

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

TWENTIETH CONGRESS
Second Regular Session

HOUSE BILL NO. 10690



Introduced by **ANG PROBINSYANO**
Party-List Representative Alfred Delos Santos

EXPLANATORY NOTE

Rising prices continue to strain Filipino households. Headline inflation rose to 6.2 percent in July 2026, down only slightly from 6.4 percent in the preceding month.¹ Such inflation rates are carried over to costs related to housing, water, electricity, gas, and other fuels. Electricity is a large part of this burden by design: as of 2026, Philippine residential electricity rates were already among the highest in Southeast Asia, surpassing even Singapore.² For households already stretched thin, a meaningful share of that bill has nothing to do with the electricity they consumed.

That share is the System Loss Charge. Under Republic Act No. 7832 (1994) and Republic Act No. 9136, the Electric Power Industry Reform Act of 2001, distribution utilities and electric cooperatives are allowed to pass on to consumers the cost of electricity lost within their own networks, whether through outdated equipment, poor maintenance, or theft. Private utilities may currently recover as much as 8.5 percent of total kilowatt-hours purchased and generated, while electric cooperatives, which serve the overwhelming majority of rural and provincial consumers, may recover up to 13 percent, nearly half again as much.

In practice, this means the very consumers who already contend with less reliable service, older infrastructure, and fewer alternatives than their counterparts in Metro Manila are also the ones most exposed to paying for electricity that never reached their homes. System loss typically makes up not less than five percent of a household's monthly bill, and, as currently treated, is subject to the 12 percent value-added tax on top of that.

¹ Philippine Statistics Authority, "Summary Inflation Report Consumer Price Index (2018=100): July 2026," August 5, 2026, available at: <https://psa.gov.ph/price-indices/cpi-ir>

² Brix Lelis, "DOE: Philippines power rates now highest in SEA," PhilStar Global, July 21, 2026, available at: <https://www.philstar.com/headlines/2026/07/21/2543545/doe-philippines-power-rates-now-highest-sea>

This is not a new concern, nor is it one this representation raises for the first time. Versions of this measure have been filed in before, and the elimination of system loss charges has since been raised as a policy priority by the current administration, with President Ferdinand Romualdez Marcos Jr. declaring it as a top priority legislation, going as far as explicitly demanding Congress amend EPIRA to stop both the system loss charge and its VAT from being passed to consumers. At its core, this measure asks a simple question: should consumers bear the cost of electricity that never reaches them, or should that remain a business risk of the entities that own and operate the distribution system? Consumers do not design distribution networks, choose feeder conditions, replace aging transformers, or prevent electricity theft.

These are matters entirely within the control of distribution utilities and electric cooperatives, and Article XII of the 1987 Constitution subjects public utilities precisely to this kind of State regulation in the public interest. Congress may determine which costs may lawfully form part of a regulated electricity rate, and which must instead be absorbed as an ordinary cost of doing business by the entity that controls the system. This bill takes the more direct path. Rather than merely narrowing the tax base, as prior proposals have done by exempting the System Loss Charge from value-added tax while leaving the underlying charge intact, this measure prohibits the recovery of distribution system loss from consumers altogether, whether technical or non-technical in origin.

Once that recovery is prohibited, no taxable consumer charge exists for value-added tax to attach to in the first place; the VAT problem is resolved as a direct consequence of removing the charge itself, not through a separate carve-out in the tax code. This bill accordingly amends Republic Act No. 7832 and Republic Act No. 9136 to bar distribution utilities and electric cooperatives from billing, collecting, or otherwise recovering system loss costs, in any form and under any name, from electricity end-users, while preserving their ability to recover the legitimate, audited cost of modernizing and maintaining their networks, with particular support extended to electric cooperatives serving geographically isolated, disaster-prone, and underserved provincial communities.

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


ALFRED C. DELOS SANTOS
Representative, Ang Probinsyano Party-List

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Introduced by **ANG PROBINSYANO**
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**AN ACT PROHIBITING THE DIRECT OR INDIRECT RECOVERY OF
DISTRIBUTION SYSTEM LOSS CHARGES, INCLUDING ANY VALUE-ADDED
TAX ATTRIBUTABLE THERETO, FROM ELECTRICITY CONSUMERS,
GIVING PRIORITY TO THE MODERNIZATION OF DISTRIBUTION SYSTEMS
IN RURAL AND PROVINCIAL AREAS, AMENDING FOR THE PURPOSE
REPUBLIC ACT NO. 7832, AS AMENDED, AND 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 "System Loss
Elimination Act."

