

Republika ng Pilipinas  
PAMBANSANG PANGASIWAAN NG PATUBIG  
(National Irrigation Administration)  
Gusaling APC, Quezon Memorial Circle  
Diliman, Lungsod ng Quezon

MC # 13 . s. 1975

MEMORANDUM CIRCULAR

TO : THE ASSISTANT ADMINISTRATORS; PROJECT MANAGERS; REGIONAL IRRIGATION ENGINEERS; CHIEFS OF DEPARTMENTS AND STAFFS; ASSISTANT PROJECT MANAGERS; ASSISTANT REGIONAL IRRIGATION ENGINEERS; CHIEFS OF DIVISIONS OF SPECIAL PROJECTS; PROVINCIAL IRRIGATION ENGINEERS; IRRIGATION SUPERINTENDENTS; PROJECT ENGINEERS; ALL OTHERS CONCERNED  
National Irrigation Administration

SUBJECT : Guidelines for the Adjustment of Contract Prices of Projects under the National Irrigation Administration

Attached herewith for your information and reference is the Guidelines for the Adjustment of Contract Prices of Projects under the National Irrigation Administration, pursuant to PD-454 as amended by PD-459. These guidelines have been approved by the Board of Directors of NIA under Resolution No. 2564-75, dated January 27, 1975. Attached also is a copy of the resolution for your reference.

In view of the foregoing, you are hereby directed that, in the matter of adjusting contract prices of projects under NIA, the guidelines should be followed and adhered to strictly,

Immediate compliance is enjoined.

(SGD.) ALFREDO L. JUINIO  
Administrator

February 16, 1975  
Attachments: a.s.

RECOMMENDED GUIDELINES FOR THE  
ADJUSTMENT OF CONTRACT PRICES OF  
PROJECTS UNDER THE  
NATIONAL IRRIGATION ADMINISTRATION  
PURSUANT TO PD 454 AS AMENDED BY PD 459

1. The parties seeking adjustments shall first apply for same in writing to the Administrator, stating therein the reasons justifying the claim as well as the data computations in sufficient detail which would determine accurately the amount of the change.
2. Upon receipt of this written request, the Administrator will first determine whether any or both of the conditions mentioned in Sec. 1, PD 454 exist. If any of these conditions exists but the contractor has incurred a negative slippage of more than twenty percent, the claim may be denied except on meritorious cases.
3. For Contractors whose accomplishments are ahead of the approved construction schedule, only the actual unfinished portion of the project as of May 1, 1974 shall be adjusted. For Contractors who have a negative slippage, only the unfinished portion of the project based on the approved construction schedule in force as of May 1, 1974 shall be subject to adjustment.
4. The increase or decrease in excess of 5% of the contract amount which bid item involves a change in price, shall be determined and adjusted accordingly, by application of the appropriate official indices and other cost statistics from recognized industry organizations mentioned below:
  - a) Price Control Commission (PCC) for portland cement;
  - b) Iron and Steel Institute (ISI) for reinforcing steel and structural steel plates and shapes;
  - c) Price Control Commission (PCC) for lumber, plywood and building hardware;
  - d) Associated Construction Equipment Lessors (ACEL);
  - e) Wage Commission for Labor rates;
  - f) Petroleum Institute for petroleum products principally auto, diesel fuel and asphalts;
  - g) Central Bank; and,

- h) Lowest prices obtained thru canvases made by NIA for prices not obtainable from the above sources.
5. Such price indices and cost data should be related to the major cost components involved and should correspond to labor, materials and equipment rentals contents of the contract unit price and shall exclude contingencies and other portions corresponding to the contractor's profit.
6. The unit prices which were the basis of competitive bidding for every particular project shall be trended in order to determine the adjusted price, in accordance with the following Price Revision Formula patterned after that of the United Nations Economic Commission:

Formula:

$$P = P_o \left( a + b \frac{L}{L_o} + c \frac{M}{M_o} + d \frac{E}{E_o} \right)$$

Where:

