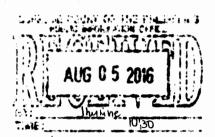


Republic of the Philippines Supreme Court Manila



FIRST DIVISION

FIRST MEGA

HOLDINGS

G.R. No. 208383

CORP.,

Petitioner,

Present:

SERENO, C.J.,*

LEONARDO-DE CASTRO,

Acting Chairperson,***

BERSAMIN,

PERLAS-BERNABE, and

CAGUIOA, JJ.

GUIGUINTO WATER DISTRICT,

- versus -

Respondent.

Promulgated:

JUN 0 8 2016

DECISION

PERLAS-BERNABE, J.:

Assailed in this petition for review on *certiorari*¹ are the Decision² dated March 20, 2013 and the Resolution³ dated July 25, 2013 of the Court of Appeals (CA) in CA-G.R. SP No. 122971, which denied petitioner First Mega Holdings Corp.'s (petitioner) petition for review of the Resolutions dated September 2, 2010⁴ and December 2, 2011⁵ of the National Water Resources Board (NWRB) in Water Use Conflict Case No. 2009-045 denying petitioner's application for a water permit.

On leave.

Per Special Order No. 2354 dated June 2, 2016.

Rollo, pp. 9-23.

Id. at 27-39. Penned by Associate Justice Apolinario D. Bruselas, Jr. with Associate Justices Rebecca De Guia-Salvador and Samuel H. Gaerlan concurring.

³ Id. at 40-41.

Id. at 42-45. Penned by Executive Director, CESO III, Vicente S. Paragas.

Id. at 46-49.

The Facts

On February 26, 2009, petitioner filed with the NWRB Water Permit Application No. III-BUL-2009-02-068⁶ (WPA) for the installation of a deep well that would supply the water resources requirements of its gasoline station and commercial complex in Barangay Malis, Guiguinto, Bulacan (subject premises).⁷

On May 19, 2009, respondent Guiguinto Water District (respondent) filed its Protest⁸ against petitioner's WPA, averring that: (a) the water level in Guiguinto, Bulacan (Guiguinto) is at a critical level and the water exploration to be conducted by petitioner would hamper the water requirements of the said municipality and be detrimental to its water service; (b) petitioner disregarded and violated existing laws, rules, and regulations because it had already started drilling operations before it sought the NWRB's approval; and (c) respondent has the capacity to supply the petitioner's water requirements.⁹

Petitioner filed its answer, ¹⁰ praying for the dismissal of the protest on the grounds that the same was belatedly filed, ¹¹ and that respondent failed to substantiate its claim that the water level in Guiguinto is at a critical level. ¹² It averred that: (a) its water requirements would only be minimal, which could not possibly affect the water level in Guiguinto; and (b) it would not be cost-effective to source water from respondent since there is no existing water pipeline available within a one-kilometer radius where petitioner could connect. ¹³ It further denied having started drilling operations and consequently moved for the issuance of a provisional authority to do so in order to cope with the timetable for its construction activities. ¹⁴

The NWRB Proceedings

On September 14, 2009, respondent filed an Omnibus Motion for the issuance of a Cease and Desist Order¹⁵ (CDO) and to hold petitioner in contempt, alleging, among others, that the latter had already finished its drilling operations without the necessary permit, which petitioner denied. Ocular inspection of the subject premises revealed that a deep well was

⁶ CA *rollo*, p. 57, including dorsal portion.

See Judicial Affidavit dated March 15, 2010; id. at 58-59, including dorsal portion. See also *rollo*, p. 28.

⁸ Dated May 19, 2009. Id. at 38-41.

See id. at 39-40. See also *rollo*, pp. 28-29.

See Answer (With Motion for Issuance of a Provisional Authority to Start Drilling Operations) dated June 8, 2009; CA *rollo*, pp. 42-51.

See id. at 43-44.

See id. at 44-46.

See id. at 45-46.

See id. at 48-49.

