TWENTIETH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
Second Regular Session)

SENATE

Senate Bill No. 2350

Introduced by Sen. Win Gatchalian

AN ACT
REMOVING THE BURDEN OF SYSTEM LOSS COSTS FROM CONSUMER ELECTRICITY BILLS, PROHIBITING FOR THE PURPOSE DISTRIBUTION UTILITIES FROM IMPOSING SYSTEM LOSS CHARGES ON CONSUMERS AND REMOVING VALUE ADDED TAX ON THE SALE OF ELECTRICITY THAT BECOMES SYSTEM LOSS, AND FOR OTHER PURPOSES

During his 5th State of the Nation Address on July 27, 2026, President Ferdinand R. Marcos, Jr. pushed electricity affordability as a major concern ripe for government action. One of the targets identified in his speech was the system loss charge. In no uncertain terms, President Marcos, Jr. declared: "We, the people, request – no, we demand – for the immediate amendment of the EPIRA and to prohibit charging systems loss against consumers including the value-added tax thereon." Thus, removing the burden of system loss charges from Filipino consumers was revealed as a priority of the present administration.

System loss is defined as the difference between the electric energy delivered to the distribution system and energy delivered to end-users. These losses can be attributed to technical reasons, such as those inherent in the physical delivery of electric energy. They can also be attributed to non-technical reasons, such as theft, pilferage, and meter tampering, among others. Under the Anti-Electricity and Electric Transmission Lines/Materials Pilferage Act of 1994 (Republic Act No. 7832), as amended by the Electric Power Industry Reform Act of 2001 (Republic Act No. 9136), distribution utilities (DUs) are authorized to recover the costs of system losses incurred by imposing a pass-on charge to consumers based on caps set by the Energy

Regulatory Commission (ERC). In other words, electricity consumers are made to pay for electricity they did not use, in order to answer for technical inefficiencies and outright theft or fraud committed by unscrupulous individuals.

For the average end-user of the Manila Electric Company (MERALCO) consuming 200 kilowatt hours (kWh) per month, the system loss charge usually comprises between five to six percent (5-6%) of the total electricity bill. Over the past twelve months, from August 2025 to July 2026, the average monthly system loss charge was ₱148.95 at the 200 kWh consumption level. Thus, the average MERALCO consumer paid ₱1,787.38 over the past year in system loss charges – excluding the additional value-added tax (VAT) imposed on top of it. Unfortunately, the system loss charge per kWh has steadily risen from ₱0.64 in January 2025 to ₱0.88 in July 2026, representing a 37.6% increase.

In June 2026, the Philippines achieved the dubious distinction of having the highest average electricity rate in Southeast Asia. This distinction has grave implications for the purchasing power of the average Filipino household and the prospects of recovery of our slowing economy. Thus, it is high time to take steps to lower the unconscionably high price of electricity in the Philippines – and as demanded by the President, we will start with system loss charges.

This legislation prevents distribution utilities (DUs) from imposing system loss charges or otherwise collecting or recovering from any end-user the cost of any system loss, whether technical or non-technical in nature. System loss costs illegally collected or recovered by DUs shall be promptly refunded to consumers. To provide additional relief to consumers, this bill also amends the National Internal Revenue Code of 1997 to exempt from VAT transactions on electricity that system loss.

Under the provisions of this Act, the ERC will strictly enforce the prohibition on system loss recovery and continue to monitor the system loss performance of DUs, including measures undertaken to reduce system losses. Meanwhile, the National Electrification Administration (NEA) is required to conduct a comprehensive review of the system loss performance of electric cooperatives with the end view of implementing strengthened programs to provide institutional, financial, and technical support to ECs in decreasing system losses and ensuring continued quality of services to consumers. The bill expressly provides that DUs cannot invoke non-recoverability of system losses as justification for reducing service quality, deferring prudent maintenance or investment, or refusing service to qualified end-users. Administrative fines and potential suspension or revocation of their authorities to operate await any DU who violate the provisions of this Act.

In essence, this bill seeks to provide consumers with immediate financial relief by removing a substantial portion of their monthly electricity bill. It is the sincere hope of this representation that this will be the first of many legislative measures enacted into law before the end of the 20^{th} Congress to make electricity rates more affordable – thus relieving the financial burden on Filipino families and powering our economy to greater heights.

In light of the foregoing, decisive action on this priority measure is earnestly sought.

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

SECTION 1. *Title.* – This Act shall be known as the "System Loss Charge Abolition Act."

