



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

Twentieth Congress
Second Regular Session

HOUSE BILL NO. **10602**



Introduced by HON. FERDINAND L. HERNANDEZ
and ATTY. MIRO S. QUIMBO

EXPLANATORY NOTE

Electricity is not a luxury. It is an essential service that powers our homes, schools, hospitals, farms, factories, and businesses of every size. Each home - big or small - and each enterprise - big or small - depends on stable and reasonably priced electricity.

Recognizing its importance, the Electric Power Industry Reform Act of 2001 (EPIRA) declares as a policy of the State the provision of quality, reliable, secure, and affordable electric power. Yet despite this policy objective, electricity remains one of the most significant, recurring expenses of Filipino households and businesses. Electricity costs continue to heavily weigh on family budgets and production costs, ultimately affecting the prices of goods and services throughout the economy.

In May 2026, the overall residential electricity rate in the Meralco service area, including Metro Manila, stood at ₱14.3345 per kilowatt-hour¹, about 16.9% higher than the ₱12.2628 per kilowatt-hour recorded in May

¹ Manila Electric Company. 2026. *Lower Meralco Power Rates for May: ERC-Approved Measure Helped Offset Generation Charge Increase*. 13 May 2026, pp. 1-2.

2025.² This increase occurred amid global fuel-price pressures arising from geopolitical tensions in the Middle East, reflecting the continuing volatility of power costs.

While we recognize that electric utilities and other industry participants invest substantial capital to build, maintain, and operate the country's power system, we believe that electricity is unlike an ordinary commercial product. Because it is foundational to modern life, the charges imposed on consumers should be just, fair, and reasonable.

An electricity bill today already contains numerous charges, from generation, transmission, distribution, universal charges to taxes. Among these, one of the most difficult to justify is the imposition of the 12% Value Added Tax (VAT) on system loss charges.

To understand why the imposition of tax on this particular charge lacks sufficient justification, it is first necessary to clarify the meaning and scope of "system loss." "System Loss" refers to energy lost in an electric system in the process of delivering electricity to consumers or end-users. Lost energy may be caused either by technical factors or by non-technical factors like pilferage.³

While the law presently allows utilities to recover a percentage of system loss from consumers, imposing VAT on such effectively taxes consumers on electricity they never actually consumed. Taxing system loss runs contrary to the principle that VAT should apply to actual value added in the consumption of goods or services. Consumers have no control over system losses, yet they are made to bear not only the cost of such losses but also the tax imposed on them.

² Manila Electric Company, "Lower Rates This May 2025," 13 May 2025, <https://www.meralco.com.ph/press-releases/2025/05/13/meralco-lowers-rates-this-may-2025>.

³ Energy Regulatory Board, 1998. *Guidelines Implementing Executive Order No. 173 for the Segregation and Unbundling of the Power Tariffs of the National Power Corporation and the Electric Distribution Utilities*. Art. I, sec. 3(p), 22 December 1998. Supreme Court E-Library.

Removing the VAT on system loss charges is therefore a reasonable consumer relief measure.

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



HON. FERDINAND L. HERNANDEZ
Representative
Second District, South Cotabato



ATTY. MIRO S. QUIMBO
Representative
Second District, Marikina City



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AN ACT
EXEMPTING FROM VALUE-ADDED TAX (VAT) SYSTEM
LOSS CHARGE IN THE SALE OF ELECTRICITY TO
RESIDENTIAL AND COMMERCIAL CONSUMERS,
AMENDING FOR THE PURPOSE SECTION 109 OF THE
NATIONAL INTERNAL REVENUE CODE OF 1997, AS
AMENDED

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

SECTION 1. *Short Title.* - This Act shall be known as the "*VAT Exemption on System Losses Act* "

SEC. 2. Section 109 of the National Internal Revenue Code of 1997, as amended, is hereby further amended to read as follows:

"Section 109. Exempt Transactions. -

(1) Subject to the provisions of Subsection (2) hereof, the following

transactions shall be exempt from the VAT:

x x x

(EE) THE PORTION OF THE SALE OF ELECTRICITY BY DISTRIBUTION UTILITIES, INCLUDING ELECTRIC COOPERATIVES, TO RESIDENTIAL AND COMMERCIAL END-USERS CORRESPONDING TO THE SYSTEM LOSS CHARGE ATTRIBUTABLE TO RECOVERABLE DISTRIBUTION SYSTEM LOSSES, AS DETERMINED AND APPROVED BY THE ENERGY REGULATORY COMMISSION PURSUANT TO EXISTING LAWS, RULES AND REGULATIONS.

AS USED IN THIS SUBSECTION:

- I. DISTRIBUTION SYSTEM LOSS REFERS TO THE DIFFERENCE BETWEEN THE ELECTRIC ENERGY INPUT AND ELECTRIC ENERGY OUTPUT IN A DISTRIBUTION SYSTEM FOR A SPECIFIED BILLING PERIOD OR SET OF BILLING PERIODS; AND**
- II. SYSTEM LOSS CHARGE REFERS TO THE CHARGE REPRESENTING THE RECOVERY OF THE COST OF POWER ATTRIBUTABLE TO DISTRIBUTION SYSTEM LOSS, SUBJECT TO THE APPLICABLE DISTRIBUTION SYSTEM LOSS CAP PRESCRIBED BY THE ENERGY REGULATORY COMMISSION.**

SEC. 3. *Implementing Rules and Regulations.* — Within sixty (60) days from the effectivity of this Act, the Secretary of Finance, after due consultation with the Secretary of Energy and the Energy Regulatory Commission, shall

promulgate the necessary rules and regulations to carry out the provisions of the Act.

SEC. 4. *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.

SEC. 5. *Repealing Clause.* — All laws, decrees, orders, rules, and regulations or parts thereof inconsistent with this Act are hereby repealed, amended, or modified accordingly.

SEC. 6. *Effectivity.* — This Act shall take effect after fifteen (15) days following its publication in the Official Gazette or in a newspaper of general circulation.

Approved,



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² Manila Electric Company, "Lower Rates This May 2025," 13 May 2025, [manilaelectric.com](#).

³ Energy Regulatory Board. 1998. *Guidelines Implementing Executive Order No. 473 for the Segregation and Unbundling of the Power Tariffs of the National Power Corporation and the Electric Distribution Utilities*. Art. I, sec. 3(p), 22 December 1998. Supreme Court E-Library.