

**NPM No. 72-2007**

3 December 2007

**MS. RODORA N. GAMBOA**  
*Acting General Manager*  
**DAVAO CITY WATER DISTRICT**  
Km. 5, J.P. Laurel Ave., Davao City

**Re : Clarification on Variation Order - Extra Work Order**

Dear Ms. Gamboa:

We respond to your letter dated 21 June 2006 requesting for an opinion on the costing of additional materials involving new work items that are not in the original contract or Extra Work Order of an infrastructure project.

As we understand from your letter, the construction of a twenty-two thousand (22, 000) cubic meter reinforced Concrete Ground Reservoir Project was suspended during its implementation because of the subsurface conditions at the site that required further investigation. It showed that new work items were needed to be included in the original contract to be covered by a Variation Order-Extra Work Order. In order to determine the unit prices for the new work items (reinforcing steel bars, cement, labor rate, equipment rental), you used the direct unit cost based on the original contract. For the other items not included in the original contract, you conducted a canvass to determine its current price. However, the contractor is not amenable to using the direct cost based on the original contract for the reinforcing steel bars. The contractor does not wish also to request for a price escalation.

Section 2 (1) (b) of the Contract Implementation Guidelines for the Procurement of Infrastructure Projects provides:

**“b. For additional/extra works duly covered by Extra Work Order involving new work items that are not in the original contract, the unit prices of the new work items shall be based on the direct unit cost used in the original contract (e.g. unit cost of cement, rebars, form lumber, labor rate, equipment rental, etc.). All new components of the new work item shall be fixed prices, provided the same is acceptable to both the Government and the contractor, and provided further that the direct unit cost of new components shall be based on the contractor’s estimate as validated by the**

**procuring entity concerned via documented canvass in accordance with existing rules and regulations.** The direct cost of the new work item shall then be combined with the mark-up factor (i.e. taxes and profit) used by the contractor in his bid to determine the unit price of the new work item.” (Emphasis supplied)

Based on the foregoing, the costing of the additional materials for the Extra Work Order would depend on whether said materials are the same as in the original contract or not. The unit price of additional materials, which are exactly the same or similar to those in the original contract, shall be based on the unit price of said materials in the original contract. However, the unit price for new components or materials shall be based on the contractor’s estimate as validated by the procuring entity through canvass.

In the instant case, it may be inferred that the reinforcing steel bars are already included in the original contract. Thus, the costing of said steel bars should be based on the original contract.

We trust that this clarifies matters. Should you have additional questions, please do not hesitate to contact us.

Very truly yours,



**RUBY U. ALVAREZ**  
*Executive Director III*