

METROPOLITAN CEBU WATER DISTRICT, PETITIONER, VS. MACTAN ROCK INDUSTRIES, INC., RESPONDENT.

G.R. No. 172438. July 04, 2012

Ponente: MENDOZA, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-172438/>

MENDOZA, J.:

This is a petition for review on certiorari under Rule 45 assailing the February 20, 2006 Decision[1] and the March 30, 2006 Resolution[2] of the Court of Appeals (CA) in CA–G.R. CEB SP. No. 00623.

THE FACTS

Petitioner Metropolitan Cebu Water District (MCWD) is a government-owned and controlled corporation (GOCC) created pursuant to Presidential Decree (PD) No. 198,[3] as amended, with its principal office address at the MCWD Building, Magallanes corner Lapu-Lapu Streets, Cebu City.[4] It is mandated to supply water within its service area in the cities of Cebu, Talisay, Mandaue, and Lapu-Lapu and the municipalities of Compostela, Liloan, Consolacion, and Cordova in the Province of Cebu.[5]

Respondent Metro Rock Industries, Inc. (MRII) is a domestic corporation with principal office address at the 2nd Level of the Waterfront Cebu Hotel and Casino, Lahug, Cebu City.[6]

On May 19, 1997, MCWD entered into a Water Supply Contract[7] (the Contract) with MRII wherein it was agreed that the latter would supply MCWD with potable water, in accordance with the World Health Organization (WHO) standard or the Philippine national standard, with a minimum guaranteed annual volume.[8]

On March 15, 2004, MRII filed a Complaint[9] against MCWD with the Construction Industry Arbitration Commission (CIAC), citing the arbitration clause (Clause 18)[10] of the Contract. The case was docketed as CIAC Case No. 12-2004. In the said complaint, MRII sought the reformation of Clause 17 of the Contract, or the Price Escalation/De-Escalation Clause, in order to include Capital Cost Recovery in the price escalation formula, and to have such revised formula applied from 1996 when the bidding was conducted, instead of from the first day when MRII started selling water to MCWD. It also sought the payment of the unpaid price escalation/adjustment, and the payment of unpaid variation/extra work order and interest/cost of money up to December 31, 2003.[11]

On May 7, 2002, MCWD filed its Answer[12] dated April 27, 2004, which included a motion to dismiss the complaint on the ground that the CIAC had no jurisdiction over the case, as the Contract was not one for construction or infrastructure.

The CIAC thereafter issued an order[13] denying MCWD's motion to dismiss, and calling the parties to a preliminary conference for the review and signing of the Terms of Reference.[14]

MCWD, thus, filed a petition for certiorari[15] under Rule 65 with the CA, questioning the jurisdiction of the CIAC. The petition was docketed as CA-G.R. SP. No. 85579 (First Petition).

Meanwhile, the CIAC proceeded with the preliminary conference scheduled on June 10 and July 22, 2004 which MWCD opted not to attend. MR II and the CIAC both signed the Terms of Reference. Pursuant to the Terms of Reference and the CIAC Order dated July 22, 2004, MR II submitted its documentary evidence and affidavits of its witnesses.[16]

On August 27, 2004, MR II submitted its Formal Offer of Evidence and its memorandum of arguments in the form of a proposed/draft decision. MCWD did not attend the hearings. It did not submit evidence other than those annexed to its Answer. Neither did it file a formal offer of evidence, or a memorandum of legal arguments.[17]

Decision of the CIAC

The CIAC promulgated its Decision[18] on April 14, 2005, the dispositive portion of which reads:

WHEREFORE[,] premises considered, judgment is hereby rendered as follows:

- Ordering the reformation of Clause 17 of the Water Supply Contract to read:

17[.] Price Escalation and/or De-Escalation shall be based on the parametric formula:

17.1 Power Rate Price Adjustment/Power Cost Adjustment

Current Power Rate - Base Power Rate x 30% of base selling price of water
Base Power Rate

17.2 Consumer Price Index (CPI) Adjustment/Operating Cost Adjustment:

Current CPI – Base CPI x 40% of base selling price of water
Base CPI

17.3 Capital Cost Recovery Adjustment:

Current Peso to Base Peso to US\$

US\$ Exchange Rate – Exchange Rate x 30% of base selling price of water
Base Peso to US \$ Exchange Rate

Price escalation shall be reckoned from January 1999 when the water was first delivered by Mactan Rock Industries, Inc. to the MCWD facilities in Mactan. The base CPI, base US\$ Exchange Rate and the Base Power Rate shall be the prevailing rate in January 1999, while the Base Selling Price of water shall mean the 1996 rate per cubic meter of water as provided for in the Water Supply Contract.

- Ordering Respondent Metropolitan Cebu Water District to pay Claimant, Mactan Rock Industries, Inc[.] under the reformed Clause 17 of the Water Supply Contract, the net amount of Php12,126,296.70 plus legal interest of six percent (6%) per annum from the (sic) March 15, 2004, the date of filing (sic) of the case with the Construction Industry Arbitration Commission, the rate increased to twelve percent (12%) per annum from the date the herein Decision have (sic) become final and executory until the foregoing amounts shall have been fully paid[.]

- Claimant Mactan Rock Industries, Inc. and Metropolitan Cebu Water District shall share equally the cost of arbitration.

