

ERMCO PRICE INDEX

METHODOLOGY

The ERMCO Price Index (EPI) is based on changes in material cost from one quarter to the next. The EPI uses actual and forecasted material costs in its calculation. In some cases, the cost change is tied to an index however in other cases there is no indexed pricing. In all cases ERMCO can verify the EPI adjustment by either sharing material invoices or providing other documentation given this information is maintained in strict confidence.

The Base Costs and Weights are established as of October 1, 2022. The Weight for each category will be based on the prior twelve months' actual costs and the Base Costs will be ERMCO actual or expected costs for Q4 of 2022.

		Base Cost	Content % of Price (Weights)				Q1 2023 Change vs Prior Qtr	Weighted % Change vs Prior Quarter			
	UOM	Q4 2022	1PH Pole	1PH Pad	3PH Pole	3PH Pad		1PH Pole	1PH Pad	3PH Pole	3PH Pad
AL Strip	lbs	100	4.6%	3.3%	2.2%	2.9%	0%	0.0%	0.0%	0.0%	0.0%
Al Wire	lbs	100	4.1%	3.2%	3.7%	4.9%	0%	0.0%	0.0%	0.0%	0.0%
CU Wire	lbs	100	1.1%	0.4%	0.4%	0.4%	0%	0.0%	0.0%	0.0%	0.0%
Oil	gal	100	4.4%	5.8%	4.1%	5.9%	0%	0.0%	0.0%	0.0%	0.0%
Core M3	lbs	100	29.6%	21.0%	21.2%	21.3%	0%	0.0%	0.0%	0.0%	0.0%
Carbon Steel(tanks)	lbs	100	2.5%	5.4%	3.2%	7.1%	0%	0.0%	0.0%	0.0%	0.0%
Components		100	16.5%	14.4%	12.8%	12.8%	0%	0.0%	0.0%	0.0%	0.0%
Transportation	per mile	100	6.0%	6.0%	6.0%	6.0%	0%	0.0%	0.0%	0.0%	0.0%
Total Material & Freight Adjustment			68.8%	59.4%	53.6%	61.3%		0.0%	0.0%	0.0%	0.0%
Annual Labor - applied in Q4 of each year - max of 2% of sell price								0.0%	0.0%	0.0%	0.0%
Inc/Dec to Prior Quarter								0.0%	0.0%	0.0%	0.0%

The EPI will be calculated 30 days prior to each quarter end and will be used to determine the adjustment. Example: The March 1st EPI will be used to determine the Q2 adjustment. The adjustments will be determined by taking each quarters' Costs compared to the Base Costs. The categories included in the EPI are Carbon Steel, Silicon Steel, Copper, Aluminum, Oil, Steel Mild, Components, Transportation, and Labor.

The various materials in the EPI are adjusted as follows:

Aluminum Strip - ERMCO's current month cost for aluminum strip is based on the previous month's average price on the MW US Market and/or COMEX/LME trading exchange PLUS a processing fee from the various manufacturers. For future months base price for aluminum strip, ERMCO uses the COMEX/LME futures forecast plus fabrication costs and any applicable surcharges.

Aluminum wire - ERMCO's price for aluminum wire is based on 4 items:

1. Previous months MW US Market price

2. Metal cost adders from the manufacturer
3. Fabrication cost adders from the manufacturer
4. Any additional surcharges per pound

Wire suppliers establish their metal and fabrication costs adders at the beginning of the year and are in effect for the entire calendar year. If some unusual circumstances occur, such as a pandemic, suppliers may also institute additional charges.

The base price commodity price is typically the only item that will change monthly.

To establish the next quarter forecasted price for aluminum, ERMCO's uses the Midwest futures forecasted price for aluminum. The EPI quarterly price for aluminum wire will be 1) the price per pound that the futures traders are forecasting for aluminum plus 2) the conversion cost adders, 3) the fabrication cost adders and 4) any additional surcharges.

Copper wire - ERMCO's price for copper wire is based on 4 items

1. COMEX base price for copper
2. Metal cost adders from the manufacturer
3. Fabrication cost adders from the manufacturer
4. Any additional surcharges per pound

Wire suppliers establish their conversion cost adders and fabrication costs adders at the beginning of the year and are in effect for the entire calendar year. If some unusual circumstances occur, such as a pandemic, suppliers may also institute additional charges, such as a metal adder to help offset inflationary costs.

