

**BATANGAS LAGUNA TAYABAS BUS COMPANY, PETITIONER, VS.
PUBLIC SERVICE COMMISSION, ACTING THROUGH JUDGE JOSUE L.
CADIAO, ASSOCIATE COMMISSIONER, AND EASTERN TAYABAS BUS
COMPANY, IN...**

G.R. Nos. 25994 and 26004-46. August 31, 1966

Ponente: BENGZON, J.P., J.

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BENGZON, J.P., J.:

Sometime in 1953 an agreement of lease was entered into by Eastern Tayabas Bus Co., Inc. and Laguna Tayabas Bus Co., Inc. The former leased to the latter, for a period of five years, its lines and equipment authorized for operation in the eastern portion of the Province of Quezon under various certificates of public convenience granted to it by the Public Service Commission. The lease was approved by the Public Service Commission.

On June 30, 1958, the parties to the 1953 lease agreement - it having expired - executed a new lease contract providing for another period of five years. This contract was also approved by the Public Service Commission on August 11, 1958.

Subsequently, on March 11, 1963, the parties executed a renewal contract, providing for a lease of five years duration under the same conditions as the last agreement and covering, in addition, some newly-acquired lines of the lessor. The Public Service Commission likewise approved said lease on August 1, 1963.

On August 27, 1964, Laguna Tayabas Bus Co., Inc., the lessee, merged with Batangas Transportation Co., Inc., forming a new corporation named Batangas Laguna Tayabas Bus Co., Inc. Another lease contract was therefore executed, on March 26, 1965, between Eastern Tayabas Bus Co., Inc., as the lessor, and the aforesaid new corporation as the lessee, with the same terms and conditions as the lease of June 30, 1958, for a period of five years starting from March 11, 1963.

The Public Service Commission, on July 22, 1965, approved the abovementioned lease agreement, stating, among the conditions of said approval, "that this lease agreement shall be valid for a period of FIVE (5) YEARS beginning from March 11, 1963."

About eight months after the approval of said lease by the Public Service Commission, on March 11, 1966, Eastern Tayabas Bus Co., Inc. sent a letter to Batangas Laguna Tayabas Bus Co., Inc., stating:

"Dear Sirs:

"Pursuant to paragraph 7 of our lease agreement of June 30, 1958, as renewed, this is a formal notice on your good selves that we are terminating the aforesaid agreement upon the expiration of sixty (60) days from receipt hereof.

"The decision to terminate the lease agreement is the result of a lengthy and careful deliberation not only by the Board of Directors of this Company but by its stockholders as well in various meetings held for that

purpose.

"May I extend to you our appreciation for the cordial relationship that we have had during the long period of our association."

And on March 15, 1966, without awaiting the end of said sixty-day period, Eastern Tayabas Bus Co., Inc. presented an application before the Public Service Commission docketed therein as Cases Nos. 66-1942 to 66-1985, inclusive.

Said application stated that the lease agreement would terminate at the expiration of the sixty-day notice of termination; that pursuant to the lease agreement, all lines and additional trips acquired by Laguna Tayabas Bus Co., Inc. (now Batangas Laguna Tayabas Bus Co., Inc.) in its name in the territory of Eastern Tayabas Bus Co., Inc. shall belong to the latter at the termination of the lease; that it is financially capable of operating with its own trucks and equipment said lines and additional trips. The applicant prayed that the certificates of public convenience issued thereover in the name of Batangas Laguna Tayabas Bus Co., Inc. be modified or changed so as to be considered issued and granted to Eastern Tayabas Bus Co., Inc.

On March 21, 1966, Batangas Laguna Tayabas Bus Co., Inc. wrote Eastern Tayabas Bus Co., Inc., in reply to the so-called letter of notice of termination, thus:

"Gentlemen:

"We refer you to your letter dated March 11, 1966 terminating our lease agreement of June 30, 1958.

"A review of the pertinent documents on the subject and the surrounding facts and circumstances revealed to us that the clause in the agreement of June 30, 1958 ceding to you all new lines and additional trips acquired by our predecessors into your territory has been surreptitiously inserted and, in any event, is unsupported by adequate and valuable consideration. Moreover, we dispute the applicability of Par. 7 relating to the sending of 60-day notice for a number of reasons including the fact that there are pending unsatisfied and unliquidated obligations incident to our operations.