Not attached to the *rollo*.

already in place; thus, on November 3, 2009, the NWRB issued a CDO16 against petitioner to refrain from operating a water pump. Notwithstanding the CDO, a second ocular inspection revealed that petitioner operated the deep well in question starting April 25, 2010.¹⁷

Hence, on September 2, 2010, the NWRB issued a Resolution¹⁸ (September 2, 2010 Resolution) denying petitioner's WPA on account of: (a) petitioner's violation of Presidential Decree No. (PD) 1067,19 otherwise known as the "Water Code of the Philippines" (Water Code); and (b) petitioner's open defiance of its lawful order. It further observed that the area subject of the WPA is among the eight (8) identified critical areas in Metro Manila in need of urgent attention as identified in NWRB Resolution No. 001-0904.²⁰ and that respondent can provide the water supply requirement of petitioner. It ordered petitioner to cease and desist from operating and utilizing the deep well, and directed its Monitoring and Enforcement Division to pull out the pump and motor, and seal the deep well.²¹

Aggrieved, petitioner filed a Petition for Reconsideration/ Reinvestigation,²² contending that: (a) the entire proceedings should be nullified on the ground that respondent was represented by a private firm, Dennis C. Pangan & Associates, instead of the Office of the Government Corporate Counsel (OGCC), in violation of Administrative Order No. 130²³ dated May 19, 1994 (AO No. 130, s. 1994);²⁴ and (b) the denial of the WPA was based on alleged violation of the Water Code and not on the merits.²⁵

For its part, respondent (a) moved to implement²⁶ the September 2, 2010 Resolution; and (b) opposed²⁷ the Petition for Reconsideration/ Reinvestigation, averring that AO No. 130, s. 1994 does not apply to it, considering that the business of distributing water to the Municipality of Guiguinto has been given to Hiyas Water Resources, Inc. (Hiyas Water) under a Joint Venture Agreement (JVA) between the parties, and that the latter pays for the fees of the private firm.²⁸

¹⁶ Not attached to the rollo.

See rollo, p. 44.

Id. at 42-45.

Entitled "A DECREE INSTITUTING A WATER CODE, THEREBY REVISING AND CONSOLIDATING THE LAWS GOVERNING THE OWNERSHIP, APPROPRIATION, UTILIZATION, EXPLOITATION, DEVELOPMENT, CONSERVATION AND PROTECTION OF WATER RESOURCES," approved on December 31, 1976. Entitled "Policy Recommendations for Metro Manila Critical Areas," issued by the NWRB on

September 22, 2004. See CA rollo, pp. 101-103.

See rollo, pp. 44-45.

With Prayer for the Nullification of Proceedings and for Posting of Requisite Bond dated October 1, 2010. CA rollo, pp. 60-67.

Entitled "Delineating the Functions and Responsibilities of the Office of the Solicitor GENERAL AND THE OFFICE OF THE GOVERNMENT CORPORATE COUNSEL."

See CA rollo, pp. 61-62.

See Motion to Implement dated October 5, 2010; id. at 68-70.

See Comment/Opposition (To the Petition for Reconsideration/Reinvestigation) and Reply &To the Comment/Opposition to Protestant's Motion to Implement) dated March 11, 2011; id. at 78-83.

See id. at 80-81.

In a Resolution²⁹ dated December 2, 2011, the NWRB denied the petition for reconsideration/reinvestigation, ruling that the fact that respondent was not represented by the OGCC will not render the proceedings null and void because requiring a reinvestigation on such legal technicality would not serve the interest of justice. Besides, since petitioner did not question the appearance of a private law firm in respondent's behalf during the hearing, the NWRB had the right to presume that such representation was properly authorized in the absence of proof to the contrary. It further pointed out that the denial of petitioner's WPA was not based on the grounds raised in respondent's protest but on petitioner's blatant disregard and open defiance of the NWRB's lawful orders, and on the fact that the area where the proposed water source is located is within an identified critical area in need of urgent attention.³⁰ Consequently, it directed its Monitoring and Enforcement Division to impose against petitioner, for appropriating water without permit, a fine in the amount of ₱1,000.00 per day reckoned from April 25, 2010 when the deep well became operational until the same is fully sealed,³¹ pursuant to Section 82 (L)³² of the Water Code of the Philippines Amended Implementing Rules and Regulations³³ (IRR).

