

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

TWENTIETH CONGRESS
Second Regular Session



HOUSE BILL NO. 10506

Introduced by:

HON. CHRISTOPHERSON “COCO” M. YAP

AN ACT

PROHIBITING PRIVATE ELECTRIC UTILITIES FROM RECOVERING SYSTEM LOSSES FROM CONSUMERS, LIMITING THE RECOVERABLE SYSTEM LOSSES OF RURAL ELECTRIC COOPERATIVES TO FIVE PERCENT (5%), PROVIDING FOR THE VERIFICATION AND USE OF SYSTEM-LOSS CHARGES, AMENDING FOR THE PURPOSE REPUBLIC ACT NO. 7832, AS AMENDED, AND FOR OTHER PURPOSES

EXPLANATORY NOTE

Electricity is not a luxury but a basic necessity that powers our homes, schools, hospitals, farms, and businesses. Every Filipino family depends on electricity for their daily lives, yet many continue to struggle with high and rising power bills. Consumers should only pay for the electricity they actually use and for costs that are fair, reasonable, and necessary. They should not be made to shoulder expenses caused by theft, poor maintenance, inefficient operations, or management failures that are beyond their control.

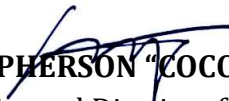
Under existing laws, distribution utilities are allowed to recover certain system losses through electricity rates, subject to rules set by the Energy Regulatory Commission (ERC). While some technical losses are unavoidable in delivering electricity, many losses result from illegal connections, electricity theft, defective equipment, billing errors, and operational inefficiencies. These are problems that should be addressed by the utility itself, not passed on to hardworking consumers who faithfully pay their bills every month.

This bill seeks to put consumers first by prohibiting private electric utilities from charging consumers for any system loss. For rural electric cooperatives, which often

serve remote and difficult-to-reach communities, the bill allows only verified and unavoidable technical losses to be recovered, subject to a strict maximum cap of five percent (5%) and prior approval by the ERC. The measure also requires full transparency by ensuring that any approved system-loss charge is clearly shown in electricity bills and used only for projects that improve the distribution system and reduce future losses. Non-technical and administrative losses, including electricity theft, meter tampering, billing mistakes, collection inefficiencies, and poor management, can never be charged to consumers.

This measure promotes fairness, accountability, and transparency in the power sector. It encourages distribution utilities to improve their systems instead of passing the cost of their inefficiencies to the public. More importantly, it protects Filipino families from paying for electricity they never consumed and expenses they never caused. At a time when every peso counts, this bill will help make electricity rates more just, affordable, and responsive to the needs of the Filipino people.

In view of the foregoing, **ug sa ngalan sa SERBISYONG TINUORAY**, the undersigned respectfully requests the immediate passage of this measure.


CHRISTOPHERSON "COCO" M. YAP
Representative, Second District of Southern Leyte

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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 “*Electricity System Loss Reduction and Consumer Protection Act.*”

SECTION 2. Declaration of Policy. — It is the policy of the State to protect electricity consumers from charges arising from pilferage, meter tampering, billing errors, administrative inefficiency, inadequate collection systems, and other losses that are attributable to the negligence, inefficiency, or failure of a distribution utility to maintain an efficient and reliable distribution system.

The State likewise recognizes that unavoidable technical losses may arise from the operation of an electricity distribution system. Such losses may be recovered only to the extent authorized by this Act, subject to verification, efficiency standards, due process, and the protection of consumers from unreasonable electricity rates.

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

- (a) **Distribution utility** refers to any private electric utility or rural electric cooperative authorized to distribute electricity to end-users;
- (b) **Private electric utility** refers to a privately owned distribution utility authorized by law or franchise to engage in the distribution of electricity;
- (c) **Rural electric cooperative** refers to an electric cooperative organized and operating under applicable Philippine laws and regulations;
- (d) **System loss** refers to the difference between the kilowatt-hours purchased or generated and the kilowatt-hours sold by a distribution utility, expressed as a percentage of the kilowatt-hours purchased or generated;
- (e) **Technical loss** refers to the unavoidable loss of electrical energy inherent in the physical operation of conductors, transformers, and other distribution-system equipment, including verified technical metering losses;
- (f) **Non-technical loss** refers to energy lost through pilferage, theft, meter tampering, illegal connections, meter-reading errors, billing errors, and similar causes; and
- (g) **Administrative loss** refers to unbilled energy, energy used for the proper operation of the distribution system, and losses arising from administrative, billing, collection, or managerial inefficiency.