SO ORDERED.[19]

Decision of the CA in CA-G.R. SP No. 85579 -
Petition for certiorari under Rule 65 with the
Court of Appeals questioning the jurisdiction

of the CIAC

Meanwhile, on October 28, 2005, the CA in its decision[20] in the First Petition upheld the jurisdiction of the CIAC over the case. The CA held that when parties agree to settle their disputes arising from or connected with construction contracts, the CIAC acquires primary jurisdiction.[21] Citing *Philrock Inc. v. Construction Industry Arbitration Commission*,[22] the CA stated that the CIAC may resolve not only the merits of such controversies, but may also award damages, interest, attorney's fees, and expenses of litigation, when appropriate.[23]

Second, the CA held that the claims in question fall under the jurisdiction of the CIAC. Thus:

Xxx Section 4 of Executive Order No. 1008, otherwise known as the Construction Industry Arbitration Law delineates CIAC's jurisdiction as "original and exclusive jurisdiction over disputes arising from, or connected with, contracts entered into by parties involved in construction in the Philippines, whether the disputes arise before or after the completion of the contract, or after abandonment thereof." Moreover, Section 5 (k) of Republic Act No. 9184 otherwise known as [the] Government Procurement Reform Act expressly defines "infrastructure project" as including "water supply[,] construction, rehabilitation[,] demolition, repair, restoration and maintenance.

Consistent with the above-mentioned policy of encouraging alternative dispute resolution methods, courts should liberally construe arbitration clauses. Provided such clause is susceptible of an interpretation that covers the asserted dispute, an order to arbitrate should be granted. Any doubt should be resolved in favor of arbitration. It is to be highlighted that the dispute in the case at bar arose from the parties' incongruent positions with regard to clause 17 of the Water Supply Contract[,] specifically the price escalation/adjustment. The instant case involves technical discrepancies that are better left to an arbitral body that has expertise in those areas. Nevertheless, in any event, the inclusion of an arbitration clause in a contract does not ipso facto divest the courts of jurisdiction to pass upon the findings of arbitral bodies, because the awards are still judicially reviewable under certain conditions.[24] (Citations omitted.)

MCWD's motion for reconsideration of the decision in the First Petition was still pending when it filed the petition for review[25] under Rule 43 (Second Petition) appealing the decision of the CIAC. The motion for reconsideration was eventually denied in a Resolution[26] dated May 3, 2006. MCWD did not appeal from the denial of the motion. It, thus, became final and executory.[27]

Decision of the CA in CA-G.R. CEB SP.

No. 00623 – Petition for review under Rule
43 appealing the decision of the CIAC

Aggrieved by the CIAC Decision, MCWD filed a petition for review under Rule 43 with the CA which was docketed as CA-G.R. CEB SP. No. 00623.

The CA, however, dismissed the petition in its Decision dated February 20, 2006. The Court therein stated that the issue of jurisdiction had already been resolved by the 18th Division in the First Petition, where the CA upheld the jurisdiction of the CIAC over Arbitration Case No. 12-2004.

Citing jurisprudence, the CA also ruled that there being an arbitration clause in the Contract, the action for reformation of contract instituted by MR II in this case fell squarely within the jurisdiction of the CIAC, not the courts. In relation to this, the CA noted that the present rule is that courts will look with favor upon amicable agreements to settle disputes through arbitration, and will only interfere with great reluctance to anticipate or nullify the action of the arbitrator. MCWD being a signatory and a party to the Water Supply Contract, it cannot escape its obligation under the arbitration clause. [28]

The CA also held that the CIAC did not err in finding that the Water Supply Contract is clear on the matter of the

reckoning period for the computation of the escalation cost from January 9, 1999, or the first day of delivery of water. Moreover, the CA found that the CIAC did not err in ruling that the contract be reformed to include Capital Cost Recovery in the parametric formula for price escalation. Neither did it err in holding that the Capital Cost Recovery shall be 30% of the Base Selling Price of water as a consequence of the reformation of Clause 17.

Finally, the CA stressed that “factual findings of administrative agencies which are deemed to have acquired expertise in matters within their respective jurisdictions are generally accorded not only respect but even finality when supported by substantial evidence.”[29]

MCWD filed a motion for reconsideration but it was denied in the CA Resolution dated March 30, 2006.

Thus, this petition.

ISSUES

MCWD raises the following issues in its petition for review:

MAY THE CONSTRUCTION INDUSTRY [ARBITRATION] COMMISSION EXERCISE JURISDICTION OVER DISPUTES ARISING FROM A WATER SUPPLY CONTRACT?

MAY A PARTY, WHO IS A SIGNATORY TO THE WATER SUPPLY CONTRACT[,] IN EFFECT SUBMITTING ITSELF TO THE JURISDICTION OF THE CONSTRUCTION INDUSTRY ARBITRATION COMMISSION, QUESTION THE JURISDICTION OF [THE] CIAC?

DOES THE CONSTRUCTION INDUSTRY ARBITRATION COMMISSION HAVE THE (SIC) JURISDICTION OVER A COMPLAINT PRAYING FOR A REFORMATION OF A WATER SUPPLY CONTRACT?