"Our lawyers have advised us that our agreement may be annulled in a proper action in court and, consequently, the application of Par. 17 regarding arbitration may be dispensed with. However, to the end that our dispute may be settled amicably, we suggest, without intending to waive the ground for annulment of our agreement, that our differences be submitted to arbitration. As you have furnished a copy of your notice to the Public Service Commission, we are also sending a copy hereof to it with the request that the status quo as of March 10, 1966 be maintained, pending resolution of our controversy.

"We look forward to hearing from you soon."

On April 15, 1966, Batangas Laguna Tayabas Bus Co., Inc. opposed the afore-stated application in the Public Service Commission, and subsequently, it filed a motion to dismiss said application for lack of jurisdiction. Said motion to dismiss was denied by the Public Service Commission on April 28, 1966, through Associate Commissioner Josue L. Cadio. And, thereupon, on May 3, 1966, Batangas Laguna Tayabas Bus Co., Inc. filed suit in the Court of First Instance of Laguna (Case SP-600), among others insisting on compliance with the arbitration clause of the lease agreement; disputing Eastern Tayabas Bus Co., Inc.'s interpretation of Paragraph 7 of the lease on termination by sixty-day notice; seeking annulment of the clause which provided for acquisition, at the end of the lease, of its lines and additional trips by Eastern Tayabas Bus Co., Inc., on the ground that it was fraudulently inserted in the contract and is without consideration; and seeking the determination and liquidation of alleged indebtedness of the Eastern Tayabas Bus Co., Inc. under the lease agreement.

On the next day, May 4, 1966, Batangas Laguna Tayabas Bus Co., Inc., filed a motion in the Public Service

Commission to stay the proceedings therein in view of the suit in court aforementioned. The Public Service Commission, however, denied said motion and scheduled for May 6, 1966 reception of evidence on the application. As a result, Batangas Laguna Tayabas Bus Co., Inc. filed herein on May 6, 1966 this petition for certiorari and prohibition with preliminary injunction, relating to the forty-four cases in the Public Service Commission involved in the application in question. This Court granted it due course and issued on May 11, 1966 a temporary restraining order enjoining the Public Service Commission from continuing with the proceedings in its Cases Nos. 66-1942 to 66-1985.

After the answer was filed on May 16, 1966, this petition was heard and submitted for decision on May 18, 1966. Respondents on June 29, 1966 moved to lift the temporary restraining order. Petitioner, upon order of this Court, filed an answer to said motion.

The sole issue in these forty-four cases before Us has to do with the jurisdiction or competence of the Public Service Commission to proceed hearing the application in dispute.

The Public Service Commission is not a judicial tribunal. Its functions are limited and administrative in nature. It has only such jurisdiction and power as are expressly or by necessary implication conferred upon it by statute. (*Filipino Bus Co. v. Philippine Railway*, 57 Phil. 860) And so it cannot pass upon questions that are within the exclusive province of the ordinary courts of justice, like the validity of a contract (*Hoc Lian Ho Dry Goods Club v. Meralco*, 63 Phil. 804; *Dagdag v. Public Service Commission*, L-11940, July 25, 1958).

The application pending before the Public Service Commission raises as the sole issue whether herein respondent Eastern Tayabas Bus Co., Inc. has the right under the contract to terminate the lease contract by giving a sixty-day written notice of termination. Said respondent contends that it has such right because paragraph 7 of the contract provides:

“7. xxx Each party to this contract shall have the option of terminating the lease at any time upon sixty (60) days notice given in writing to the other party.”

On the other hand, the petitioner maintains that said right of termination cannot be availed of by respondent Eastern Tayabas Bus Co., Inc., in view of standing and unliquidated claims of the petitioner against said respondent for various alleged obligations of the latter under the lease agreement, such as claims for the share of respondent Eastern Tayabas Bus Co., Inc., in the liabilities of petitioner Batangas Laguna Tayabas Bus Co., Inc., for damages to third persons on account of accidents in the operation of its units; for claims under the Workmen's Compensation Law, separation pay, etc.

