

## THIRD DIVISION

[ G.R. No. 202430, March 06, 2019 ]

**METRO BOTTLED WATER CORPORATION, PETITIONER, VS.  
ANDRADA CONSTRUCTION & DEVELOPMENT CORPORATION,  
INC., RESPONDENT.**

### DECISION

**LEONEN, J.:**

Generally, judicial review of arbitral awards is permitted only on very narrow grounds. Republic Act No. 876, or the Arbitration Law, does not allow an arbitral award to be revisited without a showing of specified conditions,<sup>[1]</sup> which must be proven affirmatively by the party seeking its review. The Special Rules of Court on Alternative Dispute Resolution,<sup>[2]</sup> implementing the Alternative Dispute Resolution Act of 2004,<sup>[3]</sup> mandate that arbitral awards will not be vacated "merely on the ground that the arbitral tribunal committed errors of fact, or of law, or of fact and law, as the court cannot substitute its judgment for that of the arbitral tribunal."<sup>[4]</sup> Parties are even "precluded from filing an appeal or a petition for certiorari questioning the merits of an arbitral award."<sup>[5]</sup>

On the other hand, arbitral awards by the Construction Industry Arbitration Commission may only be appealed on pure questions of law,<sup>[6]</sup> though not all will justify an appeal. Consistent with the strict standards for judicial review of arbitral awards, only those appeals which involve egregious errors of law may be entertained.

Given its technical expertise, the Construction Industry Arbitration Commission is given a wide latitude of discretion so that it may resolve all issues before it in a fair and expeditious manner. Included within the bounds of its discretion are situations where it resolves, on the basis of equity, to order a party to compensate a contractor for any unpaid work done.

For this Court's resolution is a Petition for Review on Certiorari<sup>[7]</sup> assailing the March 21, 2012 Decision<sup>[8]</sup> and June 25, 2012 Resolution<sup>[9]</sup> of the Court of Appeals, which upheld the April 11, 2002 Arbitral Award<sup>[10]</sup> of the Construction Industry Arbitration Commission. The arbitral tribunal had ordered Metro Bottled Water Corporation (Metro Bottled Water) to pay Andrada Construction & Development Corporation, Inc. (Andrada Construction) the amount of P4,607,523.40 with legal interest from November 24, 2000 as unpaid work accomplishment in the construction of its manufacturing plant.

On April 28, 1995, Metro Bottled Water and Andrada Construction entered into a Construction Agreement<sup>[11]</sup> for the construction of a reinforced concrete

manufacturing plant in Gateway Business Park, General Trias, Cavite for the contract price of P45,570,237.90. The Construction Agreement covered all materials, labor, equipment, and tools, including any other works required.<sup>[12]</sup> It provided:

#### 8. Change Order

- a. Without invalidating this Agreement, the OWNER may, at any time, order additions, deletions or revisions in the Work by means of a Change Order. The CONTRACTOR shall determine whether the Change Order causes a decrease or increase in the Purchase Price or shortening or extension of the Contract Period. Within three (3) days from receipt of the Change Order, CONTRACTOR shall give written notice to the OWNER of the value of the works required under the Change Order which will increase the Contract Price and of the extension in the Contract Period necessary to complete such works. On the other hand, if the Change Order involves deletions of some works required in the original Contract Documents, the value of the works deleted shall be deducted from the Contract Price and the Contract Period shortened accordingly.

In either case, any addition or reduction in the Contract Price or extension or shortening of the Contract Period shall be mutually agreed in writing by the OWNER and the CONTRACTOR prior to the execution of the works covered by the Change Order.<sup>[13]</sup>

The project was to be completed within 150 calendar days or by October 10, 1995, to be reckoned from Andrada Construction's posting of a Performance Bond to answer for liquidated damages, costs to complete the project, and third party claims. The Performance Bond was issued by Intra Strata Assurance Corporation (Intra Strata).<sup>[14]</sup>

On May 10, 1995, Metro Bottled Water extended the period of completion to November 30, 1995 upon Andrada Construction's request, due to the movement of one (1) bay of the plant building, weather conditions, and change orders.<sup>[15]</sup>

