

# NOTICE TO ALL CUSTOMERS



3/1/2022

*This document is specifically written to make all our spot customers aware of a change to WEG's quarterly price adjustment policy. The affected product group is **all three phase Power Transformers through 90,000 kVA, all voltages, manufactured in the U.S.A.***

Over the past three (3) decades our customers and WEG Transformers USA (WEG) have worked hand-in-hand with price adjustment models successfully. The successful model is based on the calculation of a the new sales price for orders received based on the percentage content of the sales price that each of the key transformer material components represent in the pricing structure of the product.

Due to today's fluctuations in costs of raw materials, labor shortages, and supply chain disruptions, disequilibrium rather, WEG is facing unprecedented times. For most, 2021 has proven more challenging than 2020 and we feel 2022 will really test the entire T&D market in terms of market outlook and subsequent uncontrolled reaction to a perceived market outlook. WEG understand that due to the perceived market outlook every distribution transformer manufacturer is struggling, and inflation with supply chain issues, and shortages are here and show no signs of slowing in the next upcoming twenty-four (24) months.

Considering these **unprecedented times of inflation**, WEG is forced to change our price adjustment model for the long term market segment and spot market segment.

The spot market segment for distribution transformer business was traditionally a short term cycle business and therefore the forecasted material price was predictable and stable. Today this market segment became a long term cycle business where standard lead times of **over two (2) years** have been observed.

As a result of this market behavior change and the fact that it is not sustainable to forecast the inflation of material prices, the implementation of a price adjustment model is required on all current spot order booked per time table 1 below.

Publication date*	Period used in calculation	Applied to shipment - Start/Stip date
Mid-February	Base Period - January	March 1 - April 30
Mid-April	Base Period - March	May 1 - June 30
Mid - June	Base Period - May	July 1 - August 31
Mid - August	Base Period - July	September 1 - October 31
Mid - October	Base Period - September	November 1 - December 31
Mid-December	Base Period - October	January 1 - February 28

\* WEG reserves the right, at their discretion, to later the update frequencies to accommodate market conditions

Table 1

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Based on a typical spot order, WEG is implementing for all standard spot power transformer orders, all voltages a standard price adjustment model based upon the percentage content of the sales price that each of the key transformer material components represent in the pricing structure of the product. Indeed the percentage of each component can be calculated based upon the cost component price per table 2a – LTC power transformers and table 2b – DETC power transformers, see hereafter.

Key transformer components	% Weighting	Unit value
Mineral oil	1.0%	\$/gallon
ALU (HV/LV)	7.2%	\$/lbs
Mild Steel	5.9%	\$/CWT
Core Steel	4.3%	WEG Index
Freight	2.0%	National Index
Total component sales price adjusted	20.4%	
<b>LTC units, all voltages, mild steel tank, mineral oil filled</b>		

Table 2a

Key transformer components	% Weighting	Unit value
Mineral oil	0.8%	\$/gallon
ALU (HV/LV)	4.4%	\$/lbs
Mild Steel	9.0%	\$/CWT
Core Steel	3.7%	WEG Index
Freight	2.0%	National Index
Total component sales price adjusted	19.9%	
<b>DETC units, all voltages, mild steel tank, mineral oil filled</b>		

Table 2b

# NOTICE TO ALL CUSTOMERS



The price adjustment calculation for each shipment period will be published as per table 1 and per the attached price adjustment sample which will be included with WEG's invoice issued at time of shipment.

The new pricing is easily verifiable by applying the same third party indices WEG utilizes to calculate the spot price update for the month prior to the quarter during which the transformer is shipped.

For shipments the specified shipment period, all Utility spot prices will be adjusted per "the below example" table 3a and 3b hereunder.

Key transformer components	% Weighting	Unit value	Quote Indices	Current Indices	Variance	% Variance	TTL % Variance	
Mineral oil	1.00%	\$/gallon	79.83	83.22	\$ 3.39	4.25%	0.04%	
CU (HV/LV)	7.20%	\$/lbs	1.35	1.51	\$ 0.16	11.85%	0.85%	
Mild Steel	5.90%	\$/CWT	98.81	83.635	\$ (15.18)	-15.36%	-0.91%	
Core Steel	4.30%	WEG Index	1	1.35	0.35	35.00%	1.51%	
Freight	2.00%	National Index	1	1.4	0.4	40.00%	0.80%	
Total component sales price adjusted	20.40%	Total sales price adjustment:						2.295%
<b>Standard WTU PT LTC , all voltages, mild steel tank, mineral oil filled</b>								

Table 3a

Key transformer components	% Weighting	Unit value	Quote Indices	Current Indices	Variance	% Variance	TTL % Variance	
Mineral oil	0.80%	\$/gallon	79.83	83.22	\$ 3.39	4.25%	0.03%	
CU (HV/LV)	4.40%	\$/lbs	1.35	1.51	\$ 0.16	11.85%	0.52%	
Mild Steel	9.00%	\$/CWT	98.81	83.635	\$ (15.18)	-15.36%	-1.38%	
Core Steel	3.70%	WEG Index	1	1.35	0.35	35.00%	1.30%	
Freight	2.00%	National Index	1	1.4	0.4	40.00%	0.80%	
Total component sales price adjusted	19.90%	Total sales price adjustment:						1.268%
<b>Standard WTU PT DETC , all voltages, mild steel tank, mineral oil filled</b>								

Table 3b

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Third party reference indices are used to determine shipment price adjustment, these **monthly average indices** applied are:

**Mineral Oil:** The source data is the U.S. Energy Information Administration. The data can be found by signing in on [www.eia.gov](http://www.eia.gov) >>> WTI Crude Oil Prices >>> Monthly. Table visible defines the monthly average value for Cushing, Oklahoma, Crude Oil for a specific month.