And, said petitioner invoked the arbitration clause of the lease agreement, paragraph 17, to the effect that:

"17. The LESSOR and the LESSEE agree to submit any controversy or dispute regarding the interpretation, enforcement, or any other issue connected with this contract to arbitration. For this purpose, within ten (10) days after being duly required to do so by the other party, the LESSOR and the LESSEE shall each nominate one arbitrator to constitute jointly a board of arbitration. The members of the board shall render their opinion within thirty (30) days after submission of the controversy to them, and the LESSOR and the LESSEE agree to be bound with finality by the said opinion If the arbitrators are In agreement, or to the extent that they are in agreement. x x x"

From the above it can be seen that the dispute in question pertains to the jurisdiction of the ordinary courts, and not of the Public Service Commission. It involves the interpretation or proper construction of some provisions of a lease contract which had already been previously approved by the Public Service Commission. In *Garcia v. Bonifacio*, 55 O.G. 6014, this Court observed that where the sale of a franchise is not yet approved by the Public Service Commission, the parties asserting rights to said franchise by virtue of said alleged sale must go to the

Public Service Commission and there, in seeking approval of the sale, thresh out their respective claims to the franchise. In such a case, the Public Service Commission would be acting within its power, for it would be exercising its jurisdiction to approve the sale of the franchise, a power conferred by Section 20(g) of the Public Service Act.

"Section 20. Acts requiring the approval of the Commission. - Subject to established limitations and exceptions and saving provisions to the contrary, it shall be unlawful for any public service or for the owner, lessee or operator thereof, without the approval and authorization of the Commission previously had –

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“g. To sell, alienate, mortgage, encumber or lease its property, franchises, certificates, privileges, or rights, or any part thereof; or merge or consolidate its property, franchises, privileges or rights, or any part thereof, with those of any other public service. The approval herein required shall be given, after notice to the public and after hearing the persons interested at a public hearing, if it be shown that there are just and reasonable grounds for making the mortgage or encumbrance, for liabilities of more than one year maturity, or the sale, alienation, lease, merger, or consolidation to be approved, and that the same are not detrimental to the public interest, and in case of a sale, the date on which the same is to be consummated shall be fixed in the order of approval: Provided, however, That nothing herein contained shall be construed to prevent the transaction from being negotiated or completed before its approval or to prevent the sale, alienation, or lease by any public service of any of its property in the ordinary course of its business.”

The situation is different herein where, as stated, the Public Service Commission had already granted its approval to the lease agreement in question, but during the effectivity of said lease agreement a dispute arises between the parties as to its proper interpretation. Said dispute no longer calls for the exercise of the Public Service Commission's approval of the agreement. It follows that the Public Service Commission is not the body empowered to pass upon and resolve the rights and claims of the parties arising from or regarding the same agreement, since the resolution of the dispute thereon would no longer be a necessary incident in the exercise of the power to approve the agreement.

Accordingly, for the respondent Public Service Commission to act upon the application in question and resolve the dispute of the parties as to the terms of the lease agreement, would amount to exercising the functions of a purely judicial tribunal, an act it cannot do. Furthermore, said dispute - whether the lease could be terminated by sixty-day notice in writing; whether arbitration must first be resorted to; whether there are standing claims of the lessee against the lessor that should first be liquidated - concerns the private aspect of the lease agreement, the private rights of the parties in their relation to each other as lessor and lessee. It is established that the Public Service Commission has no control over a public utility in its private aspect (*City of Manila v. Meralco*, 36 Phil. 89). The dispute of the parties in the application filed in the Public Service Commission has to do with their private rights and claims vis-a-vis each other and does not involve the public interest or the public aspect of the utility. The same therefore must be threshed out in the ordinary courts, not in the Public Service Commission.

WHEREFORE, respondent Public Service Commission is hereby declared without jurisdiction to continue with Cases Nos. 66-1942 to 66-1985, until final judgment or order is rendered by the Court of First Instance of Laguna in Civil Case No. SP-600, and, until such time, the restraining order herein issued shall remain effective. No costs.

SO ORDERED.

Concepcion, C.J., Reyes, J.B.L., Dizon, Makalintal, Zaldivar, Sanchez, and Ruiz Castro, JJ., concur.
Barrera, and Regala, JJ., no part.

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