P = adjusted price  
P<sub>o</sub> = original price  
a = coefficient for non-variable costs  
b = coefficient for labor costs  
c = coefficient for materials costs  
d = coefficient for equipment usage cost  
L = current wage index  
L<sub>o</sub> = original wage index  
M = current material index  
M<sub>o</sub> = original material index  
E = current equipment usage cost  
E<sub>o</sub> = original equipment usage cost

7. Upon approval of the adjusted contract price, the contractor shall be informed in writing; and, progress billings for partial payments of work accomplished shall then be based on the approved adjusted contract unit price until such time that another adjustment may be approved as hereinafter provided.
8. In case of decrease in the cost of materials and supplies, labor and equipment rental and/or fuel, the Administrator shall request in writing, the committee constituted under PD 454 as amended by PD 459, to adjust the contract price, stating therein the reasons justifying the same, following the above stated formula.

9. In the event there should be substantial changes in prices contemplated in Section 1(a) and (b), PD 454 as amended by PD 459, after an adjustment is made, subsequent adjustments shall be made every six months in the manner hereinabove provided, but in no case oftener than six months.
10. The same basic formula as above indicated shall be applied in case of subsequent adjustments. However, the latest price obtainable from the same sources shall be used.
11. Where existing agreements contain provisions for cost variations for certain specific items, the said provisions shall govern insofar as the item or items specified therein. Adjustments of all other items not specified therein shall be determined in accordance with these guidelines.

SUBMITTED BY:

(SGD.) DAVID T. ROJAS  
Member

(SGD.) ABELARDO DEMETILLO  
Member

(SGD.) LEONARDO MIRANDA  
Chairman

# A P P E N D I X

The Price Revision Formula shown in paragraph 6 of the recommended guidelines for adjustment of contract prices of projects under the National Irrigation Administration pursuant to PD 454 as amended by PD 459 could best be illustrated by the following example:

Given: The original unit price of ₱200.00 based upon the following estimate :

1. Labor	- ₱	34.00
2. Materials	-	90.00
3. Equipment rentals	-	34.00
4. Contractor's profit, etc.	-	<u>42.00</u>
UNIT PRICE	- - - -	₱ 200.00

Formula:

$$P = P_o (a + b \frac{L}{L_o} + c \frac{M}{M_o} + d \frac{E}{E_o})$$

Tabulation:

Item	Original Cost	Coefficient	Current Cost	Index Ratio	Adjustment Factor	Remarks
1. Labor	₱ 34.00	0.17	₱ 45.00	1.32	0.224	More than 5%
2. Materials	90.00	0.45	126.00	1.40	0.630	-do-
3. Equipment rentals	34.00	0.17	51.00	1.50	0.255	-do-
4. Non-variable cost	<u>42.00</u>	<u>0.21</u>	<u>42.00</u>	<u>1.00</u>	<u>0.21</u>	-
T O T A L	<u>₱200.00</u>	<u>1.00</u>	<u>₱264.00</u>	<u>-</u>	<u>1.319</u>	-

Explanation:

1. Original costs were as given above.
2. Coefficients were computed by dividing the original cost per item over the original unit cost. (It is hereby suggested that the value of "a" be fixed to 0.21 in all items since this value usually represents about 30% of the total direct expense.)

3. Current costs were obtained as stipulated in paragraph 4 of the recommended guidelines,
4. Index ratio refers to the quotient of the current cost over the original cost as shown in the formula.
5. Adjustment factor refers to the product of the index ratio and the coefficient.
6. The remark is intended to take note of the change in price as to whether it exceeds 5%.

Therefore:  $P = P200(1.319) = P263.80$

Referring to paragraph 4 of the same guidelines, the increase in price subject to payment shall be computed as follows:

$$\begin{aligned}\text{Increase in Price} &= (P - P_o) - 5\% (P_o) \\ &= (263.80 - 200) - 0.05(200) \\ &= \underline{\underline{P53.80}}\end{aligned}$$

**"RESOLUTION NO. 2564-75**

**RESOLVED, that pursuant to Presidential Decree No. 454 as amended by P.D. 459, the Guidelines for the Adjustment of Contract Prices of Projects under the National Irrigation Administration, copy attached as Annex "A" of this Excerpts, is hereby approved."**