MAY THE COURT OF APPEALS REFUSE TO RENDER A [SIC] JUDGMENT ON AN ISSUE BECAUSE THIS HAS BEEN ALREADY SETTLED IN A DECISION RENDERED BY ANOTHER DIVISION OF THE COURT OF APPEALS IN A PETITION FOR CERTIORARI, EVEN IF THE SAID DECISION HAS NOT YET BEEN (SIC) FINAL DUE TO A TIMELY FILING OF A MOTION FOR RECONSIDERATION?[30]

RULING OF THE COURT

Creation of the CIAC

The Construction Industry Arbitration Commission (CIAC) was created in 1985 under Executive Order (E.O.) No. 1008 (Creating an Arbitration Machinery for the Philippine Construction Industry), in recognition of the need to establish an arbitral machinery that would expeditiously settle construction industry disputes. The prompt resolution of problems arising from, or connected to, the construction industry was considered necessary and vital for the fulfillment of national development goals, as the construction industry provided employment to a large segment of the national labor force, and was a leading contributor to the gross national product. [31]

Under Section 4 of E.O. No. 1008, the CIAC’s jurisdiction was specifically delineated as follows:

SECTION 4. Jurisdiction - The CIAC shall have original and exclusive jurisdiction over disputes arising from, or connected with, contracts entered into by parties involved in construction in the Philippines, whether the disputes arise before or after the completion of the contract, or after the abandonment or breach thereof. These disputes may involve government or private contracts. For the Board to acquire jurisdiction, the parties to a dispute must agree to submit the same to voluntary arbitration.

The jurisdiction of the CIAC may include but is not limited to violation of specifications for materials and

workmanship; violation of the terms of agreement; interpretation and/or application of contractual provisions; amount of damages and penalties; commencement time and delays; maintenance and defects; payment default of employer or contractor and changes in contract cost.

Excluded from the coverage of this law are disputes arising from employer-employee relationships which shall continue to be covered by the Labor Code of the Philippines. (Underscoring supplied)

The jurisdiction of the CIAC as a quasi-judicial body is confined to construction disputes,[32] that is, those arising from, or connected to, contracts involving “all on-site works on buildings or altering structures from land clearance through completion including excavation, erection and assembly and installation of components and equipment.”[33] The CIAC has jurisdiction over all such disputes whether the dispute arises before or after the completion of the contract.[34]

Whether the CIAC has jurisdiction over the dispute

As earlier stated, following the denial of its motion to dismiss by CIAC, MCWD filed the First Petition with the CA, which decided in favor of MRII and upheld the jurisdiction of the CIAC.

Not being in conformity, MCWD filed a motion for reconsideration.

While the said motion was pending with the CA, MCWD filed the Second Petition with the same court. Eventually, the motion was denied, and MCWD never appealed the case. Thus, the decision of the CA in the First Petition became final and executory.

The question now is whether such final and executory decision is binding such that courts are generally precluded from passing judgment on the issue of jurisdiction in the present petition.

The Court finds in the affirmative.

This Court has held time and again that a final and executory judgment, no matter how erroneous, cannot be changed, even by this Court. Nothing is more settled in law than that once a judgment attains finality, it thereby becomes immutable and unalterable. It may no longer be modified in any respect, even if such modification is meant to correct what is perceived to be an erroneous conclusion of fact or law, and regardless of whether the modification is attempted to be made by the court rendering it or by the highest court of the land.[35]

In its Decision in the First Petition, the CA affirmed the arbitral body’s finding in CIAC Case No. 12-2004 that the case was within its jurisdiction. Such decision having become final, it is beyond the jurisdiction of this Court, or any court or body, for that matter, to review or modify, even supposing for the sake of argument, that it is indeed erroneous.

Also, the parties apparently characterized the Contract as one involving construction, as its arbitration clause specifically refers disputes, controversies or claims arising out of or relating to the Contract or the breach, termination or validity thereof, if the same cannot be settled amicably, to an arbitration tribunal, in accordance with E.O. No. 1008, or the Construction Industry Arbitration Law:

V. DISPUTES AND JURISDICTION:

18. Any dispute, controversy or claim arising out of or relating to this contract or the breach, termination or invalidity thereof, if the same cannot be settled amicably, may be submitted for arbitration to an Arbitration Tribunal in accordance with Executive Order No. 1008 dated 4 February 1985, otherwise known as the Construction Industry Arbitration Law and the place of arbitration shall be the City of Cebu, Philippines, otherwise said dispute or controversy arising out of the contract or breach thereof shall be submitted to the court of law having jurisdiction thereof in the city where MCWD is located.[36]

Had the parties been of the mutual understanding that the Contract was not of construction, they could have instead referred the matter to arbitration citing Republic Act (R.A.) No. 876, or The Arbitration Law. Having been passed into law in 1953, the said statute was already in existence at the time the contract was entered into, and could have been applied to arbitration proceedings other than those specifically within the arbitral jurisdiction of the CIAC.

Whether the CA erred in refusing to render judgment on the issue of jurisdiction_____

On a related matter, MWCD also raises the issue of whether the 19th Division of the CA, Cebu City, erred in refusing to render judgment on the issue of jurisdiction raised in the Second Petition on the ground that it had already been settled by the 18[th] Division in its decision in the First Petition, even if the 18th Division decision had not yet become final due to a timely filing of a motion for reconsideration.

The Court rules in the negative.

The 19[th] Division was correct in refusing to render judgment on the issue of jurisdiction as, at that time, the issue was still pending before another division of the CA.