On the other hand, the NWRB granted respondent's motion to implement the September 2, 2010 Resolution on the basis of paragraph 2, article 88, Chapter VII of the Water Code. 35

Unperturbed, petitioner filed a petition for review³⁶ before the CA, docketed as CA-G.R. SP No. 122971.

The CA Ruling

In a Decision³⁷ dated March 20, 2013, the CA denied the petition,³⁸

The decisions of the Council on water rights controversies shall be immediately executory and the enforcement thereof may be suspended only when a bond, in an amount fixed by the Council to answer for damages occasioned by the suspension or stay of execution, shall have been filed by the appealing party, unless the suspension is by virtue of an order of a competent court.

²⁹ *Rollo*, pp. 46-49.

³⁰ See id. at 47-48.

³¹ Id. at 49.

Section 82. *Grave Offenses* – A fine of more than Eight Hundred (\$\mathbb{P}800.00\$) Pesos but not exceeding One Thousand (\$\mathbb{P}1,000.00\$) Pesos per day of violation and/or revocation of the water permit/grant of any other right to the use of water shall be imposed for any of the following violations:

xxxx

l) appropriation of water without a permit.

Adopted on March 21, 2005.

Article 88. x x x

³⁵ *Rollo*, p. 48.

With Prayer for a Temporary Restraining Order and/or Writ of Preliminary Injunction dated February 8, 2012; CA rollo, pp. 9-25.

³⁷ *Rollo*, pp. 27-39.

¹⁸ Id. at 38.

thereby upholding the NWRB's September 2, 2010 and December 2, 2011 Resolutions. It ruled that while the private law firm which appeared as respondent's counsel failed to secure the written conformity and acquiescence of the OGCC in violation of AO No. 130, s. 1994, it would be more beneficial to confer legitimacy to its appearance rather than declare the entire proceedings null and void, as no substantial prejudice was caused to the interest of petitioner, respondent, and the State.³⁹

The CA likewise upheld the denial of petitioner's WPA, holding that aside from petitioner's violation of the Water Code requirement of a water permit prior to the appropriation of water, the NWRB had substantial basis to deny its WPA. Considering that in the water resources assessment, Guiguinto was identified as one of the critical areas in Metro Manila and its adjacent areas due to over-extraction of ground water, such predicament prompted NWRB to take the necessary measures to prevent further ground water level decline and water quality deterioration in Guiguinto. Having the duty to control and regulate the utilization, exploitation, development, conservation, and protection of water resources of the State, it was, therefore, within its power to deny petitioner a water permit to pursue a water right which is merely a privilege.⁴⁰

Undaunted, petitioner sought reconsideration,⁴¹ which was, however, denied in a Resolution⁴² dated July 25, 2013; hence, this petition.

The Issue Before The Court

The essential issue for the Court's resolution is whether or not the CA correctly upheld the NWRB's denial of petitioner's WPA.

The Court's Ruling

As a general rule, government-owned or controlled corporations, their subsidiaries, other corporate off springs, and government acquired asset corporations (collectively referred to as GOCCs) are not allowed to engage the legal services of private counsels.⁴³ Section 10,⁴⁴ Chapter 3, Title III,

³⁹ See id. at 33-35.

⁴⁰ See id. at 37-38.

See motion for reconsideration dated April 17, 2013; CA *rollo*, pp. 136-145.

⁴² *Rollo*, pp. 40-41.

See The Law Firm of Laguesma Magsalin Consulta and Gastardo v. The Commission on Audit, G.R. No. 185544, January 13, 2015.

Section 10. Office of the Government Corporate Counsel. – The Office of the Government Corporate Counsel (OGCC) shall act as the principal law office of all government-owned or controlled corporations, their subsidiaries, other corporate offsprings and government acquired asset corporations and shall exercise control and supervision over all legal departments or divisions maintained separately and such powers and functions as are now or may hereafter be provided by law. In the exercise of such control and supervision, the Government Corporate Counsel shall promulgate rules and regulations to effectively implement the objectives of the Office.