The Energy Regulatory Commission (ERC) shall issue the technical standards for the classification and measurement of system losses, consistent with this Act and the Philippine Distribution Code.

SECTION 4. Prohibition on Recovery of System Losses by Private Electric Utilities. — A private electric utility shall not charge, recover, or pass on to its consumers any system loss, whether classified as technical, non-technical, or administrative loss.

No system-loss charge, adjustment, surcharge, or substantially similar charge shall be included in the rates, bills, or other charges imposed by a private electric utility.

The prohibition under this section shall not prevent the ERC from requiring a private electric utility to report, measure, and reduce its technical, non-technical, and administrative losses for regulatory, monitoring, and enforcement purposes.

SECTION 5. Limitation on Recoverable System Losses of Rural Electric Cooperatives. — A rural electric cooperative may recover from its consumers only verified and unavoidable technical losses, subject to the following conditions:

- (a) The recoverable technical loss shall not exceed five percent (5%) of the rural electric cooperative's verified kilowatt-hour purchases or generation;
- (b) Non-technical and administrative losses shall not be recovered from consumers under any circumstance;
- (c) Technical losses arising from design defects, obsolete or inadequately maintained facilities, unauthorized expenditures, managerial inefficiency, project delays not excused by force majeure, or failure to comply with applicable technical standards shall not be recoverable;
- (d) The recoverable technical loss shall be determined by the ERC through a transparent and evidence-based process, after due notice and hearing; and
- (e) The ERC may prescribe a lower cap or phase out the recovery of technical losses entirely when warranted by the efficiency, financial condition, and operating characteristics of the rural electric cooperative, without exceeding the maximum cap established under this Act.

SECTION 6. Determination and Verification of System-Loss Charges. — The ERC shall determine the allowable system-loss charge of each rural electric cooperative on an annual basis, based on the cooperative's verified system-loss data for the immediately preceding twelve-month period.

The ERC shall independently verify the following:

- (a) The kilowatt-hours purchased or generated and sold;
- (b) The classification of losses as technical, non-technical, or administrative;
- (c) The necessity, prudence, and efficiency of the expenditures relied upon by the rural electric cooperative;
- (d) The compliance of the cooperative's facilities and operations with applicable technical and performance standards; and

- (e) The implementation of measures to reduce system losses.

No system-loss charge shall be collected unless approved by the ERC. The ERC shall disallow any amount that is unsupported, excessive, duplicative, attributable to inefficiency, or otherwise not recoverable under this Act.

The ERC shall establish procedures for the refund or crediting of amounts collected in excess of the approved system-loss charge, including the payment of applicable interest when warranted.

SECTION 7. Use of Authorized System-Loss Charges. — All system-loss charges authorized under this Act shall be separately identified in the consumer's bill and shall be placed in a segregated account.

The charges shall be used exclusively for:

- (a) The repair, rehabilitation, upgrading, or replacement of distribution lines, transformers, meters, and related facilities;
- (b) The installation of technologies and equipment that reduce technical and non-technical losses;
- (c) Meter modernization, inspection, testing, and anti-pilferage measures; and
- (d) Other system-loss reduction projects expressly approved by the ERC.

System-loss charges shall not be used for dividends, bonuses, entertainment expenses, unrelated capital projects, penalties, fines, interest arising from unexcused delays, or administrative expenses not directly connected with an approved system-loss reduction program.

The ERC shall require each rural electric cooperative to submit an annual report on the collection and use of system-loss charges and shall make the report available to the public.