Litis pendentia is predicated on the principle that a party should not be allowed to vex another more than once regarding the same subject matter and for the same cause of action. It is founded on the public policy that the same subject matter should not be the subject of controversy in courts more than once, in order that possible conflicting judgments may be avoided for the sake of the stability of the rights and status of persons, and also to avoid the costs and expenses incident to numerous suits. [37]

With the two petitions then pending before the CA, all the elements of litis pendentia were present, that is, identity of the parties in the two actions, substantial identity in the causes of action and in the reliefs sought by the parties, and identity between the two actions such that any judgment that may be rendered in one case, regardless of which party is successful, would amount to res judicata in the other.[38]

In both cases, MCWD was the petitioner and MRII, the respondent. Although they differ in form, in essence, the two cases involved a common issue, that is, MCWD's challenge to the jurisdiction of the CIAC over the arbitration proceedings arising from the Water Supply Contract between the petitioner and respondent.

To determine whether there is identity of the rights asserted and reliefs prayed for, grounded on the same facts and bases, the following tests may be utilized: (1) whether the same evidence would support and sustain both the first and the second causes of action, also known as the "same evidence" test; or (2) whether the defenses in one case may be used to substantiate the complaint in the other.[39] Also fundamental is the test of determining whether the cause of action in the second case existed at the time of the filing of the first case.[40]

In the First Petition, MCWD argued that the CIAC's issuance of its Order[41] dated May 28, 2004 was tainted with grave abuse of discretion amounting to excess or lack of jurisdiction. Thus, MCWD stated in its prayer:

WHEREFORE, in light of the premises laid down, petitioner most respectfully prays:

1. Upon the filing of this Petition, a Writ of Preliminary Injunction or restraining order be issued forthwith, enjoining the respondent from proceeding with the hearing of the case until further orders from the Honorable Court of Appeals;
2. After consideration, petitioner also prays that the Order dated May 28, 2004, denying petitioner's motion to dismiss be declared without force and effect;

3. Petitioner also prays that the Construction Industry Arbitration Commission be barred from hearing the case filed by Mactan Rock Industries, Inc., private respondent herein.

Other measures of relief, which are just and equitable under the foregoing premise are also prayed for.[42]

The Second Petition, on the other hand, raised the following issues:

- a. Whether or not the Arbitral Tribunal of CIAC gravely erred in taking and exercising jurisdiction over the complaint filed by the respondent;
- b. Whether or not the Arbitral Tribunal of CIAC gravely erred in reforming Clause 17 of the Contract;
- c. Whether or not the same tribunal gravely committed an error in considering Capital Cost Recovery Adjustment in awarding in favor of the complainant, when the same is extraneous to the provisions of the contract;[43]

Thus, it prayed:

WHEREFORE, PREMISES CONSIDERED, it is most respectfully prayed of the Honorable Court that a Judgment be issued reversing the findings of the Arbitral Tribunal of the Construction Industry Arbitration Commission in its Decision dated April 14, 2005, as far as the order of reformation of the water supply contract and in granting the monetary award.

It is further prayed that the decision rendered by the Arbitral Tribunal be declared invalid for want of jurisdiction to arbitrate and to order the reformation of the water supply contract;

It is also prayed that the decision awarding money to the respondent be strike (sic) down as erroneous and without legal basis for lack of jurisdiction by the Arbitral Tribunal, which rendered the Decision.

It is also prayed that a Temporary Restraining Order and a Writ of Preliminary Injunction be issued at the outset, ordering the stay of execution pending the resolution of the issues raised in the Petition.

Other measures of relief, which are just and equitable, are also prayed for.[44]

In both cases, the parties also necessarily relied on the same laws and arguments in support of their respective positions on the matter of jurisdiction.

In the First Petition, in support of its argument, that the CIAC had no jurisdiction to arbitrate the causes of action raised by MR II, MCWD cited the portions of the Contract on the obligations of the water supplier, E.O. No. 1008 (specifically Section 4 on jurisdiction), the Rules of Procedure Governing Construction Arbitration (Section 1, Article III). It also alleged that in issuing the order denying its motion to dismiss, the CIAC misread the provisions of LOI No. 1186 and R.A. No. 9184 on the definition of an infrastructure project.[45]

MR II, however, opined that the CIAC had jurisdiction over the complaint and, therefore, correctly denied petitioner's motion to dismiss. MR II argued that certiorari was not a proper remedy in case of denial of a motion to dismiss and that the claims fell squarely under CIAC's original and exclusive jurisdiction. MR II, in support of its position, cited Section 1 of LOI No. 1186 and Section 5(k) of R.A. No. 9184. MR II further proposed that, as shown by MCWD's pro-forma Water Supply Contract, Specifications, Invitation to Submit Proposal, Pre-Bid Conference minutes, Addendum No. 1, and MR II's Technical and Financial Proposals, the undertaking contemplated by the parties is one of infrastructure and of works, rather than one of supply or mere services.[46]

In the Second Petition, in support of the issue of jurisdiction, MCWD again relied on Section 4 of E.O. No. 1008 and Section 1, Article III of the Rules of Procedure Governing Construction Arbitration. It also brought to fore the alleged faulty conclusion of MR II that a water supply contract is subsumed under the definition of an

infrastructure project under LOI 1186.[47]

In its Comment, MRII reiterated and adopted its arguments before the CIAC, and insisted that the undertaking contemplated by the parties was one of infrastructure and of works, as distinguished from “mere supply from off-the-shelf or from mere services.”[48] Section 1 of LOI No. 1186, to define “infrastructure” and Section 5(k) of R.A. No. 9184 to include “water supply,” were again cited. In support of its arguments, MRII cited anew MCWD’s pro-forma Water Supply Contract, Specifications (in its Invitation to Submit Proposal), pronouncements at the Pre-Bid Conference, Addendum No. 1, and MRII’s Technical and Financial Proposals. MRII further extensively reproduced the content of the joint affidavit of Messrs. Antonio P. Tompar and Lito R. Maderazo, MRII’s President/CEO and Financial Manager, respectively.[49]

Given that the same arguments were raised on the matter of CIAC jurisdiction, the parties thus relied on substantially the same evidence in both petitions. MCWD annexed to both petitions copies of the Water Supply Contract, the complaint filed by MRII with the CIAC, and its Answer to the said complaint. On the other hand, MRII presented Addendum No. 1 to the Water Supply Contract and its Technical and Financial Proposals.