SECTION 2. *Declaration of Policy.* - It is the policy of the State to protect
the rights of every electricity consumer without compromising the viability of
distribution utilities' and electric cooperatives' operations. Electricity is an
indispensable commodity for economic growth and social welfare, and reliable
service at a just and reasonable cost is a matter of basic equity for every Filipino
household, particularly those in rural and provincial areas that already contend
with less reliable service and fewer alternatives than urban centers.

To this end, it is hereby declared the policy of the State to protect electricity
consumers from unreasonable and avoidable charges; to promote transparent,
just, and reasonable electricity rates; to require distribution utilities and electric
cooperatives to operate efficiently and accountably; to encourage continuing
investment in safe, modern, and reliable distribution systems, with priority given
to underserved rural and provincial networks; and to place responsibility for
distribution system loss upon the entity that owns, operates, manages, or

controls the distribution network, consistent with the principle that financial responsibility should follow operational control.

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

- (a) **Distribution system loss** refers to the difference between the total electrical energy received by a distribution utility at its points of delivery and the total electrical energy delivered and properly metered to end-users and other authorized recipients, including technical and non-technical losses;
- (b) **Technical system loss** refers to electricity lost because of the physical characteristics, design, condition, operation, or maintenance of distribution lines, transformers, substations, meters, and other distribution facilities;
- (c) **Non-technical system loss** refers to electricity lost because of pilferage, illegal connections, meter tampering, inaccurate metering, billing or administrative errors, unregistered consumption, fraud, or other causes not arising solely from the physical delivery of electricity;
- (d) **Distribution utility** refers to any private corporation, government-owned utility, local government unit, or other entity, other than an electric cooperative, authorized to distribute electricity to users;
- (e) **Electric cooperative** refers to a distribution utility organized under Presidential Decree No. 269, as amended, or other applicable law, that primarily serves rural, provincial, and franchise areas outside Metro Manila;
- (f) **End-users** means any person or entity requiring the supply and delivery of electricity for its own use;
- (g) **Direct or indirect recovery** refers to the billing, collection, allocation, embedding, capitalization, deferral, reimbursement, reclassification, imputation, or recovery of any amount from an end-user, regardless of the name, rate component, account, formula, methodology, or mechanism used; and
- (h) **Prohibition Date** means the date established under Section 15 of this Act upon which the complete prohibition against the recovery of distribution system loss shall commence.

SECTION 4. *Allocation of Distribution-System Risk.* — Technical and non-technical distribution system losses shall be considered inherent operational and business risks of the distribution utility or electric cooperative that owns, operates, manages, or controls the distribution system in which the losses occurred.

The physical unavoidability of a portion of technical system loss shall not constitute legal or regulatory authority to recover its cost from an end-user.

Distribution system loss shall be for the sole account of the distribution utility or electric cooperative concerned and shall not constitute a prudent, reasonable, eligible, or recoverable cost for purposes of determining any retail rate, distribution wheeling charge, revenue requirement, rate base, regulatory asset, deferred account, true-up adjustment, surcharge, rider, or other amount payable by an end-user.

SECTION 5. *Prohibition Against Direct or Indirect Recovery.* — Beginning on the Prohibition Date, no distribution utility, electric cooperative, retail electricity supplier, local retail electricity supplier, supplier of last resort, billing agent, or other person or entity billing electricity end-users shall directly or indirectly charge, bill, allocate, collect, or otherwise recover any distribution system loss from an end-user.

The prohibition shall apply to technical and non-technical system losses regardless of the name, description, account, tariff, adjustment mechanism, regulatory methodology, or billing arrangement used, and shall apply uniformly to private distribution utilities and electric cooperatives alike.

SECTION 6. *Prohibition Against Circumvention and Offset.* — No regulated entity shall recover or offset distribution system loss by:

- (a) Changing the name or description of the charge;
- (b) Incorporating or embedding the cost in another rate or billing component;
- (c) Creating or modifying a rider, surcharge, adjustment mechanism, regulatory asset, deferred account, true-up mechanism, or similar device;
- (d) Increasing another regulated charge for the purpose of recovering, replacing, or offsetting prohibited system-loss revenue;
- (e) Transferring the cost through an affiliate, subsidiary, contractor, supplier, or related entity; or
- (f) Adopting any other arrangement that has the purpose or effect of transferring distribution system loss to end-users.