SEC. 2. *Declaration of Policy.* – It is hereby the declared policy of the State to ensure the affordability of electricity for consumers. Towards this end, the State shall incentivize distribution utilities to operate with greater efficiency and prohibit the imposition of electricity charges that unduly burden the public.

SEC. 3. *Definition of Terms.* – For purposes of this Act, the following terms shall be defined as stated below: *Provided,* That other terms used in this Act but not defined herein shall be understood to mean the way they are defined in Republic Act No. 9136 or the Electric Power Industry Reform Act of 2001 and its Implementing Rules and Regulations:

a) *Distribution Utility (DU)* refers to any electric cooperative, private distribution utility, government-owned or existing local government unit-owned utility, which has a franchise to operate a distribution system including those whose franchise covers economic zones;

b) *Electric Cooperative (EC)* refers to a distribution utility organized pursuant to Presidential Decree No. 269, as amended, or as otherwise provided in Republic Act No. 9136 otherwise known as the Electric Power Industry Reform Act of 2001;

c) *Distribution Charge* refers to the charge imposed by a DU on its end-users for the conveyance of electricity through its distribution system and for the construction, operation, maintenance, repair, rehabilitation, improvement, replacement, and expansion of the facilities directly necessary for such conveyance;

d) *Energy Input* refers to the energy, in kilowatt hour (kWh), delivered into the distribution system by the transmission system, embedded generating plants, other distribution systems, and user systems with generating facilities;

e) *Energy Output* refers to the energy, in kWh, delivered by the DU to its customers metering point, including energy for the DU's own use;

f) *Non-Technical Losses* refer to the component of System Loss that is not related to the physical characteristics and functions of the electrical system, and is caused primarily by human action, whether intentional or not. Non-Technical Loss includes but shall not be limited to the energy lost due to pilferage, tampering of meters, and erroneous meter reading;

g) *Metering Charge* refers to the charge imposed by a DU on its end-users for the provision of revenue-metering services necessary to measure, record, validate, process, and communicate an end-user's electricity consumption or demand for billing and settlement purposes;

h) *System Loss* refers to the difference between the electric energy delivered to the distribution system (Energy Input) and the energy delivered to the end-users and other entities connected to the system (Energy Output): *Provided,* That it shall be calculated in accordance with Section 4 of this Act;

i) *Supply Charge* refers to the charge imposed by a DU upon its end-users for the provision of retail customer services that are separate from the generation, transmission, distribution, and metering of electricity, including but not limited to billing, collection, customer assistance, and associated services;

j) *Technical Losses* refer to the component of System Loss that is inherent in the physical delivery of electric energy. It includes conductor loss, transformer core loss, and metering equipment.

SEC. 4. *System Loss Calculation.* – For purposes of calculating the System Loss as defined in this Act and for any regulation in relation thereto, the following formula for System Loss shall be followed unless otherwise determined by the ERC:

Total System Loss = Σ Energy delivered by the Transmission System + Σ Energy delivered by the Embedded Generators + Σ Energy delivered by other Distribution Systems + Σ Energy delivered by User Systems with Generating Units - Σ Energy delivered to the Users of the Distribution System – Distribution Utility Use

SEC. 5. *Prohibition on Recovery of System Losses.* – Notwithstanding the provisions of any law, rule, regulation, or other issuance to the contrary, no DU shall impose upon, collect from, or recover from any end-user the cost of any system loss, whether technical or non-technical in nature.

No system loss or cost attributable thereto shall be included, directly or indirectly, in the distribution charge, supply charge, metering charge, or any other charge imposed by the DU on its end-users in any billing statement. No DU shall directly or indirectly recover a prohibited system loss cost by changing its accounting classification, billing designation, contractual treatment, or regulatory presentation.

Any agreement, accounting treatment, cost-allocation method, adjustment mechanism, corporate arrangement, or similar subterfuge intended to evade or defeat the prohibition under this Section shall be void.

Upon the effectivity of this Act, the Energy Regulatory Commission (ERC) shall adopt the necessary rules and regulations to actively monitor and enforce the provisions of this Section and ensure that DUs are prevented from recovering system loss costs through any of the means enumerated herein, or through any similar means, whether directly or indirectly.

SEC. 6. *Refund of Prohibited Collections.* Any amount collected from end-users in violation of Section 5 of this Act shall be refunded automatically, without need of demand, together with interest at the legal rate computed from the date of collection until full refund.

The refund shall be applied as a cash refund or bill credit within the period prescribed by the ERC and shall not be offset by any new or increased charge.

SEC. 7. *Monitoring of System Loss Performance.* – The ERC shall require DUs to disclose, from time to time as it may provide, information on its system loss performance, including data on technical and non-technical system losses incurred as well as measures undertaken by the DU to reduce system losses.