Book IV of Executive Order No. (EO) 292,⁴⁵ otherwise known as the "Administrative Code of 1987," is clear that the OGCC shall act as the principal law office of GOCCs. Accordingly, Section 1 of AO No. 130, s. 1994 enjoined GOCCs to exclusively refer all legal matters pertaining to them to the OGCC, unless their respective charters expressly name the Office of the Solicitor General (OSG) as their legal counsel. Nonetheless, in exceptional cases, private counsel can be hired with the prior written conformity and acquiescence of the Solicitor General or the Government Corporate Counsel, and the prior written concurrence of the Commission on Audit (COA).⁴⁶ Case law holds that the lack of authority on the part of a private lawyer to file a suit in behalf of any GOCC shall be a sufficient ground to dismiss the action filed by the said lawyer.⁴⁷

In the present case, respondent failed to comply with the requirements concerning the engagement of private counsel before it hired the services of Dennis C. Pangan & Associates, which filed, on its behalf, a protest against petitioner's WPA. *First*, it failed to secure the prior conformity and acquiescence of the OGCC and the written concurrence of the COA, in accordance with existing rules and regulations. And *second*, it failed to establish the presence of extraordinary or exceptional circumstances that would warrant a deviation from the above-mentioned general rule, or that the case was of a complicated or peculiar nature that would be beyond the range of reasonable competence expected from the OGCC.

To be sure, the Court cannot allow the invocation⁴⁸ of the existence of a JVA with Hiyas Water as an excepting circumstance because it would render nugatory the role of the OGCC as the principal law office of all GOCCs. Neither can the representation⁴⁹ that Hiyas Water shall shoulder the lawyer's fees be considered an excepting circumstance because the case was filed in the name of respondent, not in the name of Hiyas Water. Besides,

The OGCC is authorized to receive the attorney's fees adjudged in favor of their client government-owned or controlled corporations, their subsidiaries, other corporate offsprings and government acquired asset corporations. These attorney's fees shall accrue to a special fund of the OGCC, and shall be deposited in an authorized government depository as a trust liability and shall be made available for expenditure without the need for a Cash Disbursement Ceiling, for purposes of upgrading facilities and equipment, granting of employees' incentive pay and other benefits, and defraying such other incentive expenses not provided for in the General Appropriations Act as may be determined by the Government Corporate Counsel.

Entitled "Instituting the 'Administrative Code of 1987," approved on July 25, 1987.

See also (a) Memorandum Circular No. 9, entitled "Prohibiting Government-Owned or Controlled Corporations (GOCCs) from Referring Their Cases and Legal Matters to the Office of the Solicitor General, Private Legal Counsel or Law Firms and Directing the GOCCS to Refer Their Cases and Legal Matters to the Office of the Government Corporate Counsel, Unless Otherwise Authorized Under Certain Exceptional Circumstances," issued by former President Joseph Ejercito Estrada on August 27, 1998; and (b) COA Circular No. 95-011, entitled "Prohibition Against Employment by Government Agencies and Instrumentalities, Including Government-Owned or Controlled Corporations, of Private Lawyers to Handle Their Legal Cases," issued on December 4, 1995.

See Phividec Industrial Authority v. Capitol Steel Corporation, 460 Phil. 493, 506 (2003); citations omitted

⁴⁸ See CA *rollo*, p. 80.

⁴⁹ See id. at 81.

even assuming that the extant circumstances in the case are enough to qualify it as an exceptional case where the hiring of private counsel may be allowed, the requirements of securing the prior written conformity and acquiescence of the Government Corporate Counsel and the prior written concurrence of the COA must still be complied with before a GOCC may hire a private lawyer.