In reviewing any rate application filed after the effectivity of this Act, the Energy Regulatory Commission (ERC) shall determine whether the requested rate or revenue requirement directly or indirectly restores, replaces, or offsets any prohibited system-loss recovery. Any amount determined to have such purpose or effect shall be disallowed.

SECTION 7. *Consequential Treatment of Value-Added Tax.* — No value-added tax attributable to any distribution system-loss amount prohibited under this Act shall be billed, collected, allocated, or passed on to an electricity end-user.

This section shall not be construed as granting a tax exemption for an otherwise lawful charge. It recognizes that no taxable consumer charge exists with respect to a distribution system-loss amount whose recovery is prohibited by law. The Bureau of Internal Revenue shall issue the necessary conforming rules on invoicing, accounting, tax adjustment, credit, and refund treatment consistent with this Act.

SECTION 8. *Amendment of Section 10 of Republic Act No. 7832.* — Section 10 of Republic Act No. 7832, as amended, is hereby amended to read as follows:

"Sec. 10. Distribution System Losses. — No private electric utility, electric cooperative, government-owned utility, local government unit, or other distribution utility shall directly or indirectly recover any technical or non-technical distribution system loss from an electricity end-user.

All distribution system losses shall be for the sole account of the distribution utility or electric cooperative concerned and shall not constitute a recoverable operating expense, pass-through cost, regulatory asset, or component of any rate or charge imposed upon an end-user.

The Energy Regulatory Commission shall establish, monitor, and enforce progressively improving system-loss performance standards for both private distribution utilities and electric cooperatives, considering differences in customer density, geography, and network conditions between urban and rural or provincial service areas. Such standards shall be used exclusively for benchmarking, regulatory supervision, corrective action, incentives, and sanctions and shall not constitute authority to recover any portion of distribution system loss from consumers.

Nothing in this section shall prevent a distribution utility or electric cooperative from recovering directly from a person responsible for electricity pilferage, illegal connection, meter tampering, fraud, or other unlawful acts in accordance with this Act and other applicable laws."

SECTION 9. *Amendment of Section 11 of Republic Act No. 7832.* — Section 11 of Republic Act No. 7832, as amended, is hereby amended to read as follows:

"Sec. 11. Area of Coverage. — The prohibition established under Section 10 shall apply to all existing and subsequently added franchise, service, or distribution areas of every private electric utility, electric cooperative, government-owned utility, local government unit, and other distribution utility, without distinction between urban and rural or provincial service areas."

SECTION 10. *Amendment of Section 25 of Republic Act No. 9136.* Section 25 of Republic Act No. 9136 is hereby amended to read as follows:

"Sec. 25. Retail Rate. — The retail rates charged by distribution utilities and electric cooperatives for the supply of electricity in their captive markets shall be subject to regulation by the ERC based on the recovery of prudent and reasonable economic costs actually incurred in providing electricity and distribution services, or such other principles that promote efficiency, affordability, reliability, and consumer protection.

Distribution system loss shall not be considered a prudent, reasonable, eligible, or recoverable economic cost and shall not be directly or indirectly included in any retail rate, distribution charge, revenue requirement, rate base, regulatory asset, adjustment mechanism, or other amount imposed upon an end-user.

Every distribution utility and electric cooperative shall identify and segregate in its bills to end-users all components of the retail rate. No charge shall be imposed or collected unless expressly authorized by law and approved by the ERC."

SECTION 11. *Amendment of Section 43(f) of Republic Act No. 9136.* — The paragraph of Section 43(f) of Republic Act No. 9136 beginning with the words "To achieve this objective and to ensure the complete removal of cross subsidies" is hereby amended to read as follows:

"To achieve this objective and ensure the efficiency of regulated entities, the ERC shall establish, monitor, and enforce system-loss performance standards based on load density, sales mix, cost of service, delivery voltage, network configuration, geographic conditions, and other relevant technical considerations, including standards appropriately calibrated for electric cooperatives serving low-density, rural, or geographically isolated areas.

Such standards shall be used solely for benchmarking, regulatory supervision, corrective action, incentives, and sanctions. Under no circumstance shall such standards authorize the recovery or pass-through of distribution system loss to an end-user."