Moreover, the first cause of action in the Second Petition, that is, the CIAC’s having assumed jurisdiction, allegedly unlawfully, over the dispute arising from the Water Supply Contract, obviously existed at the time the First Petition was filed, as the latter case dealt with the jurisdiction of the CIAC over the complaint filed.

Finally, any judgment that may be rendered in the First Petition on the matter of whether the CIAC has jurisdiction over the arbitration proceedings, regardless of which party was successful, would amount to res judicata in the Second Petition, insofar as the issue of jurisdiction is concerned. In fact, what MCWD should have done was to appeal to the Court after the denial of its motion for reconsideration in the First Petition. For not having done so, the decision therein became final and, therefore, immutable.

Thus, following the above discussion, the 19th Division was correct in refusing to render judgment on the issue of jurisdiction in the Second Petition.

Whether the CIAC had jurisdiction
to order the reformation of the Water
Supply Contract_____

The jurisdiction of courts and quasi-judicial bodies is determined by the Constitution and the law.[50] It cannot be fixed by the will of the parties to the dispute, nor can it be expanded or diminished by stipulation or agreement. [51] The text of Section 4 of E.O. No. 1008 is broad enough to cover any dispute arising from, or connected with, construction contracts, whether these involve mere contractual money claims or execution of the works. This jurisdiction cannot be altered by stipulations restricting the nature of construction disputes, appointing another arbitral body, or making that body’s decision final and binding.[52]

Thus, unless specifically excluded, all incidents and matters relating to construction contracts are deemed to be within the jurisdiction of the CIAC. Based on the previously cited provision outlining the CIAC’s jurisdiction, it is clear that with regard to contracts over which it has jurisdiction, the only matters that have been excluded by law are disputes arising from employer-employee relationships, which continue to be governed by the Labor Code of the Philippines. Moreover, this is consistent with the policy against split jurisdiction.

In fact, in *National Irrigation Administration v. Court of Appeals*,[53] it was held that the CIAC had jurisdiction over the dispute, and not the contract. Therefore, even if the contract preceded the existence of the CIAC, since the dispute arose when the CIAC had already been constituted, the arbitral board was exercising current, and not

retroactive, jurisdiction. In the same case, it was held that as long as the parties agree to submit to voluntary arbitration, regardless of what forum they may choose, their agreement will fall within the jurisdiction of the CIAC, such that, even if they specifically choose another forum, the parties will not be precluded from electing to submit their dispute to the CIAC because this right has been vested upon each party by law.

This is consistent with the principle that when an administrative agency or body is conferred quasi-judicial functions, all controversies relating to the subject matter pertaining to its specialization are deemed to be included within its jurisdiction since the law does not sanction a split of jurisdiction, as stated in *Peña v. Government Service Insurance System*.^[54]

In *Peña*, the Court held that although the complaint for specific performance, annulment of mortgage, and damages filed by the petitioner against the respondent included title to, possession of, or interest in, real estate, it was well within the jurisdiction of the Housing and Land Use Regulatory Board (HLURB), a quasi-judicial body, as it involved a claim against the subdivision developer, Queen's Row Subdivision, Inc., as well as the Government Service Insurance System (GSIS).

This case was later cited in *Badillo v. Court of Appeals*,^[55] where the Court concluded that the HLURB had jurisdiction over complaints for annulment of title. The Court also held that courts will not determine a controversy where the issues for resolution demand the exercise of sound administrative discretion, such as that of the HLURB, the sole regulatory body for housing and land development. It was further pointed out that the extent to which an administrative agency may exercise its powers depends on the provisions of the statute creating such agency.

The ponencia further quoted from *C.T. Torres Enterprises, Inc. v. Hibionada*:^[56]

The argument that only courts of justice can adjudicate claims resolvable under the provisions of the Civil Code is out of step with the fast-changing times. There are hundreds of administrative bodies now performing this function by virtue of a valid authorization from the legislature. This quasi-judicial function, as it is called, is exercised by them as an incident of the principal power entrusted to them of regulating certain activities falling under their particular expertise.

In the *Solid Homes* case for example the Court affirmed the competence of the Housing and Land Use Regulatory Board to award damages although this is an essentially judicial power exercisable ordinarily only by the courts of justice. This departure from the traditional allocation of governmental powers is justified by expediency, or the need of the government to respond swiftly and competently to the pressing problems of the modern world.

In *Bagunu v. Spouses Aggabao*,^[57] the Court ruled that the RTC must defer the exercise of its jurisdiction on related issues involving the same subject matter properly within its jurisdiction, such as the distinct cause of action for reformation of contracts involving the same property, since the DENR assumed jurisdiction over the lot in question, pursuant to its mandate.