SEC. 8. *Review of System Loss Performance of ECs.* – Within one hundred and eighty (180) days from the effectivity of this Act, the National Electrification Administration (NEA) shall conduct and complete a comprehensive review of the system loss performance of ECs with the end view of implementing strengthened programs to provide institutional, financial, and technical support to ECs in decreasing system losses and ensuring continued quality of services to consumers. The NEA shall furnish the ERC and the Department of Energy (DOE) with a report on its findings within thirty (30) days from completion of the review. The Secretary of Energy shall inform both chambers of Congress in writing of any legislation, including supplemental appropriations, that may necessary to improve the system loss performance of ECs based on the report submitted by the NEA.

SEC. 9. *Non-Diminution of Service Obligations.* – The prohibition on recovery of system loss costs shall not relieve any DU of its obligation to provide adequate, reliable, efficient, safe, and reasonably priced electricity service, maintain and improve its distribution system, prevent electricity theft, replace defective meters and equipment, and undertake all investments reasonably necessary to reduce system losses.

A DU shall not invoke the non-recoverability of system losses as justification for reducing service quality, deferring prudent maintenance or investment, or refusing service to qualified end-users.

SEC. 10. Section 109 of Republic Act No. 8424, as amended, is hereby further amended to read as follows:

> "SEC. 109. *Exempt Transactions.* – The following shall be exempt from the VAT:
>
> (A) xx xx
>
> xx xx
>
> (DD) xx xx
>
> **(EE) SALE, SUPPLY, TRANSMISSION, WHEELING, DISTRIBUTION, SETTLEMENT, OR DELIVERY OF ELECTRICITY, TO THE EXTENT THAT SUCH ELECTRICITY BECOMES SYSTEM LOSS: *PROVIDED*, THAT THE ENERGY REGULATORY COMMISSION SHALL COORDINATE WITH THE BUREAU OF INTERNAL REVENUE TO ESTABLISH THE PROPER ADMINISTRATIVE MECHANISM TO IMPLEMENT THIS PROVISION.**

Sec. 11. *Administrative Offenses and Penalties.* – The following shall be considered administrative offenses committed by DUs under this Act:

a) Imposition on, or collection or recovery from end-users of system loss charges, whether directly or indirectly, under Section 5;
b) Entering into or implementing any agreement, accounting treatment, cost-allocation method, adjustment mechanism, corporate arrangement, or similar

subterfuge intended to evade or defeat the prohibition on recovery of system losses under Section 5;

c) Refusal or failure to refund prohibited collections within the period prescribed by the ERC under Section 6;

d) Failure or refusal to furnish the ERC with system loss performance data or information under Section 7;

e) Invoking the non-recoverability of system losses as justification for reducing service quality, deferring prudent maintenance or investment, or refusing service to qualified end-users, as provided under Section 9.

After due hearing and deliberation, the ERC shall impose the following penalties on DUs found guilty of the offense charged:

a) First offense – Fine of Five Million Pesos (PhP5,000,000.00);
b) Second offense – Fine of Ten Million Pesos (Php10,000,000.00);
c) Third and subsequent offenses – Suspension or revocation of the certificate of public convenience and necessity or equivalent authority to operate as a distribution utility.

Any official or employee of the ERC or any government agency or instrumentality who aids or abets the commission of any of the administrative offenses defined under this Section shall suffer the penalty of suspension or dismissal from public service, at the discretion of the proper disciplining authority.

Sec. 12. *Implementing Rules and Regulations.* – Within ninety (90) days from the effectivity of this Act, ERC, in coordination with DOE, NEA, the Department of Finance, and the Bureau of Internal Revenue, and in consultation with stakeholders, shall promulgate the necessary rules and regulations to implement the provisions of this Act.

Sec. 13. *Separability Clause.* – If any portion or provision of this Act is declared unconstitutional, the remainder of this Act or any provisions not affected thereby shall remain in force and effect.

Sec. 14. *Repealing Clause.* – Section 10 of Republic Act No. 7832 is hereby repealed. Section 43(f) of Republic Act No. 9136 is hereby amended or modified insofar as it is inconsistent with the provisions of this Act. Any other law, presidential decree, executive order, letter of instruction, rule, regulation, or other executive or administrative issuance inconsistent with the provisions of this Act is hereby repealed or modified accordingly.

Sec. 15. *Effectivity.* - This Act shall take effect fifteen (15) days following its complete publication in the Official Gazette or a newspaper of general circulation.

Approved,