

Title: Systems Energizer Corporation vs. Bellville Development Inc.

Facts:

1. Systems Energizer Corporation (SECOR) and Bellville Development Incorporated (BDI) entered into a construction contract on May 21, 2009, known as the First Agreement, for electrical works on the Molito 3—Puregold Building. The contract price was P15,250,000.00.
2. The First Agreement contained clauses (Articles 2.02 and 5.05) that allowed future documents to form part of the contract and for price adjustments due to additional work.
3. Work began but was soon halted due to issues with BDI's original structural contractor and the deaths of BDI's vice presidents.
4. BDI issued a new Notice of Award/Notice to Proceed on March 25, 2010, which called for additional and revised works totaling P51,550,000.00, and subsequently formalized in a Second Agreement on April 5, 2010. Article 2.4 of the Second Agreement stated it superseded all prior agreements.
5. SECOR completed the construction works, including additional authorized modifications as per Work Authorization Orders (WAOs), with a final stated cost of P80,711,308.05.
6. BDI paid SECOR the full contract price but retained 10% under both agreements. SECOR demanded the release of these retentions plus payment for WAO No. 20, totaling P8,030,000.00, which BDI disputed pending documentation.
7. SECOR filed for arbitration with CIAC, resulting in an award upholding SECOR's claims with a total amount due of P8,030,000.00.
8. BDI sought judicial review from the Court of Appeals (CA), which ruled in its favor, ordering SECOR to reimburse an excess amount paid under the first agreement, finding it invalidated by the Second Agreement due to novation.
9. SECOR petitioned the Supreme Court without filing a motion for reconsideration, arguing CA erred, particularly that BDI was not justified in considering the First Agreement superseded.

Issues:

1. Was there a novation that replaced the First Agreement with the Second Agreement?
2. Was there evidence sufficient to support the claims for work done under the First

Agreement?

3. Were the payments and retentions claimed by SECOR justified given the contractual arrangements?

Court's Decision:

1. The Supreme Court affirmed the CA's decision, holding that the Second Agreement superseded the First Agreement through objective novation, due to its distinct and revised scope of work.

2. The Court found that the changes between the first and second contracts were substantive, thus the First Agreement could not have been executed alongside the Second Agreement. The substantial difference in scope signified by additional structures and systems justified this.

3. The CA correctly determined the entitlement of SECOR to retention fees and specific work under the WAO and part of the First Agreement calculated at 6.774% work accomplishment as per a report by BDI's quality surveyor.

Doctrine:

- Novation is not presumed and requires clear evidence of a new agreement replacing the old—either through explicit stipulation or incompatible terms.
- In construction contracts, the introduction of distinctly new specifications that replace original plans can constitute novation if they fundamentally alter the obligations.

Class Notes:

- Novation requires: an original valid obligation, concurrence to a new agreement, extinguishment of the old agreement, and a new valid obligation.
- The outcome of changes in construction contract terms hinges on whether these modifications are deemed essential changes, thus producing novation.
- CIAC arbitration outcomes require supporting substantial evidence, failing which may lead to judicial reversal.

Historical Background:

- This case contextually examines the principles of novation in contract law, particularly in construction, addressing the relevance of clear contracting language and intent behind modifications to obligations. This case serves as a crucial precedent in interpreting construction contract modifications, ensuring parties do not inadvertently assume dual contractual obligations.