationale behind allowing the recovery of system losses is to recognize that a certain amount of electricity is inevitably lost in the process of delivering power from generation facilities to end-users. As such, distribution utilities are currently allowed to pass a portion of these losses to consumers through electricity rates. In effect, consumers pay not only for the electricity they actually use but also for electricity that did not even reach them. This then raises the fundamental question of whether consumers should bear expenses arising from operational risks and inefficiencies beyond their control.

System losses consist of both technical losses, which occur during the transmission and distribution of electricity, and non-technical losses resulting from electricity pilferage, unauthorized connections, and other operational inefficiencies. Although technical losses may be inevitable to some extent, this representation argues that requiring consumers to pay for system losses effectively transfers to them the financial consequences of circumstances that are entirely beyond their control and even beyond their responsibility. It weakens the incentive for distribution entities to modernize their infrastructure and improve operational efficiency to reduce technical losses and intensify efforts to prevent electricity theft and unauthorized connections. As a matter of fairness and sound regulatory policy, the costs arising from operational risks and inefficiencies should be borne by the entities responsible for managing the distribution system they themselves design and operate, rather than by consumers who merely purchase and pay for the electricity that is actually delivered to them.

This bill seeks to prohibit the recovery of all system losses from consumers by amending Section 43(f) of Republic Act No. 9136 and Section 10 of Republic Act No. 7832. Instead, distribution utilities and electric cooperatives shall bear these losses as part of their operational responsibility, while the ERC shall strengthen efficiency standards and technical loss reduction targets to promote accountability, operational excellence, and more equitable electricity pricing.

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

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A handwritten signature in black ink, appearing to be "S. J. H. V." or similar, written in a cursive style.



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TWENTIETH CONGRESS
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HOUSE BILL NO. 10470

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AN ACT

**PROHIBITING THE RECOVERY OF SYSTEM LOSSES FROM THE CONSUMERS,
THEREBY AMENDING SECTION 43(f) OF REPUBLIC ACT NO. 9136, OTHERWISE
KNOWN AS THE ELECTRIC POWER INDUSTRY REFORM ACT OF 2001, AND
SECTION 10 OF REPUBLIC ACT NO. 7832, OTHERWISE KNOWN AS THE ANTI-
ELECTRICITY AND ELECTRIC TRANSMISSION LINES/MATERIALS PILFERAGE
ACT OF 1994**

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

SECTION 1. Section 43(f) of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001, is hereby amended to read as follows:

“Section 43. Functions of the ERC. - Xxx

Xxx

(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. The rates must be such as to allow the recovery of just and reasonable costs and a reasonable return on rate base (RORB) to enable the entity to operate viably. The ERC may adopt alternative forms of internationally-accepted rate-setting methodology as it may deem appropriate. The rate-setting methodology so adopted and applied must ensure a reasonable price of electricity. The rates prescribed shall be non-discriminatory; **PROVIDED, THAT SYSTEM LOSSES, TECHNICAL OR NON-TECHNICAL, SHALL NOT BE RECOVERED FROM, CHARGED, OR PASSED ON TO THE CONSUMERS, DIRECTLY OR INDIRECTLY, AND SHALL BE TREATED AS OPERATIONAL LOSSES TO BE BORNE BY THE DISTRIBUTION ENTITIES AND ELECTRIC COOPERATIVES; PROVIDED FURTHER, THAT THE ERC SHALL SET AND ENFORCE EFFICIENCY PERFORMANCE STANDARDS AS A BASIS FOR THE RECOVERY OF OPERATIONAL COSTS.** To achieve this objective and to ensure the complete removal of cross subsidies, the cap on the recoverable rate of system losses prescribed in Section 10 of Republic Act No. 7832, is hereby ~~amended~~ **REPEALED** and shall be ~~replaced by caps which shall be determined by the ERC based on load density, sales mix, cost of service, delivery voltage and other technical considerations it may promulgate~~ **CONSTRUED AS DISALLOWANCE OF**

SYSTEM LOSSES RECOVERY FROM THE CONSUMERS. The ERC shall determine such form or rate-setting methodology, which shall promote efficiency. In case the rate setting methodology used is RORB, it shall be subject to the following guidelines:

(i) Xxx

(ii) Xxx

(ii) In determining eligible cost of services that will be passed on to the end-users, the ERC shall establish minimum efficiency performance standards for the TRANSCO and distribution utilities including ~~systems—losses~~ **TECHNICAL LOSS REDUCTION TARGETS**, interruption frequency rates, and collection efficiency;

Sec. 2. Section 10 of Republic Act No. 7832, otherwise known as the Anti-Electricity and Electric Transmission Lines/Materials Pilferage Act of 1994, is hereby repealed to remove the cap on the recoverable rate of system losses and prohibit the recovery of system losses from the consumers.

Sec. 3. Implementing Rules and Regulations. Within ninety (90) days from the effectivity of this Act, the Energy Regulatory Commission, in consultation with relevant government agencies, power industry stakeholders, and consumers, shall formulate the necessary rules and regulations for the effective implementation of this Act.

Sec. 4. Repealing Clause. All laws, decrees, executive orders, rules and regulations, issuances or parts thereof inconsistent with this Act are hereby repealed or amended accordingly.

Sec. 5. Separability Clause. If any section or provision of this Act shall be declared invalid or unconstitutional, the remaining sections or provisions of this Act shall not be affected by such declaration and shall remain in force and effect.

Sec. 6. Effectivity. This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in at least one (1) newspaper of general circulation: Provided, That the online posting in the website of Official Gazette shall be considered as sufficient publication under this section.

Approved,