Public policy considerations are behind the imposition of the requirements relative to the engagement by GOCCs of private counsel. In *Phividec Industrial Authority v. Capitol Steel Corporation*, ⁵⁰ the Court held:

It was only with the enactment of Memorandum Circular No. 9 in 1998 that an exception to the general prohibition was allowed for the first time since P.D. No. 1415 was enacted in 1978. However, indispensable conditions precedent were imposed before any hiring of private lawyer could be effected. First, private counsel can be hired only in **exceptional cases**. Second, the GOCC must first secure the written conformity and acquiescence of the Solicitor General or the Government Corporate Counsel, as the case may be, before any hiring can be done. And third, the written concurrence of the COA must also be secured prior to the hiring.

There are strong reasons behind this public policy. One is the need of the government to curtail unnecessary public expenditures, such as the legal fees charged by private lawyers against GOCCs. $x \times x$:

x x x x

The other factor is anchored on the perceived strong ties of the OGCC lawyers to their client government corporations. Thus, compared to outside lawyers the OGCC lawyers are expected to be imbued with a deeper sense of fidelity to the government's cause and more attuned to the need to preserve the confidentiality of sensitive information.

Evidently, OGCC is tasked by law to serve as the law office of GOCCs to the exclusion of private lawyers. Evidently again, there is a strong policy bias against the hiring by GOCCs of private counsel.⁵¹ (Emphases and underscoring supplied)

In Land Bank of the Philippines v. Luciano,⁵² the Court explained the exercise of the OGCC's mandate as the principal law office of GOCCs in this wise:

It may strike as disruptive to the flow of a GOCC's daily grind to require the participation of the OGCC as its principal law office, or the exercise of control and supervision by the OGCC over the acts of the GOCC's legal departments. For reasons such as proximity and comfort, the GOCC may find it convenient to rely instead on its in-house legal

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Supra note 47.

⁵¹ Id. at 503-504.

See the Court's Resolution dated July 13, 2005 in G.R. No. 165428.

departments, or more irregularly, on private practitioners. Yet the statutory role of the OGCC as principal law office of GOCCs is one of long-standing, and we have to recognize such function as part of public policy. Since the jurisdiction of the OGCC includes all GOCCs, its perspective is less myopic than that maintained by a particular legal department of a GOCC. It is not inconceivable that left to its own devices, the legal department of a given GOCC may adopt a legal position inconsistent with or detrimental to other GOCCs. Since GOCCs fall within the same governmental framework, it would be detrimental to have GOCCs foisted into adversarial positions by their respective legal departments. Hence, there is indubitable wisdom in having one overseer over all these legal departments which would ensure that the legal positions adopted by the GOCCs would not conflict with each other or the government.⁵³ (Emphases supplied)

Hence, the protest filed by respondent against petitioner's WPA should have been dismissed outright for lack of authority of Dennis C. Pangan & Associates to represent respondent considering that, at the outset, respondent had already identified itself as a government corporation.⁵⁴

This notwithstanding, the NWRB, as the chief coordinating and regulating agency for all water resources management development activities, 55 was authorized to act upon petitioner's WPA.

It is well to note that in an application for a water permit before the NWRB, the presence of a protest converts the proceeding to a water controversy, which shall then be governed by the rules prescribed for resolving water use controversies, i.e., Rule IV⁵⁸ of the IRR. However, absent a protest, or where a protest cannot be considered - as in this case where the protestant, a GOCC, was not properly represented by the OGCC - the application shall subsist. The existence of a protest is only one of the factors that the NWRB may consider in granting or denying a water permit application. The filing of an improper protest only deprives the NWRB of the authority to consider the substantial issues raised in the protest but does not strip it of the power to act on the application.

⁵³ Id.

⁵⁴ See CA *rollo*, p. 38.

See Section 2 of PD 424.

⁵⁶ See *Buendia v. City of Iligan*, 497 Phil. 97, 109 (2005).

See Section 10 (B), in relation to Section 12 (A), Rule I of the IRR.

I.e., Procedure in Conflict Resolution.

See Buendia v. City of Iligan, supra note 56.