In *National Housing Authority v. First United Constructors Corporation*,^[58] the Court held that there was no basis for the exclusion of claims for business losses from the jurisdiction of the CIAC because E.O. No. 1008 "excludes from the coverage of the law only those disputes arising from employer-employee relationships which are covered by the Labor Code, conveying an intention to encompass a broad range of arbitrable issues within the jurisdiction of CIAC."^[59] Section 4 provides that "(t)he jurisdiction of the CIAC may include but is not limited to x x x," underscoring the expansive character of the CIAC's jurisdiction. Very clearly, the CIAC has jurisdiction over a broad range of issues and claims arising from construction disputes, including but not limited to claims for unrealized profits and opportunity or business losses. What E.O. No. 1008 emphatically excludes is

only disputes arising from employer-employee relationships.[60]

Where the law does not delineate, neither should we. Neither the provisions of the Civil Code on reformation of contracts nor the law creating the CIAC exclude the reformation of contracts from its jurisdiction. Jurisprudence further dictates that the grant of jurisdiction over related and incidental matters is implied by law. Therefore, because the CIAC has been held to have jurisdiction over the Contract, it follows that it has jurisdiction to order the reformation of the Contract as well.

Whether MCWD can validly refuse
to participate in the arbitration
proceedings_____

In light of the finality of the CA decision on the matter of jurisdiction, the only remaining issue to be disposed of is whether the CIAC could proceed with the case even if the MCWD refused to participate in the arbitration proceedings.

The Court rules in the affirmative. Though one party can refuse to participate in the arbitration proceedings, this cannot prevent the CIAC from proceeding with the case and issuing an award in favor of one of the parties.

Section 4.2 of the Revised Rules of Procedure Governing Construction Arbitration (CIAC Rules) specifically provides that where the jurisdiction of the CIAC is properly invoked by the filing of a Request for Arbitration in accordance with CIAC Rules, the failure of a respondent to appear, which amounts to refusal to arbitrate, will not stay the proceedings, notwithstanding the absence of the respondent or the lack of participation of such party. In such cases, the CIAC is mandated to appoint the arbitrator/s in accordance with the Rules, and the arbitration proceedings shall continue. The award shall then be made after receiving the evidence of the claimant.

In such a case, all is not lost for the party who did not participate. Even after failing to appear, a respondent is still given the opportunity, under the CIAC Rules, to have the proceedings reopened and be allowed to present evidence, although with the qualification that this is done before an award is issued:

4.2.1 In the event that, before award, the Respondent who had not earlier questioned the jurisdiction of the Tribunal, appears and offers to present his evidence, the Arbitral Tribunal may, for reasons that justifies (sic) the failure to appear, reopen the proceedings, require him to file his answer with or without counterclaims, pay the fees, where required under these Rules, and allow him to present his evidence, with limited right to cross examine witnesses already in the discretion of the Tribunal. Evidence already admitted shall remain. The Tribunal shall decide the effect of such controverting evidence presented by the Respondent on evidence already admitted prior to such belated appearance.

Thus, under the CIAC Rules, even without the participation of one of the parties in the proceedings, the CIAC is still required to proceed with the hearing of the construction dispute.[61]

This Court has held that the CIAC has jurisdiction over a dispute arising from a construction contract even though only one of the parties requested for arbitration.[62] In fact, in *Philrock, Inc. v. Construction Industry Arbitration Commission*,[63] the Court held that the CIAC retained jurisdiction even if both parties had withdrawn their consent to arbitrate.

In this case, there being a valid arbitration clause mutually stipulated by the parties, they are both contractually bound to settle their dispute through arbitration before the CIAC. MCWD refused to participate, but this should not affect the authority of the CIAC to conduct the proceedings, and, thereafter, issue an arbitral award.

Now, with the CIAC decision being questioned by MCWD, the Court takes a cursory reading of the said decision. It reveals that the conclusions arrived at by CIAC are supported by facts and the law. Article 1359 of the Civil

Code states that when there has been a meeting of the minds of the parties to a contract, but their true intention is not expressed in the instrument purporting to embody the agreement by reason of mistake, fraud, inequitable conduct or accident, one of the parties may ask for the reformation of the instrument to the end that such true intention may be expressed. The CIAC, in this case, found that the parametric formula for price escalation reflected in the Water Supply Contract involved two items: Power Rate Price Adjustment (30% of the base selling price of water) and Consumer Price Index Adjustment (40% of the base selling price of water). The remaining 30% of the selling price of water, which should have been for Capital Cost Recovery, was inadvertently left out in this parametric formula. Thus, the Contract should be reformed accordingly to reflect the intention of the parties to include in the price escalation formula the Capital Cost Recovery Adjustment. These conclusions were affirmed by the CA in the assailed decision of February 20, 2006.

As noted by MCWD in its reply, however, the dispositive portion of the CIAC decision reforming the price escalation formula is inconsistent with what was stated in the body of the decision. The formula contained in the body of the decision is as follows:

PRICE ADJUSTMENT COMPUTATION

Based on Reformed Clause 17 of the Water Supply Contract

1. Power Cost Adjustment:

xxx

Current Power Rate – Base Power Rate x 30% of Base Selling Price of water
Base Power Rate

xxx

2. Operating Cost Adjustment - Local

xxx

Current CPI – Base CPI x 30% of 40% of Base Selling Price of Water
Base CPI

xxx

3. Operating Cost Adjustment – Foreign

xxx

Current Forex – Base Forex x 70% of 40% of Base Selling Price of Water
Base Forex

xxx

4. Capital Cost Adjustment – Local

xxx

Current CPI – Base CPI x 30% of 30% of Base Selling Price of Water
Base CPI

xxx

5. Capital Cost Adjustment – Foreign

xxx

Current Forex – Base Forex x 70% of 30% of Base Selling Price of Water
Base Forex

xxx[64]

