Title: National Power Corporation vs. Power Sector Assets and Liabilities Management Corporation

Facts:
The case revolves around the local business taxes assessed by the Office of the Municipal Treasurer of Sual, Pangasinan, against National Power Corporation (NPC) for the years 2006 to 2009. NPC contested these assessments, arguing that after the enactment of the Electric Power Industry Reform Act (EPIRA) on June 26, 2001, its power generation function was legally ceased, and its assets and liabilities were transferred to the Power Sector Assets and Liabilities Management Corporation (PSALM). Despite NPC's contention, the Municipal Treasurer filed a third-party complaint against PSALM, claiming that PSALM, having assumed NPC's assets and liabilities, was liable for the said taxes. PSALM moved to dismiss the complaint, insisting on its separate legal identity from NPC and that it only assumed NPC's liabilities existing as of EPIRA's effectivity.

The case escalated from the Regional Trial Court (RTC) of Lingayen, Pangasinan, which denied PSALM's motion to dismiss, to the Court of Appeals (CA), which set aside the RTC's order and dismissed the third-party complaint against PSALM. NPC then filed a Petition for Review on Certiorari under Rule 45 to the Supreme Court challenging the CA's decision.

Issues:
1. Whether the Court of Appeals erred in dismissing the third-party complaint against PSALM.
2. Whether PSALM should be liable for NPC's local business taxes assessed for the years 2006 to 2009.

Court's Decision:
The Supreme Court denied NPC's petition, affirming the CA's decision. The Court clarified that PSALM was not liable for NPC's local business taxes assessed beyond the effectivity of EPIRA on June 26, 2001, reiterating the principle that PSALM only assumed NPC's liabilities that were existing at the time EPIRA took effect. Further, it was emphasized that NPC's responsibility for power generation had ceased by operation of law with the enactment of EPIRA, and therefore, NPC cannot be held liable for activities beyond this period.

Doctrine:
The ruling reiterates the doctrine that liabilities transferred from a dissolved or restructured corporation to its successor include only those existing at the time of the legal

effectivity of its restructuring or dissolution. In this case, PSALM was not liable for obligations incurred by NPC after the effectivity of the EPIRA law.

Class Notes:
– **Legal Entities and Liabilities Transfer:** Legal entities are separate and distinct; the transfer of liabilities from one entity to another is bounded by the terms of the enabling law or agreement.
– **Liability for Taxes:** The liability for taxes is anchored on specific activities and ownership of properties as of a cut-off date.
– **Cut-off Date in Law:** The cut-off date set by a law (EPIRA in this case) determines the limit of liabilities and responsibilities transferred from one entity to another.
– **Doctrine of Operation of Law:** Certain corporate functions and liabilities can cease or be transferred to another entity by the operation of law without the need for further action.

Historical Background:
The case highlights the legal consequences of the EPIRA, which was enacted to reform the electric power industry in the Philippines by restructuring the National Power Corporation and creating the Power Sector Assets and Liabilities Management Corporation to manage NPC's privatized assets. This decision is illustrative of the legal complexities arising from government efforts to privatize state-owned utilities and the challenges in delineating liabilities transferred to new entities created in the course of privatization.