Under Article 16 of PD 1067, the following shall also be considered:

a) prior permits granted;

b) the availability of water;

c) the water supply needed for beneficial use;

d) possible adverse effects;

e) land-use economics; and

f) other relevant factors.

See Buendia v. City of Iligan, supra note 56.

Where extraction of ground water is sought, as in this case, a permit to drill must first be secured from the NWRB.⁶² However, before a permit to drill is issued, the NWRB shall conduct a field investigation to determine any adverse effect that may be caused to public or private interests. Only after it has determined that the application meets the requirements and is not prejudicial to any public or private interests shall it issue the permit to drill⁶³ which shall be regarded as a temporary permit, until the rate of water withdrawal/yield of the well has been determined and assessed,⁶⁴ and the application is finally (a) approved and a water permit is issued subject to such conditions as the NWRB may impose, or (b) disapproved and returned to the applicant, stating the reasons therefor.⁶⁵ It should be emphasized that it is only through a duly issued water permit⁶⁶ that any person acquires the right to appropriate water, or to take or divert waters from a natural source in the manner and for any purpose allowed by law.⁶⁷

In the present case, even if the protest filed by respondent is disregarded, the NWRB correctly denied petitioner's WPA for its flagrant disregard of the Water Code and its IRR. Records show that petitioner drilled a deep well and installed a water pump without having first secured the necessary permit to drill. Moreover, despite the NWRB's November 3, 2009 CDO refraining it from operating the water pump, petitioner extracted water from the deep well.

The drilling of a well and appropriation of water without the necessary permits constitute grave offenses under Section 82 of the IRR, and shall subject the violator who is not a permittee or grantee – as petitioner in this case – to the imposition of appropriate fines and penalties, and the stoppage of the use of water, without prejudice to the institution of a criminal/civil action as the facts and circumstances may warrant. There having been a willful and deliberate non-observance and/or non-compliance with the IRR and the NWRB's lawful order, which would have otherwise subjected a permittee or grantee to a summary revocation/suspension of its water permit or other rights to use water, the NWRB was well within its authority to deny petitioner's WPA. To rule otherwise would effectively emasculate it and prevent it from exercising its regulatory functions.

More importantly, the NWRB, in Resolution No. 001-0904 had already identified Guiguinto as one of the critical areas in need of urgent attention based on its water resources assessment which, thus, impelled it to take the necessary measures to prevent further ground water level decline and water quality deterioration in Guiguinto. In fact, the NWRB had imposed a

⁶² See Section 45, Rule II of the IRR, and Section 64 of PD 1067.

⁶³ See Section 12 (A), Rule I of the IRR.

⁶⁴ See Section 12 (A) (4) and (B), Rule I of the IRR.

See Sections 13 and 14, Rule I of the IRR.

See Articles 9 and 13 of PD 1067.

⁶⁷ See Article 9 of PD 1067.

⁶⁸ See Section 86 of the IRR.

⁶⁹ See Section 89 of the IRR.

total ban on deep water drilling in Metro Manila, as well as Guiguinto, Bocaue, Marilao, and Meycauayan in Bulacan, and Dasmariñas in Cavite to prevent over-extraction of ground water.⁷⁰

WHEREFORE, the petition is **DENIED**. The Decision dated March 20, 2013 and the Resolution dated July 25, 2013 of the Court of Appeals in CA-G.R. SP No. 122971 are hereby AFFIRMED insofar as it upheld the denial of petitioner First Mega Holdings Corp.'s Water Permit Application No. III-BUL-2009-02-068.

SO ORDERED.

Associate Justice

Associate.

WE CONCUR:

On Leave MARIA LOURDES P. A. SERENO Chief Justice

Associate Justice Acting Chairperson

> LFREDO E IIN S. CAGUIOA

> > ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

Associate Justice

Acting Chairperson, First Division

[&]quot;Paje Asks Public to Keport Illegal Deep Wells to DENR, NWRB," September 24, 2015 wells-to-denr-nwrb.html> (visited on May 11, 2016).

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

ANTONIO T. CARPIO
Acting Chief Justice