

FIRST DIVISION

[G.R. Nos. 159561-62, October 03, 2012]

R.V. SANTOS COMPANY, INC., PETITIONER, VS. BELLE CORPORATION, RESPONDENT.

D E C I S I O N

LEONARDO-DE CASTRO, J.:

For disposition of the Court is a Petition for Review on *Certiorari*, assailing the Court of Appeals' Decision^[1] dated March 7, 2003 and Resolution^[2] dated August 20, 2003 in the consolidated cases docketed as CA-G.R. SP Nos. 60217 and 60224. In its Decision dated March 7, 2003, the Court of Appeals affirmed the July 28, 2000 Decision^[3] in CIAC Case No. 45-99 of the Construction Industry Arbitration Commission (CIAC), which, among others, (a) ordered RV Santos Company, Inc. (RVSCI) to refund the amount of P4,940,108.58 to Belle Corporation (Belle), and (b) denied Belle's claim for liquidated damages and RVSCI's counterclaims for unpaid billings and attorney's fees. In the assailed August 20, 2003 Resolution, the Court of Appeals denied the parties' respective motions for reconsideration of its March 7, 2003 Decision.

The present controversy arose from a Request for Adjudication^[4] filed by Belle with the CIAC on November 3, 1999. According to the Complaint^[5] attached to said Request, Belle and RVSCI entered into a Construction Contract on July 14, 1997. As stipulated therein, RVSCI undertook to construct a detailed underground electrical network for Belle's Tagaytay Woodlands Condominium Project located in Tagaytay City^[6] with a project cost that shall not be more than Twenty-Two Million Pesos (P22,000,000.00), inclusive of all taxes, government fees and the service fee under the Contract.^[7] Likewise under said contract, Belle advanced to RVSCI fifty percent (50%) of the contract price in the amount of Eleven Million Pesos (P11,000,000.00)^[8] for which RVSCI issued to Belle an official receipt^[9] dated August 8, 1997.

Some time thereafter, RVSCI commenced work on the project. Under Article VII(A) of the Construction Contract, the project was supposed to be completed and ready for operation within 180 calendar days from receipt by RVSCI of the notice to commence from Belle, provided that all civil related works necessary for the execution of the project works were in place. However, the project was allegedly not completed within the stipulated time frame.

On March 17, 1998, Belle's Woodlands General Committee supposedly set April 21, 1998 as the target date for completion of the Log Home Units in Woodlands. In a Memorandum^[10] dated April 14, 1998, Belle purportedly informed RVSCI of the target date and urged the latter to complete the project on or before said deadline. Still the project was not completed on April 21, 1998.

Subsequently, in June 1998, Belle placed additional work orders with RVSCI, who in turn made the following cost estimates for the additional work:

Additional Order No. 1

P3,854,400.00

Installation of 7 units of Load break
switch, 102 units of kw-hrs. meters
and fabrication of 21 sets of Bus ducts

Additional Order No. 2

541,528.54

Supply and installation of one (1) unit
MDP-DTIA

Additional Order No. 3

158,612.00

Various work orders issued to [RVSCI]

P4,554,540.54^[11]

Belle admittedly approved RVSCI's cost estimates for Additional Order Nos. 1 and 2 but the former allegedly did not approve the cost estimate for Additional Order No. 3 which Belle estimated should only cost P22,442.47. Nonetheless, RVSCI proceeded to implement Additional Order Nos. 1 and 3 while Belle itself accomplished Additional Order No. 2.

On August 10, 1998, RVSCI submitted its Progress Billing^[12] to Belle, claiming 53.3% accomplishment of the project, including the work done for Additional Order No. 1, as set forth above. RVSCI claimed that the value of the work accomplished under the August 10, 1998 Progress Billing was P7,159,216.63 on the main project and P1,768,000.00 on the additional work order. After deducting 50% of the Progress Billing on the main project, the total amount billed by RVSCI was P5,347,608.03. Purportedly relying on RVSCI's representations, Belle's project engineer recommended approval of the Progress Billing.

Subsequently, however, Belle reputedly made its own assessment of the work accomplished by RVSCI and determined that it was only worth P4,676,724.64. Belle supposedly relayed its findings to RVSCI.^[13]

On September 30, 1998, while negotiations were allegedly on-going between the parties regarding the payment of the Progress Billing, Belle claimed that RVSCI unceremoniously abandoned the project without prior notice and forced Belle to take over the construction work therein. Belle purportedly sent a Memorandum^[14] dated December 15, 1998 to RVSCI to convey its "extreme disappointment" over the latter's abandonment of the project.

On January 11, 1999, the parties' representatives met and during that meeting RVSCI allegedly advised Belle that it will not return to the site until the outstanding

balance due to it is paid.^[15]

Meanwhile, on January 22, 1999, Belle made an additional payment for electrical works to RVSCI in the amount of P476,503.30. This payment was evidenced by an official receipt^[16] issued by RVSCI. Belle likewise remitted the amount of P122,491.14 to the Bureau of Internal Revenue representing the withholding tax due from RVSCI.