The dispositive portion of the decision, however, reads:

WHEREFORE[,] premises considered, judgment is hereby rendered as follows:

- Ordering the reformation of Clause 17 of the Water Supply Contract to read:

17[.] Price Escalation and/or De-Escalation shall be based on the parametric formula:

17.1 Power Rate Price Adjustment/Power Cost Adjustment

Current Power Rate – Base Power Rate x 30% of Base Selling Price of water
Base Power Rate

17.2 Consumer Price Index (CPI) Adjustment/Operating (sic) Cost Adjustment:

Current CPI – Base CPI x 40% of Base Selling Price of Water
Base CPI

17.3 Capital Cost Recovery Adjustment:

Current Peso to Base Peso to US\$

US\$ Exchange Rate – Exchange Rate x 30% of base selling price of water

Base Peso to US \$ Exchange Rate

The general rule is that where there is a conflict between the fallo, or the dispositive part, and the body of the decision or order, the fallo prevails on the theory that the fallo is the final order and becomes the subject of execution, while the body of the decision merely contains the reasons or conclusions of the court ordering nothing. However, where one can clearly and unquestionably conclude from the body of the decision that there was a mistake in the dispositive portion, the body of the decision will prevail.[65]

Following the reasoning of the CIAC in this case, there are three components to price adjustment: (1) Power Cost Adjustment (30% of the base selling price of water); (2) Operating Cost Adjustment (40% of the base selling price of water); and (3) Capital Cost Adjustment (30% of the base selling price of water).

In turn, the second component—Operating Cost Adjustment—is computed based on Local Operating Cost Adjustment (30%), and Foreign Operating Cost Adjustment (70%).

Capital Cost Adjustment, on the other hand, is composed of Local Capital Cost Adjustment (30%), and Foreign Capital Cost Adjustment (70%).

This is consistent with the formula set forth in the body of the CIAC decision. If the formula in the dispositive portion were to be followed, Operating Cost Adjustment would be computed with the Local Operating Cost Adjustment representing the entire 40% of the base selling price of water instead of just 30% of the Operating Cost Adjustment. Moreover, if the Capital Cost Recovery Adjustment were to be computed based solely on Foreign Capital Cost Recovery Adjustment, it would represent the entire 30% of the base selling price of water, and not just 70% of the Capital Cost Recovery Adjustment. The omission of the marked portions of the formula as stated in the body of the CIAC decision represents substantial changes to the formula for price escalation. It is thus clear that the formula as stated in the body of the decision should govern.

WHEREFORE, the petition is DENIED. The Decision and Resolution of the Court of Appeals in C.A.-G.R. CEB

SP. No. 00623 are AFFIRMED with the modification that the formula for the computation of the Capital Cost Recovery Adjustment in the fallo of the CIAC decision should be amended to read as follows:

WHEREFORE, premises considered, judgment is hereby rendered as follows:

- Ordering the reformation of Clause 17 of the Water Supply Contract to read:

17. Price Escalation and/or De-Escalation shall be based on the parametric formula:

17.1. Power Rate Price Adjustment/Power Cost Adjustment

Current Power Rate - Base Power Rate x 30% of base selling price of water
Base Power Rate

17.2 Consumer Price Index (CPI) Adjustment/Operating Cost Adjustment:

Current CPI – Base CPI x 30% of 40% of base selling price of water
Base CPI

17.3 Capital Cost Recovery Adjustment:

Current Peso to Base Peso to US\$
US\$ Exchange Rate – Exchange Rate x 70% of 30% of base selling price of water
Base Peso to US \$ Exchange Rate

Price escalation shall be reckoned from January 1999 when the water was first delivered by Mactan Rock Industries, Inc. to the MCWD facilities in Mactan. The base CPI, base US\$ Exchange Rate and the Base Power Rate shall be the prevailing rate in January 1999, while the Base Selling Price of water shall mean the 1996 rate per cubic meter of water as provided for in the Water Supply Contract.

- Ordering Respondent Metropolitan Cebu Water District to pay Claimant, Mactan Rock Industries, Inc. under the reformed Clause 17 of the Water Supply Contract, the net amount of Php12,126,296.70 plus legal interest of six percent (6%) per annum from March 15, 2004, the date of filing of the case with the Construction Industry Arbitration Commission, and twelve percent (12%) per annum from the date this Decision becomes final and executory, until the foregoing amounts shall have been fully paid.

- Claimant Mactan Rock Industries, Inc. and Metropolitan Cebu Water District shall share the cost of arbitration equally.

SO ORDERED.

Velasco, Jr., (Chairperson), Peralta, Reyes,[*] and Perlas-Bernabe, JJ., concur.

[*] Designated Acting Member in lieu of Associate Justice Roberto A. Abad, per Special Order No. 1244 dated June 26, 2012.

[1] Rollo, pp. 23-31. Nineteenth Division, penned by Associate Justice Isaias P. Dicdican, with Associate Justice Ramon M. Bato, Jr. and Associate Justice Apolinario D. Bruselas, Jr., concurring.

[2] Id. at 43-44.

[3] Provincial Water Utilities Act of 1973.

[4] Rollo, p. 2.

[5] Id. at 24.

[6] Id. at 2-3.

[7] Id. at 45-50.

[8] Id. at 24.