The first item (the COMEX base price for copper) is typically the only item out of the 4 items that will change monthly.

To establish the next quarter forecasted price for copper, ERMCO's uses the COMEX futures forecasted price for copper. The EPI quarterly price for copper wire will be 1) the price per pound that the futures traders are forecasting for copper plus 2) the metal adders, 3) the fabrication cost adders and 4) any additional surcharges.

Oil - ERMCO buys transformer oil from (4) primary suppliers. ERMCO's price from the 3 of the 4 primary suppliers is tied to the prior month's moving average cost for crude oil on the CME Group Crude Oil Futures Settlements. The cost used in the EPI will always be a weighted average based on the quantities anticipated to be received from the suppliers in the quarter.

ERMCO establishes the EPI pricing for oil prior to the start of a new quarter however the oil suppliers establish prices on a month-to-month basis based on market demand or the prior

month average. The ERMCO management team uses info from the CME Group Crude Oil Futures Settlements to forecast transformer oil costs for the upcoming quarter.

ERMCO will always try to come up with the lowest weighted average cost for transformer oil. ERMCO uses a weighted average price /or transformer Oil based on our forecasted purchased mix from the various suppliers.

Core Steel: ERMCO's price for core steel is a fixed base price that is in effect for an entire calendar year PLUS a surcharge adder that changes monthly. The core steel surcharge is based on scrap steel prices, natural gas costs, and silicon. ERMCO's supplier's price for steel scrap shall be obtained from the scrap index for number one dealer bundles in Pittsburgh as published in Fastmarkets AMM on the third Monday of each month. The natural gas price is based on the closing NYMEX natural gas monthly settlement for the same period.

ERMCO's supplier typically publishes their surcharge for core steel 1.5 months in advance of the pricing period. (Example : On or about August 15, they will provide ERMCO with the surcharge adder for the month of October). ERMCO does quarterly price adjustments prior to the start of the quarter. ERMCO personnel (with input from the steel company) rely on reputable trade publications and websites (Fastmarkets AMM, Steel Market Update, etc.) for forecasted pricing trends for scrap steel and natural gas in projecting the core steel surcharge price that will be in effect for future months (November and December in this example).

As mentioned previously, the steel contract will change base prices at the beginning of each year. Therefore, in Q4 there will be two possible changes to the core steel price in the EPI : 1) change in base price from the core steel supplier; 2) change in surcharge adder from 3rd quarter to 4th quarter based on changes in scrap steel price, change in natural gas price, and change in silicon price.

Carbon Steel (used in fabrication of tanks) - ERMCO purchases tank steel from 4 to 5 suppliers. Quarterly EPI costs are based on the weighted average cost from those suppliers.

Components - ERMCO purchases many different types of parts that fall into this category. Examples of parts that fall into this category are arresters, breakers, bushings, disconnect switches, fuses, pallets, molded gaskets and assemblies. ERMCO purchases these items from several different suppliers (Cooper Power, ECI, H-J Enterprises, Hubbell, Dyersburg Pallet and ABB). ERMCO uses a weighted average to calculate a cost change for this category. Copper and carbon steel are the two commodities that are used heavily in the components purchased by ERMCO. If copper prices are going up, ERMCO is likely to see a cost increase on the components purchased from ABB, Cooper and H-J Enterprises. The EPI is a weighted average upcoming price change from the various suppliers.

Transportation – ERMCO will establish the freight rate baseline at the average rate per mile plus fuel surcharge for the prior three months. Each quarter, ERMCO will calculate the average rate per mile and fuel surcharge for the prior three months and compare back to the Base Cost.

Annual Labor Escalation: ERMCO will establish the annual labor escalation as of September 1st each year based on the projected labor costs for the upcoming calendar year. The labor escalation shall not exceed 2% each year. The established labor escalation percent increase will be added to the Q4 Total Material & Freight Adjustment.

As an example, if the Q4 Total Material & Freight Adjustment is 5% and the labor escalation is set at 1.5% then the net Q4 price adjustment will be 6.5%.