On November 14, 1995, E.S. De Castro and Associates, Metro Bottled Water's consultant for the project, recommended the forfeiture of the Performance Bond to answer for the completion and correction of the project, as well as liquidated damages for delay.<sup>[16]</sup>

On May 2, 1996, Metro Bottled Water filed a claim against the Performance Bond issued by Intra Strata.<sup>[17]</sup> Andrada Construction opposed the claim for lack of legal and factual basis.<sup>[18]</sup>

On September 6, 1996, Andrada Construction wrote to Metro Bottled Water contesting E.S. De Castro and Associates' Special Report.<sup>[19]</sup> The works performed by Andrada Construction were inspected by Metro Bottled Water and E.S. De Castro and Associates. Punch lists were prepared to monitor Andrada Construction's rectifications.<sup>[20]</sup>

Andrada Construction sent letters to Metro Bottled Water requesting for payment of

unpaid work accomplishments amounting to P7,292,721.27.<sup>[21]</sup> Metro Bottled Water refused to pay.<sup>[22]</sup>

On August 6, 2001, Andrada Construction filed a Request for Arbitration<sup>[23]</sup> before the Construction Industry Arbitration Commission, alleging that Metro Bottled Water refused to pay its unpaid work accomplishment amounting to P7,954,961.10, with interest of P494,297.31.<sup>[24]</sup>

In its Answer,<sup>[25]</sup> Metro Bottled Water denied the allegations and counterclaimed for cost to complete and correct the project in the amount of P5,231,452.03 and liquidated damages in the amount of P1,663,884.36, among others.

A preliminary conference was held. On February 16, 2002, the arbitral tribunal conducted an ocular inspection of the construction site. The parties subsequently filed their respective Memoranda.<sup>[26]</sup>

In its April 24, 2002 Decision,<sup>[27]</sup> the Construction Industry Arbitration Commission found that Andrada Construction was entitled to unpaid work accomplishment in the amount of P4,607,523.40, with legal interest from November 24, 2000. It, however, denied Metro Bottled Water's counterclaims.<sup>[28]</sup>

According to the Construction Industry Arbitration Commission, Andrada Construction was entitled to the claims from the change orders since Metro Bottled Water did not strictly enforce its procedures in approving Change Orders 1 to 38 and impliedly approved Change Orders 39 to 109 by funding the payrolls and materials. However, it deducted: (1) P648,773.63, as this was already included in the claim for change orders; (2) P2,474,647.28, as costs for completion; and (3) P2,756,804.75, as corrective costs for the cracks on the concrete slabs in the production plant building.<sup>[29]</sup>

The Construction Industry Arbitration Commission also found that there was no delay in the completion since Metro Bottled Water validly granted an extension until November 30, 1995. It denied Metro Bottled Water's claim for corrective costs since any advance made by Metro Bottled Water for labor and materials was charged against Andrada Construction's 10% retention<sup>[30]</sup> money.<sup>[31]</sup>

The Construction Industry Arbitration Commission also clarified that there were no valid factual and legal grounds for Metro Bottled Water's termination of agreement. This was because Andrada Construction completed the project within the extended period, and Metro Bottled Water failed to substantiate its allegation of payroll padding. The arbitral tribunal concluded that Metro Bottled Water could not have taken over the project from November 15, 1995, since there was no notice of termination and Andrada Construction remained in full control of the original contract and change orders during the extended period.<sup>[32]</sup> The Arbitral Award read:

WHEREFORE, premises considered we hold that:

A.Claimant's claims

Unpaid work                      - P4,607,523.40

accomplishment

Interest on the unpaid work Accomplishment	- 6% per annum on P4,607,523.40 reckoned from November 24, 2000 date of receipt of the letter dated October 24, 2000 by Respondent and 12% per annum from the time the judgment becomes final and executory until the entire sum including interest is fully paid.
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B. Respondent's Counterclaims

Cost to complete and correct the projects	- none
Liquidated damages	- none

All other claims and counterclaims are dismissed for lack of merit.