SECTION 8. Performance-Based Reduction and Phaseout. — The ERC shall establish measurable system-loss reduction targets for every rural electric cooperative authorized to recover technical losses.

The ERC shall periodically reduce the allowable cap when the cooperative fails to meet its approved reduction targets, subject to notice and hearing. The ERC shall phase out the recovery of technical losses when the cooperative's system and financial conditions permit, consistent with the protection of consumers and the continued provision of safe, adequate, reliable, and affordable electricity service.

SECTION 9. Consumer Protection and Transparency. — Every distribution utility shall separately disclose in its electricity bill:

- (a) The amount of energy purchased or generated;
- (b) The amount of energy sold;
- (c) The technical, non-technical, and administrative losses reported;
- (d) The system-loss charge, if any, separately stated in pesos and as a percentage;
and
- (e) The ERC order or authority supporting the collection of the charge.

The ERC shall maintain and publish a current comparative report on the system-loss performance of all distribution utilities.

SECTION 10. Prohibited Acts and Sanctions. — A distribution utility, officer, employee, or agent that knowingly charges or recovers a system loss prohibited under this Act, or collects an amount in excess of the amount approved by the ERC, shall be subject to the administrative penalties, refund orders, and other sanctions authorized under Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001," and other applicable laws.

The imposition of administrative sanctions shall be without prejudice to civil, criminal, or other administrative liability under existing laws.

SECTION 11. Amendatory Provision. — Section 10 of Republic Act No. 7832, as amended, is hereby further amended, insofar as applicable, to read as follows:

"SECTION 10. Rationalization of System Losses. — No private electric utility shall recover or pass on any system loss to its consumers.

“A rural electric cooperative may recover only verified and unavoidable technical losses, subject to a maximum cap of five percent (5%) and the conditions, verification requirements, reduction targets, and phaseout mechanism provided under the Electric System Loss Reduction and Consumer Protection Act.

“Non-technical and administrative losses, including losses attributable to pilferage, theft, meter tampering, illegal connections, billing or meter-reading errors, collection inefficiency, managerial inefficiency, design defects, and failure to maintain or upgrade the distribution system, shall not be recovered from consumers.”

Section 43(f) of Republic Act No. 9136 is hereby amended accordingly. The ERC shall exercise its authority to prescribe system-loss caps consistently with the absolute prohibition applicable to private electric utilities and the five-percent (5%) maximum cap applicable to rural electric cooperatives under this Act.

SECTION 12. Exclusion of Authorized System-Loss Charges from the Value-Added Tax Base. — The National Internal Revenue Code of 1997, as amended, is hereby amended so that a system-loss charge separately identified in the bill of a rural electric cooperative and approved by the ERC under this Act shall not form part of the gross receipts or taxable base subject to value-added tax.

The Department of Finance and the Bureau of Internal Revenue shall issue the necessary rules to implement this section, consistent with the National Internal Revenue Code, as amended.

SECTION 13. Implementing Rules and Regulations. — Within ninety (90) days from the effectivity of this Act, the ERC, in consultation with the National Electrification Administration, rural electric cooperatives, consumer groups, and other affected stakeholders, shall promulgate the rules necessary for its implementation.

The rules shall include uniform accounting, measurement, reporting, audit, consumer-disclosure, refund, and system-loss reduction standards.

SECTION 14. Transitory Provision. — Within six (6) months from the effectivity of this Act, the ERC shall review and revise all existing orders, rate-setting methodologies, and approved system-loss caps to conform to this Act.

Until the ERC issues the required revised orders, no private electric utility may impose or recover a system-loss charge. A rural electric cooperative may continue to collect only an existing system-loss charge that does not exceed five percent (5%), and only until the ERC completes its verification under this Act.

SECTION 15. Separability Clause. — If any provision of this Act is declared invalid or unconstitutional, the other provisions not affected thereby shall remain in full force and effect.

SECTION 16. Repealing Clause. — All laws, decrees, executive orders, rules, regulations, issuances, or parts thereof inconsistent with the provisions of this Act are hereby repealed, amended, or modified accordingly.

SECTION 17. Effectivity. — This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,