Item (iii) of the same subsection is hereby amended to read as follows:

"(iii) In determining eligible costs of services that may be passed on to end-users, the ERC shall establish minimum efficiency performance standards for transmission entities, distribution utilities, and electric cooperatives, including system-loss performance, interruption-frequency rates, and collection efficiency: Provided, That distribution system loss shall be excluded from all eligible or recoverable costs and shall not be included in any rate, rate base, revenue requirement, regulatory asset, or adjustment mechanism."

SECTION 12. *Authorized Distribution-System Modernization Investments.*

— Nothing in this Act shall prevent a distribution utility or electric cooperative from applying for the recovery of prudent and reasonable capital expenditures actually incurred for the rehabilitation, modernization, safety, reliability, efficiency, automation, digitalization, or expansion of its distribution system.

No expenditure shall be recoverable unless the ERC determines, after notice and hearing, that it:

- (a) Is necessary and directly related to the provision of distribution service;
- (b) Is technically and economically reasonable;
- (c) Has been procured through a transparent and competitive process, except when another mode is permitted and justified under applicable law;
- (d) Is used and useful in providing service to consumers;
- (e) Does not arise from negligence, mismanagement, regulatory noncompliance, or unjustified delay; and
- (f) Has not been recovered through another rate, subsidy, grant, insurance payment, or other source.

The cost of electricity already lost within the distribution system shall not be treated as a capital investment or modernization expenditure.

SECTION 13. *Distribution Efficiency Plans and Independent Audits.* —

Within one hundred eighty (180) days from the effectivity of this Act, every distribution utility and electric cooperative shall submit to the ERC a five-year Distribution Efficiency and System Loss Reduction Plan containing:

- (a) Its historical technical and non-technical system losses;
- (b) The identified causes of such losses;
- (c) An assessment of the condition of its distribution facilities;
- (d) Annual reduction targets and performance indicators;
- (e) Proposed rehabilitation, modernization, metering, and anti-pilferage measures; and
- (f) The corresponding implementation schedule.

Each distribution utility and electric cooperative shall undergo an independent energy and system-loss audit at least once every two (2) fiscal years. The audit shall verify energy input, metered sales, technical and non-technical losses, billing and accounting practices, metering accuracy, and compliance with this Act.

SECTION 14. *Electric-Cooperative Modernization and Transition Assistance.* — The Department of Energy and the National Electrification Administration shall establish a program providing qualified electric cooperatives with appropriate technical, institutional, and financial assistance for:

- (a) Rehabilitation and modernization of distribution facilities;
- (b) Replacement of obsolete conductors, transformers, meters, and other equipment;
- (c) Installation of advanced metering, automation, and loss-detection systems;
- (d) System planning, network reconfiguration, and load management;
- (e) Anti-pilferage and meter-integrity programs;
- (f) Personnel training and institutional-capacity development; and
- (g) Preparation and implementation of Distribution Efficiency and System Loss Reduction Plans.

Given that electric cooperatives serve the overwhelming majority of rural and provincial electricity consumers and, prior to the effectivity of this Act, were permitted to pass through system loss at nearly half again the rate allowed private distribution utilities, priority and proportionally greater funding under this program shall be given to electric cooperatives serving geographically isolated, disaster-prone, low-density, underserved, or economically disadvantaged provincial areas.

Assistance under this section shall not authorize the recovery of distribution system loss from consumers.

SECTION 15. *Transition and Existing Rate Orders.* — The complete prohibition against billing or collecting distribution system loss and the value-added tax attributable thereto shall begin with the first billing cycle commencing ninety (90) days after the effectivity of this Act.

Within the same period, the ERC shall:

- (a) Identify and remove all system-loss factors from approved retail rates, distribution wheeling charges, revenue requirements, rate bases, adjustment mechanisms, and regulatory accounts;
- (b) Require the revision of billing, accounting, and information systems;
- (c) Prescribe uniform accounting rules separating distribution system loss from recoverable costs; and
- (d) Issue the provisional or final rate adjustments necessary to implement this Act.

During the transition period, no existing system-loss cap may be increased, and no new or expanded system-loss recovery mechanism may be approved. All existing tariffs, rate orders, methodologies, and regulatory issuances shall be deemed modified on the Prohibition Date to the extent necessary to conform with this Act.

SECTION. 16. *Billing Transparency, Refunds, and Bill Credits.* — Every electricity bill shall contain a certification, in a form prescribed by the ERC, that no distribution system-loss charge or value-added tax attributable thereto has been billed, embedded, allocated, or collected from the consumer.

