

Landis+Gyr
Northfields Industrial Estate
1 Lysander Drive
Peterborough
PE6 8FB
UK

[REDACTED]
[REDACTED]
[REDACTED]
switchboard: +44 (0)1778 349 700
internet: www.landisgyr.com/europe



To: Neil Barnes, Adhir Ramdarshan & Tim Bailey at Ofgem via email

Date: 27th September 2010

**Smart Metering Implementation Programme:
Roll-out Information Request**

Dear Neil,

I refer to your letter of 7 September and our meeting on the 20th September. Please see attached Landis+Gyr's response to Annex 2 from your letter.

As mentioned at our meeting, we have tried to provide a simple overview in this letter that indicates where and how we believe that the progress of the UK smart metering rollout can be enhanced. This response is supplementary to our core response to the Prospectus and we hope you will read it in conjunction with the main document.

I hope you find this information useful. We are fully committed to supporting the progress of the UK smart metering and smart energy programme and we look forward to working with you to make the programme a complete success.

Best regards,

[REDACTED]

[REDACTED]

[REDACTED]

ANNEX 2: QUESTIONS FOR METER MANUFACTURERS

Question 1: What is your planned maximum production capacity during rollout?

Landis+Gyr designs, develops and manufactures domestic conventional and smart electricity and gas meters for the whole of Europe, Middle East and Africa at its two factory sites in the UK. Our logistics planning and supply chain management capabilities have recently been audited by major suppliers from the UK, France and the Netherlands in order to assess our simultaneous ability to meet major portions of the planned smart deployments in these countries and the results have been universally positive. We are currently able to sustain manufacturing levels of more than 3 million meters per annum and have well established, funded plans to more than double that capacity over the next 2 years.

In conjunction with our industry colleagues, we have no doubt that we will be able to meet 100% of the demand capacity for the UK roll-out.

Impact of accelerated rollout

Question 2: In terms of the unit costs of metering and communications assets (including the IHD where relevant), we welcome feedback on the impact of accelerating the rollout on:

- a) the magnitude, timing and probability of any increased costs and risks; and

Early deployment/acceleration is likely to suffer from the macro-level shortages currently affecting the global manufacturing market. Shortages in even the most basic commodities – even plastic and copper – mean some degree of price increase is inevitable. However, early deployment means that the UK will be ahead of the mainstream, so total EMEA volume demand on key smart components (micros, memory, radio/GPRS M2M modems etc) will be comparatively low. The risk of serious impact in the short terms is therefore relatively low and the costs of that impact again relatively low (circa 10% raw material).

Risk to the programme is therefore relatively 'manageable' for the early part (24 months) of the accelerated rollout. However, there is a short to medium term cost impact. With the majority of manufacturers sourcing from APAC, the £:\$ and \$:€ rate slips are currently extracting a significant toll on production costs. Landis+Gyr currently see cost bases running at circa 10 - 15% higher than would be the case in a less stressed market.

- b) the likelihood of any supply chain, or other, constraints arising.

Beyond the first 24 months, the macro view should be somewhat more stable. Landis+Gyr see the 'quality of quantity' supply base improving in that period as manufacturers expand component yields. So risk and cost will mitigate there. However, we expect to see an increasing demand for the higher-cost components as the wider Smart rollout ramps up. So micros, memory, displays, radio chips and the like, plus also line capacity will all start to attract premium prices as the supply market adjusts to the actual market demand. This is much more likely to be a significant risk to both cost and supply.

However, the key factor for the UK smart roll out is that UK vendors in an accelerated environment will be able to take firm orders and set a clear direction. This will give us the best possible position as a country in terms of securing advanced factory commitments from the component or sub-assembly manufacturers: we SHOULD be able to stay well ahead of other national deployments.

Pre-rollout preparation

Question 3: Our current planning assumption is that GB smart meter technical specifications will be confirmed by winter 2011. Please outline the processes and timescales required to go from confirmation of the technical specification to delivery of the smart metering components. Please specify whether these timescales differ for the following components:

- Smart electricity meter
- Smart gas meter
- In-home display
- WAN communications module
- HAN communications chip
- Any other components

Landis+Gyr has provided a consolidated response to the development timeline in conjunction with BEAMA. Independently, as part of our work with Elster and Secure in the UK Open Specification Working Group, we believe we have developed a solution that could see the UK deploying fully interoperable, Prospectus compliant meters by mid 2011 – a very significant pull-in and a real opportunity to ensure the UK meets the aspirational goal of a 2018 end date.

Rollout strategy

Question 4: How do you plan to organise your production capacity in order to minimise supply chain constraints?

As noted above, our plans are already in place and have been comprehensively externally audited. Provided we receive clear and appropriate decisions from DECC and Ofgem in the next few months, we do not believe we will encounter significant problems in delivering a very significant proportion of the UK's market needs.