The costs of arbitration shall be shared equally by the parties.

Accordingly, judgment is hereby rendered ordering Metro Bottled Water Corporation to pay Andrada Construction and Development Inc. the amount of P4,607,523.40 with interest at 6% per annum reckoned from November 24, 2000 date of receipt of the letter dated October 24, 2000 by Respondent and 12% per annum from the time this judgment becomes final and executory until the entire sum including interest is fully paid.

SO ORDERED, April 11, 2002.<sup>[33]</sup>

Metro Bottled Water filed before the Court of Appeals a Petition for Review<sup>[34]</sup> assailing the Arbitral Award.

In its March 21, 2012 Decision,<sup>[35]</sup> the Court of Appeals dismissed the Petition for lack of merit<sup>[36]</sup> and upheld the factual findings of the Construction Industry Arbitration Commission.<sup>[37]</sup> It agreed with the arbitral tribunal's evaluation that Metro Bottled Water confirmed the completed works, and thus, Andrada Construction was entitled to compensation. To deny the payment would be to permit unjust enrichment at Andrada Construction's expense.<sup>[38]</sup>

The Court of Appeals found no error in the entitlement of legal interest since demand could be reasonably established from Andrada Construction's October 24, 2000 Letter, which stated that payment was being requested as a formal claim.<sup>[39]</sup> It held that it could not pass upon Metro Bottled Water's allegation that the claims were barred by laches since it was not among the issues for resolution in the parties' Terms of Reference.<sup>[40]</sup>

Metro Bottled Water filed a Motion for Reconsideration, but it was denied by the Court of Appeals in its June 25, 2012 Resolution.<sup>[41]</sup> Hence, this Petition<sup>[42]</sup> was filed.

Petitioner argues that the Court of Appeals erred in applying the principle of unjust enrichment, considering that Article 1724 of the Civil Code<sup>[43]</sup> provides the requisites for the recovery of the costs of additional work. It contends that Article 1724 requires both the written authority of the owner allowing the changes and a written agreement by the parties as to the increase in costs, neither of which were present in this case.<sup>[44]</sup> Even the Construction Agreement, it asserts, requires a written order to the contractor signed by the owner, authorizing work changes or adjustments on the contract price or contract period—to which respondent did not comply.<sup>[45]</sup>

Petitioner explains that there was no evidence to conclude that it did not observe the contractual provisions on Change Order Nos. 1 to 38 since respondent admitted that Change Order Nos. 1 to 38 were submitted to petitioner for approval. At any rate, it argues, the Construction Agreement provides that any non-enforcement under the contract cannot be construed as a waiver of its rights. Hence, its non-enforcement of the contractual provisions on Change Order Nos. 1 to 38 should not be construed as a waiver of its rights to enforce the contractual provisions on Change Order Nos. 39 to 109.<sup>[46]</sup>

Petitioner asserts that it was entitled to the payment of liquidated damages since respondent was unable to complete the project within the contract period. Respondent had no valid reasons to extend the contract period or execute change orders. It points out that its October 11, 1995 Letter did not grant a time extension, but merely provided a new schedule of completion; hence, respondent's completion of the project nine (9) days after the contract period constituted delay.<sup>[47]</sup>

Petitioner submits that the Court of Appeals and the Construction Industry Arbitration Commission erred in not finding that there were no factual and legal grounds for terminating the Construction Agreement and petitioner taking over the project. It argues that respondent not only failed to complete the project on time, but also engaged in payroll padding, as proven by documentary evidence. It points out that it needed no notice to take over the project if, upon notice of default, respondent could not complete it within 10 days, per the Construction Agreement.<sup>[48]</sup> Thus, petitioner, on November 15, 1995, assumed the payment of labor and supervision of manpower, as proven by its consultant's testimony and the Progress Reports submitted during the period.<sup>[49]</sup>

Respondent counters that petitioner assails the competence of the Construction Industry Arbitration Commission on its findings of fact. This, it points out, is not