

MUNICIPAL BOARD OF CABANATUAN CITY, PETITIONER VS. SAMAHANG MAGSASAKA, INC., RESPONDENT AND APPELLEE.

G.R. No. L-25818. February 25, 1975

Ponente: ESGUERRA, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/2e3c646fc875/>

ESGUERRA, J.:

Petition for Review of the decision of the Public Service Commission dated November 30, 1963; in its PSC Case No. 62-3451, which disregarded the agreement of the parties providing for the collection of reduced rates of electric bills by the respondent-appellee, Samahang Magsasaka, Inc. from its customers effective February 1, 1963, but instead, deferred such collection and fixed November, 1963, as the date of its effectivity, thereby allowing said respondent-appellee to continue collecting electric bills from its customers for ten (10) months more, under its old rates, to the prejudice of said customers.

The factual background of the case is as follows:

In 1962, herein respondent-appellee Samahang Magsasaka, Inc., an electric firm in Cabanatuan City, filed an application with the Public Service Commission, docketed therein as PSC Case No. 62-3451, requesting authority to adopt a new electric rates schedule in its operation. Also filed with the Public Service Commission was PSC Case No. 61-6451, wherein Samahang Magsasaka, Inc. requested issuance of a new certificate of public convenience for its electric plant operating in Cabanatuan City.

The Municipal Board of Cabanatuan City (Municipal Board for short) appeared as oppositor before the Public Service Commission in the two cases of the Samahang Magsasaka, Inc. abovementioned. The basis for its opposition in PSC Case No. 62-3451 was the fact that the rates proposed by Samahang Magsasaka, Inc. were exorbitant, and in PSC Case No. 61-6451, its opposition was based on the fact that the applicant electric company, herein respondent-appellee Samahang Magsasaka, Inc., was grossly inefficient and incapable of discharging its duties and responsibilities as a public utility entity.

The parties being the same in both PSC Cases Nos. 62-3451 and 61-6451, said cases were ordered consolidated and jointly tried by the Public Service Commission.

On February 18, 1963, the parties were able to come to terms and arrived at an amicable settlement of their differences. On that date, the parties signed their Memorandum of Agreement, which, among others, provides as follows:

"A

"1. The Samahang Magsasaka, Inc. desires, proposes, and submits another voluntary reduction of rates according to the herein annexed schedule, effective from February 1, 1963 and which is hereby acknowledged and accepted by the Municipal Board." (Annex "B" of the Petition; P. 1, Memorandum of Agreement; Italics supplied).

On February 20, 1963, the Memorandum of Agreement of the parties was formally submitted to the Public

Service Commission together with PSC Cases Nos. 62-3451 and 61-6451 for approval and decision without further argument.

On November 30, 1963, the Public Service Commission rendered its decision and decreed that the reduced rates of electricity agreed upon by the parties shall take effect beginning with the billings for November, 1963 instead of the date agreed upon, which is February 1, 1963, thus allowing the respondent-appellee to collect from its electric consumers for a period of ten (10) months more under the old rates.

On December 26, 1963, the herein petitioner Municipal Board filed a motion for reconsideration but the same was denied by the Public Service Commission in an order dated November 29, 1965, copy of which was received by the petitioner only on February 23, 1966. Hence this petition for review.

The issue here is whether or not a judicial or quasi-judicial body can change the effective date of a compromise agreement entered into by the parties to a litigation.

Petitioner maintains that the Public Service Commission erred and gravely abused its discretion, amounting to excess of its jurisdiction when, without reason, it disregarded the date of effectivity of the reduced electric rates as agreed upon by the parties, which is February 1, 1963, and instead fixed the month of November, 1963, or ten (10) months later, as the effectivity of the reduced rates. Petitioner reasons out that under our jurisdiction, amicable settlement between the parties is encouraged and respected. The only limitation to the settlement of disputes between party-litigants is when the agreement or settlement reached is contrary to law, public order, public policy, morals, or good custom.

Respondent-appellee, on the other hand, maintains that the Public Service Commission acted within its jurisdiction and was well within the exercise of its lawful authority. Respondent-appellee avers that by the very nature of the Memorandum of Agreement of the parties, the same is subject to the authority of the Public Service Commission to either approve or disapprove, or to subject the same to further examination or scrutiny and may even modify, alter or change the terms and conditions of the said agreement. Further, the respondent-appellee claims that the modification of the date of effectivity of the reduced rates by the Public Service Commission from February 1, 1963, to the November, 1963, billings was due to the conflagration on October 22, 1963, that befell Cabanatuan City, wherein respondent-appellee suffered enormous losses and the Public Service Commission rightly took judicial notice of it.

This Court, time and again, has ruled that a compromise agreement entered into by party-litigants, when not contrary to law, public order, public policy, morals, or good custom is a valid contract which is the law between the parties themselves. (*Juan-Marcelo, Et Al., vs. Go Kim Pah, et al.*, 22 SCRA 309). It follows, therefore, that a compromise agreement, not tainted with infirmity, irregularity, fraud or illegality is the law between the parties who are duty bound to abide by it and observe strictly its terms and conditions. It is incumbent upon the courts of justice to help develop and inculcate in the minds of the parties-litigants proper respect for, and obedience to, the terms and conditions of this kind of mutual agreement whenever it does not exhibit any feature or taint of illegality or fraud. Thus we would be enhancing the salutary provisions of Section 1, Rule 20, of the revised Rules of Court and Article 2029, New Civil Code, which entrust to the courts the function of enabling party-litigants in a civil suit to reach an amicable settlement of their disputes.

We hold, therefore, that a judicial or quasi-judicial body cannot impose upon the parties a judgment different from their real agreement or against the very terms and conditions of the amicable settlement entered into by them; without running the risk of contravening the universally established principle that a contract is the law between the parties. As held by this Court in *Castro vs. Castro*, G.R. No. L-4400, June 30, 1952; 91 Phil. 922 G. R. No. L-25818

" . . . Es, principio universalmente establecido que el convenio es ley entre las partes. No debe imponerse un criterio por mas acertado que fuese sobre el verdadero contrato de las partes. Que utilidad puede proporcionar la disposicion del articulo 2029 del nuevo codigo civil que encomienda al Juzgado la funcion de persuadir a los litigantes en un asunto civil a que procuren llegar a un arreglo si, despues de todo, el criterio del tribunal se ha de imponer sobre su convenio? "

WHEREFORE, the decision appealed from is hereby reversed and set aside, and another one entered approving the reduced rates agreed upon by and between the parties effective as of February 1, 1963.

The amounts collected by the respondent-appellee from its customers in excess of the reduced rates agreed upon, from February 1, 1963 to November, 1963, should be refunded to the customers from whom they were collected, without interest.

Without pronouncement as to costs.

Makalintal, C.J., Castro, Teehankee, and Makasiar, JJ., concur.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.