[9] Id. at 51-68.

[10] “V. DISPUTES AND JURISDICTION:

18. Any dispute, controversy or claim arising out of or relating to this contract or the breach, termination or invalidity thereof, if the same cannot be settled amicably, may be submitted for arbitration to an Arbitration Tribunal in accordance with Executive Order No. 1008 dated 4 February 1985, otherwise known as the Construction Industry Arbitration Law and the place of arbitration shall be the City of Cebu, Philippines, otherwise said dispute or controversy arising out of the contract or breach thereof shall be submitted to the court of law having jurisdiction thereof (sic) where MCWD is located.”

[11] Rollo, pp. 66-67.

[12] Id. at 69-82.

[13] Id. at 83-84.

[14] Id. at 85-90.

[15] Id. at 91-100.

[16] Id. at 25.

[17] Id.

[18] Id. at 101-120, with Chairperson Guadalupe O. Mansueto and Eliseo I. Evangelista, concurring and Federico Y. Alikpala, Jr., dissenting.

[19] Id. at 119-120.

[20] Id. at 131-138. Eighteenth Division, penned by Executive Justice Mercedes Gozo-Dadole, with Associate Justice Pampio A. Abarintos and Associate Justice Enrico A. Lanzas, concurring.

[21] Id. at 135.

[22] 412 Phil. 236 (2001), cited at rollo, p. 135.

[23] Rollo, p. 135.

[24] Id. at 137-138.

[25] CA rollo, pp. 2-18.

[26] Rollo, pp. 203-204.

[27] Id. at 171 and 394.

[28] Rollo, p. 28.

[29] Id. at 29-30.

[30] *Id.* at 10-11.

[31] *Licomcen Incorporated v. Foundation Specialists, Inc.*, G.R. Nos. 167022 and 169678, April 4, 2011, 647 SCRA 83, 96.

[32] *National Housing Authority v. First United Constructors Corporation*, G.R. No. 176535, September 7, 2011, 657 SCRA 175, 210-211.

[33] *Fort Bonifacio Development Corporation v. Sorongon*, G.R. No. 176709, May 8, 2009, 587 SCRA 613, 621, citing *Gammon Philippines, Inc. v. Metro Rail Transit Development Corporation*, 516 Phil. 561, 569 (2006). See also *Fort Bonifacio Development Corporation v. Domingo*, G.R. No. 180765, February 27, 2009, 580 SCRA 397, 407.

[34] *National Irrigation Administration v. Court of Appeals*, 376 Phil. 362, 373 (1999).

[35] *Heirs of Maximino Derla v. Heirs of Catalina Derla Vda. De Hipolito*, G.R. No. 157717, April 13, 2011, 648 SCRA 638, 653, citing *Dapar v. Biascan*, 482 Phil. 385, 405 (2004).

[36] *Rollo*, p. 49.

[37] *Subic Telecommunications Co., Inc. v. Subic Bay Metropolitan Authority*, G.R. No. 185159, October 12, 2009, 603 SCRA 470, 481-482.

[38] *Umale v. Canoga Park Development Corporation*, G.R. No. 167246, July 20, 2011, 654 SCRA 155, 161.

[39] *Cabreza, Jr. v. Cabreza*, G.R. No. 181962, January 16, 2012 and *Umale v. Canoga Park Development Corporation*, G.R. No. 167246, July 20, 2011, 654 SCRA 155, 162. (Citations omitted in both cases.)

[40] *Umale v. Canoga Park Development Corporation*, *supra* note 38.

[41] *Rollo*, pp. 83-84.

[42] *Id.* at 98.

[43] *CA rollo*, p. 9.

[44] *Id.* at 15.

[45] *Rollo*, pp. 94-96.

[46] *Id.* at 211-214.

[47] *CA rollo*, pp. 9-10.

[48] *Id.* at 137.

[49] *Id.* at 116-130; 153-171.

[50] *Licomcen Incorporated v. Foundation Specialists, Inc.*, *supra* note 31 at 97. See also *HUTAMA-RSEA Joint Operations, Inc. v. Citra Metro Manila Tollways Corporation*, G.R. No. 180640, April 24, 2009, 586 SCRA 746, 761, cited in *William Golangco Construction Corporation v. Ray Burton Development Corporation*, G.R. No. 163582, August 9, 2010, 627 SCRA 74.

[51] *Id.*

[52] *Id.*

[53] 376 Phil. 362 (1999).

[54] G.R. No. 159520, September 19, 2006, 502 SCRA 383.

[55] G.R. No. 131903, June 26, 2008, 555 SCRA 435.

[56] G.R. No. 80916, November 9, 1990, 191 SCRA 268, 272-273.

[57] G.R. No. 186487, August 15, 2011, 655 SCRA 413.

[58] G.R. No. 176535, September 7, 2011, 657 SCRA 175.

[59] *Id.* at 241.

[60] *Id.* at 242.

[61] *Heunghwa Industry Co., Ltd. v. DJ Builders Corporation*, G.R. No. 169095, December 8, 2008, 573 SCRA 240, 263.

[62] *National Irrigation Administration v. Court of Appeals*, 376 Phil. 362, 374 (1999).

[63] 412 Phil. 236 (2001).

[64] *Rollo*, pp. 114-117. The portions that were inadvertently deleted in the dispositive portion appear in bold italics.

[65] *Cobbarubias v. People*, G.R. No. 160610, August 14, 2009, 596 SCRA 77, 89-90.

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.