In February 1999, Belle engaged the services of an assessor, R.A. Mojica and Partners (R.A. Mojica), to determine the value of the work done by RVSCI. After it conducted an electrical works audit, R.A. Mojica reported to Belle that the work accomplished by RVSCI on the main project only amounted to P4,868,443.59 and not P7,159,216.05 as billed by RVSCI.^[17]

In Belle's view, it had overpaid RVSCI, based on the following computation:

Downpayment	
P11,000,000.00	
Withholding Tax Payable	
122,491.14	
Additional Payment for electrical works	
(Billing #01)	
476,503.33	

P11,598,994.44	
LESS:	
Actual Value of Work Accomplished	
4,868,443.59	
Approved Change of Specifications and	
Additional Work Orders	
1,790,442.70	

NET DUE TO [BELLE]	P
4,940,108.15 ^[18]	

RVSCI allegedly refused to return the excess payment despite repeated demands. Thus, relying on the arbitration clause in the Construction Contract, Belle brought the matter before the CIAC and prayed that RVSCI be directed to (a) reimburse Belle the amount of P4,940,108.15, and (b) pay Belle the amount of P2,200,000.00 as liquidated damages.^[19]

By way of defense, RVSCI claimed that its August 10, 1998 Progress Billing was a result of a "bilateral assessment" by the representatives of both parties and was, in fact, approved/recommended for payment by Belle's representatives. RVSCI

complained that Belle segregated the project into two phases (Phase 1 and Phase 2) with Phase 1 comprising the area already worked on by RVSCI and Phase 2 comprising the “unworked” area. It was Belle which advised RVSCI in a meeting on January 11, 1999 that the former was suspending Phase 2 of the project due to economic difficulties. RVSCI allegedly made several demands for payment of its Progress Billing but Belle ignored said demands. Thus, in view of Belle’s suspension of the work and the nonpayment of the progress billing, RVSCI was purportedly forced to stop work on the project, despite being fully prepared to comply with its obligations under the contract. RVSCI further asserted that it was not notified of, nor made privy to, the audit work conducted by R.A. Mojica and therefore RVSCI was not bound by such audit. Insisting on the accuracy of its Progress Billing, RVSCI interposed a counterclaim against Belle for the payment of the amount of P4,312,170.95, computed thus:

Progress Billing	P 7,159,216.05
Remaining MDPs for delivery Under original contract (11 sets @ P327,128.54)	P 3,598,413.94
Approved Change of Specifications and Additional Work Order/s (dated August 10, 1998 and September 30, 1998)	<u>P 4,554,540.95</u>
Total	P 15,312,170.95
Less: Advance Payment	<u>P 11,000,000.00</u>
Net Due to [RVSCI]	P
4,312,170.95 ^[20]	

RVSCI prayed for the dismissal of the Complaint and for the CIAC to order Belle to pay the following amounts: (a) P4,312,170.95 as balance of RVSCI’s progress billing(s), (b) P500,000.00 as moral damages, and (c) P500,000.00 as attorney’s fees and costs of suit.^[21]

At the preliminary conference, the parties agreed on the Terms of Reference for the arbitration of their respective claims. According to the Terms of Reference, the admitted facts and the issues to be resolved by the arbitration panel were as follows:

II. ADMITTED FACTS

The parties admit the following:

1. Their respective identity/juridical existence and circumstances.
2. The genuineness and due execution of the Contract (attached as Annex A of the Complaint) for the construction of a detailed underground electrical network for the Tagaytay Woodlands Condominium Project in Tagaytay City entered into by the parties

on 14 July 1997 for a contract price of P22,000,000.00.

3. Article IV, Section 4.2 of the Construction Contract which provide (sic) that the "Contractor [RVSCI] guarantees and warrants that the total project cost shall not be more than P22,000,000.00, inclusive of all taxes and government fees and the service fee under the Contract."
4. Sec. 6.2(a), Art. VI of the Construction Contract which provides that: "Owner [Belle] shall advance to Contractor an amount equivalent to 50% of the Contract Price or the amount of P11,000,000.00, as down payment for the construction, upon execution of the Contract, receipt of which is hereby acknowledged by Contractor. Progress payments to be made by Owner to Contractor, proportionate to the percentage of accomplishment of the Project, shall be deducted from the balance of the Contract Price. The same proportion of the down payment shall also be deducted from billing progress payments."
5. The payment made by Claimant to Respondent in the amount of P11,000,000.00 as acknowledged to have been received under Official Receipt No. 0706 issued by the latter on 8 August 1997 (attached as Annex B of the Complaint).
6. The following proposed cost estimate of the Respondent on Claimant's additional work orders in June 1998:

Additional Order No. 1	Installation of 7 units of Load break switch, 102 units of kw-hrs. meters and fabrication of 21 sets of Bus ducts.	P3,854,400.00
Additional Order No. 2	Supply and installation of one (1) unit MDP-DTIA	541,528.54
Additional Order No. 3	Various work orders issued to [RVSCI]	158,612.00

		P4,554,540.54

7. Claimant approved Respondent's proposed estimates on Additional Orders Nos. 1 and 2, but disputed the cost estimate of Additional Order No. 3. Thereafter, Respondent proceeded to implement additional Orders Nos. 1 and 3.
8. Progress Billing No. 1 (attached as Annex D of the Complaint) which Claimant received on 10 August 1998.
9. On 11 January 1999, the parties' representatives met to discuss the reasons for Respondent's failure/refusal to return to the Site. These representatives were Fernando R. Santico, Edgardo F. Villarino & Rudy P. Aninipot, for the Claimant, and Renato V. Santos & Joey C.