

### Title: G. Holdings, Inc. vs. Cagayan Electric Power and Light Company, Inc. (CEPALCO) and Ferrochrome Philippines, Inc.

### Facts:

This case involves a dispute arising out of unpaid electric bills and subsequent legal maneuvers aimed at evading payment. It originated from Ferrochrome Philippines, Inc. (FPI) failing to pay CEPALCO for power supplied to its smelting plant, accruing a significant debt. Upon FPI's failure to settle the debt, which reached over P29 million by May 1996, CEPALCO disconnected power and initiated a collection suit in Pasig City. The court favored CEPALCO, leading to an order for FPI to pay over P28 million. FPI's appeal and request for a restraining order on the collection's execution were eventually dismissed.

G. Holdings, Inc. (GHI), later entered the scene, claiming ownership of FPI's smelting facility and assets through a Deed of Assignment executed in consideration for settling debts to GHI. GHI then filed a case seeking to nullify the sheriff's levy and sale action taken as part of CEPALCO's collection efforts. The trial courts found the deed to be either rescissible due to fraud or absolutely simulated. The appellate court upheld these rulings, noting the deed's execution was a maneuver to prevent CEPALCO from collecting its credit.

### Issues:

1. Whether CEPALCO's permissive counterclaim was dismissible for non-payment of docket fees.
2. Whether the Deed of Assignment was absolutely simulated.
3. Whether the rescission of the Deed of Assignment required an independent action.
4. Whether the Deed of Assignment was executed to defraud creditors, evidenced by badges of fraud.
5. Whether GHI is entitled to claims for damages.

### Court's Decision:

The Supreme Court focused on the essence and validity of the Deed of Assignment. It held:

- CEPALCO's counterclaim was compulsory, thus not requiring immediate payment of filing fees at the answer's filing time.
- The Deed of Assignment was an absolutely simulated contract with no intention to transfer actual ownership to GHI, thus void ab initio.
- Given the deed's void nature, considerations of rescission or fraud in execution became irrelevant for the deed's effect.
- On damages, since the deed was void, GHI had no basis for its claims.

### Doctrine:

The court reiterated doctrines on simulation of contracts, particularly distinguishing between absolute and relative simulation. An absolutely simulated or fictitious contract is void from the beginning, producing no legal effects. This scenario underscored that legal maneuvers designed to evade creditor claims through sham agreements would not be upheld.

### Class Notes:

- **Defective Contracts:** Understanding the classifications and implications of rescissible, voidable, unenforceable, and void contracts.
- **Simulation of Contracts:** The distinction between absolute and relative simulation in determining contract validity.
- **Fraudulent Transfers:** The legal framework addressing transactions intended to defraud creditors, focusing on badges of fraud as indicators.
- **Compulsory vs. Permissive Counterclaims:** Criteria and consequences, particularly regarding the payment of docket fees.
- **Legal Remedies for Void Contracts:** The inapplicability of rescission and the principles guiding the nullity of contracts.

### Historical Background:

This case echoed the contemporary judicial scrutiny applied to corporate maneuvers designed to thwart creditor collection efforts. It illustrated the judiciary's role in maintaining fair commercial practices, emphasizing that legal ownership transfers must have substantive reality beyond mere documentation to be recognized legally.