Any amount collected in violation of this Act after the Prohibition Date shall be refunded to the affected consumer or credited against succeeding electricity bills.

The refund or bill credit shall include:

- (a) the unlawfully collected principal amount;
- (b) Any value-added tax or other amount collected thereon; and
- (c) Interest at the legal rate from the date of collection until full refund or credit.

No refund, bill credit, administrative fine, litigation expense, or other liability arising from a violation of this Act shall be included in any regulated rate or passed on to consumers.

SECTION. 17. *Public Distribution-Utility and Electric-Cooperative Performance Scorecards.* — The ERC shall prepare and publish annually, in an accessible and machine-readable format, a performance scorecard for every distribution utility and electric cooperative.

Each scorecard shall contain:

- (a) the utility's or cooperative's technical, non-technical, and total distribution system-loss percentages;
- (b) The national average and the average for utilities or cooperatives with comparable operating conditions, disaggregated between private distribution utilities and electric cooperatives and, where practicable, between urban and provincial service areas;
- (c) The applicable statutory prohibition and regulatory performance standard;
- (d) The reduction or increase in system loss from the preceding year;
- (e) The amount of refunds or bill credits ordered and implemented;
- (f) Interruption-frequency, interruption-duration, service-quality, and other relevant reliability indicators;
- (g) The status of approved modernization and loss-reduction projects, including assistance extended under Section 14 of this Act;
- (h) Enforcement actions and penalties imposed; and
- (i) The utility's or cooperative's comparative ranking among similarly situated distribution utilities or electric cooperatives.

The ERC shall ensure that differences in customer density, geography, voltage level, sales mix, network configuration, and other material operating conditions are clearly disclosed when making comparative rankings.

SECTION 18. *Prohibited Acts and Penalties.* — It shall be unlawful for any person or entity to:

- (a) Bill, collect, allocate, embed, or recover distribution system loss from an end-user;
- (b) Conceal, rename, or misclassify distribution system loss as another rate or billing component;
- (c) Increase another charge for the purpose of replacing or offsetting prohibited system-loss recovery;
- (d) Bill or collect value-added tax attributable to a prohibited system-loss amount;
- (e) Submit false, incomplete, or misleading system-loss, metering, energy-input, sales, or billing information;
- (f) Obstruct an audit, inspection, investigation, or lawful order of the ERC; or
- (g) Knowingly authorize, assist, tolerate, or conceal any violation of this Act.

After notice and hearing, the ERC may order refunds, bill credits, disgorgement, cost disallowance, corrective action, suspension or revocation proceedings, cease-and-desist measures, and the fines or penalties authorized under Section 46 of Republic Act No. 9136 and other applicable laws.

Each billing cycle containing a prohibited charge may be treated as a separate violation.

SECTION 19. *Annual Report to Congress.* — The ERC, in coordination with the Department of Energy and the National Electrification Administration, shall submit an annual report to the appropriate committees of the Senate and the House of Representatives containing:

- (a) Nationwide and utility-specific system-loss performance, disaggregated between private distribution utilities and electric cooperatives;
- (b) The amounts removed from approved electricity rates pursuant to this Act;
- (c) Refunds and bill credits ordered and implemented;
- (d) Enforcement actions and penalties imposed;
- (e) Modernization investments approved by the ERC;
- (f) Assistance extended to electric cooperatives under Section 14 of this Act, disaggregated by province; and
- (g) Recommendations for further legislative or administrative action.

SECTION 20. *Implementing Rules and Regulations.* — Within ninety (90) days from the effectivity of this Act, the ERC, in consultation with the Department of Energy, National Electrification Administration, Bureau of Internal Revenue, distribution utilities, electric cooperatives, consumer organizations, and other concerned stakeholders, shall promulgate the rules and regulations necessary for its implementation.

The implementing rules shall prescribe the procedures and standards for detecting indirect recovery or offset through future rate applications. Failure to issue the implementing rules within the prescribed period shall not delay the Prohibition Date or suspend the enforceability of this Act.

SECTION 21. *Separability.* – If any provision of this Act is declared unconstitutional, the same shall not affect the validity and effectivity of the other provisions hereof.

SECTION 22. *Repealing Clause.* – All laws, decrees, orders, and issuances or portions thereof which are inconsistent with the provisions of this Act are hereby repealed, amended, or modified accordingly.

SECTION 23. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,