**FR3 fluid:** The source data for FR3 fluid validation is the Chicago Board of Trade Soybean Oil index. The data can be found by signing in on [www.futures.tradingcharts.com](http://www.futures.tradingcharts.com) >>> Soybean Oil >>> chart >>> historical >>> 2022. The average of a month can be obtained by narrowing the period of the historical data.

**LME Aluminum:** The source data is the LME monthly average rate converted \$/lbs for cash contract application. The data can be found by signing in on [www.lme.com](http://www.lme.com) >>> Metals >>> non-ferrous (Aluminum) >>> price graphs >>> define start date & end date for cash contract >>> click update and calculate the average value in \$/lbs over the month.

**LME Copper:** The source data is the LME monthly average rate converted \$/lbs for cash contract application. The data can be signing in on [www.lme.com](http://www.lme.com) >>> Metals >>> non-ferrous (Copper) >>> price graphs >>> define start date & end date for cash contract >>> click update and calculate the average value in \$/lbs over the month.

**Mild Steel:** The source data is the American Metals market (AMM). The data can be found by signing in on [www.amm.com](http://www.amm.com). The index used with the AMM report is the steel base price for Midwest Hot-Rolled Sheet. The data close to the end of the month is used to determine the index.

**Stainless Steel:** The source data is the Fred Economic Data. The data can be obtained by signing in on [www.fred.stlouisfed.org](http://www.fred.stlouisfed.org) >>> categories >>> prices >>> Producer Price Index >>> commodity bases >>> metals and metals products; Steel Wire Stainless Steel >>> by pointing with your cursor on the graph the start index and end index can be defined.

**Core Steel Index:** Due the uniqueness of this transformer key component. The index is defined the WEG Supply Chain Department.

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**Freight Price Index:** The source data is the Fred Economic Data. The data can be obtained by signing in on [www.fred.stlouisfed.org](http://www.fred.stlouisfed.org) >>> categories >>> prices >>> Producer Price Index >>> industry based >>> transportation and warehousing >>> general freight trucking, long distance truckload >>> by pointing with your cursor on the graph the start index and end index can be defined

For copper, FR3 fluid filled and Stainless Steel transformer \* weighing in table 3a and 3b will be changed accordingly by WEG.

Notwithstanding the fact that a pricing adjustment is implement, WEG still is facing considerable spot price risk as the index is calculated with fixed periodicity, is backward looking, and only addresses changes in specific cost components as per table 2a and 2b, which is roughly 50% of the overall content of the WEG product only. Due to this fact, the discussed index, or sub-index, cannot decline below the zero level.

With each invoice, WEG will submit the price adjustment calculation per the above described methodology for the order shipped in the period per table 1, reflecting the quotation index per “example below (next page)”.

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## PRICE ADJUSTMENT CALCULATION POWER

Quotation/Order Month:	Mar-20
Escalation Date:	2/28/2022
Customer Name:	
Sales order(s):	
Escalation Month:	Feb-22
Shipment Period :	March 1, 2022 through April 30, 2022
Design criteria:	
Winding material:	CU (HV/LV)
Insulation fluid:	Mineral oil
Tank steel:	Mild Steel

Key transformer components	% Weighting	Unit value	Quote Indices	Current Indices	Variance	% Variance	TTL % Variance	
Mineral oil	1.00%	\$/gallon	0.70	2.36	\$ 1.66	238.93%	2.39%	
CU (HV/LV)	7.20%	\$/lbs	2.37	4.43	\$ 2.06	87.20%	6.28%	
Mild Steel	5.90%	\$/lbs	0.33	0.96	\$ 0.63	188.99%	11.15%	
Core Steel	4.30%	WEG Index	0.80	1.84	\$ 1.04	130.00%	5.59%	
Freight	2.00%	National Index	134.30	169.57	\$ 35.27	26.26%	0.53%	
Total component sales price adjusted	20.40%	<b>Total sales price adjustment for the segment:</b>						<b>25.9%</b>
<b>Standard WTU PT LTC , all voltages, mild steel tank, mineral oil filled</b>								

Key transformer components	% Weighting	Unit value	Quote Indices	Current Indices	Variance	% Variance	TTL % Variance	
Mineral oil	0.80%	\$/gallon	0.70	2.36	\$ 1.66	238.93%	1.91%	
CU (HV/LV)	4.40%	\$/lbs	2.37	4.43	\$ 2.06	87.20%	3.84%	
Mild Steel	9.00%	\$/lbs	0.33	0.96	\$ 0.63	188.99%	17.01%	
Core Steel	3.70%	WEG Index	0.80	1.84	\$ 1.04	130.00%	4.81%	
Freight	2.00%	National Index	134.30	169.57	\$ 35.27	26.26%	0.53%	
Total component sales price adjusted	19.90%	<b>Total sales price adjustment for the segment:</b>						<b>28.1%</b>
<b>Standard WTU PT DETC , all voltages, mild steel tank, mineral oil filled</b>								