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Charu Mathur | Director General

SEC/REP/VA/159

21st December 2021

Shri Sandeep Kumar R. Pudakalkatti,
Managing Director
Bihar State Power Transmission Company Ltd
Vidyut Bhawan, Bailey Road
Patna – 800001, Bihar

Subject: IEEMA request to incorporate use of Price Variation Clauses in BPTCL Tenders

Dear Mr Pudakalkatti,

Indian Electrical & Electronics Manufacturers' Association (IEEMA), is the apex representative body of Indian electrical industry. IEEMA covers a wide range of electrical, industrial electronics and allied products, encompassing the entire value chain of the sector from power generation, transmission, distribution and downstream to the point of consumption of electricity; thereby covering finished products, parts and components, systems and services.

IEEMA, over 5 decades, has been evolving and operating equitable and uniform Price Variation Clauses (PVCs) with an objective to mitigate the risk of both Buyers and Suppliers arising out of fluctuations in the raw material prices and other inflations for supply of electrical equipment over the delivery period through a fair, reasonable and unbiased mechanism/tool operated by a third party.

The electrical equipment manufacturing industry is passing through difficult times and unprecedented circumstances, due to unusual rise in the prices of basic raw materials, such as, Steel, Aluminum, Copper, Transformer Oil, Insulating materials etc. over past one year in the range of **20-100%**. With substantial and unprecedented price fluctuations of raw materials in recent period, it has now become very difficult for manufacturers to execute the order placed on firm price basis resulting in huge loss. Already the industry is passing through a severe financial crunch, due to limited liquidity and cash flows. Many of these manufacturers being MSMEs, are on the verge of closure.

As such many manufacturers would be facing past orders placed on "Firm Price" basis as completely nonviable & may not be able to execute the same. In such a scenario, both Buyer & Seller get impacted negatively. As of now, industry is not expecting any softening of prices in the near to medium term and hence floating the tender on Firm price basis could prove detrimental for both industry and buyer alike.

Please refer your recent tender with reference number **NIT no. 45/PR/BSPTCL/2021** on Firm Price order which needs review.

IEEMA PVC acts as a shock absorber and dampens the effect of fluctuations in raw material prices. Use of it in to-to not only gives cushion to both supplier and purchaser but also safeguards their interest.

The IEEMA PVC becomes a great tool in such situation, helping utilities assess the total price impact on a consistent basis and passing the same on to suppliers. Similarly, in case of negative movement of prices, sellers are able to pass on their extra profit to buyers, thereby impacting them positively.

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INDIAN ELECTRICAL EQUIPMENT INDUSTRY
MISSION PLAN
2012-2022

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In view of the situation of the industry and the data of price rise explained above, we request you to incorporate price variation clauses for relevant equipment and continue using the same on consistent basis in existing as well as future tenders to safeguard the interests of both buyers and suppliers. Consistent use of PV formulae evens out the effect of positive or negative variation and neutralizes the effect of any advantage/disadvantage observed in short term.

Since fluctuations in raw material prices are not largely controllable in the hands of supplier, ceiling on price variation is also not recommended since it undermines the core objective of use of PV clause. We therefore request removing any ceiling while using PV clauses in all the contracts including the above mentioned.

We will be grateful to you for your re-consideration and accepting our request. Your support in the larger perspective would make the suppliers healthy and keep the interest of the principle in the long run.

Warm Regards

Charu Mathur

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