American Council for an Energy-Efficient Economy

WASHINGTON, DC

May 17, 2006

Mr. Hampton Newsome
Federal Trade Commission/Office of the Secretary
Room H-135 (Annex O)
600 Pennsylvania Avenue, NW
Washington, DC 20580

RE: Energy Labeling Workshop—Comment, Project No. P064201

Dear Mr. Newsome:

The American Council for an Energy-Efficient Economy (ACEEE) appreciates this opportunity to comment on the Federal Trade Commission's (FTC) plans to conduct consumer research related to the EnergyGuide appliance labeling program. ACEEE is a nonprofit organization dedicated to advancing energy efficiency as a means of promoting both economic prosperity and environmental protection. ACEEE has worked on appliance efficiency issues for 25 years.

As noted in the FTC's Agency Information Collection Activities; Comment Request published in the March 15, 2006 *Federal Register* and discussed at the May 3, 2006 Energy Labeling Workshop, the FTC intends to conduct consumer research on the effectiveness of the appliance labeling program. Overall, ACEEE supports the comments submitted by the Consortium for Energy Efficiency (CEE) regarding the issues addressed at the workshop and the proposed research; we have signed onto their comments as a member of the CEE Appliance Committee. However, there are several additional comments on the workshop and pending research that ACEEE would like to make. We also understand that the FTC will seek additional public comments on a more detailed outline of the planned consumer research and anticipate submitting much more specific comments in response to that request including input on the research design, label formats, and specific research questions.

General Comments

1. *FTC should make clear its interpretation of Congress's intent for the appliance labeling program prior to conducting research on the program.* The Energy Policy Act of 2005 requires the FTC to consider "the effectiveness of the consumer products labeling program in assisting consumers in making purchasing decisions and improving energy efficiency." According to the discussion at the May 3rd workshop, it is not clear that the FTC has addressed this issue or made a definitive statement regarding the intent of the labeling program. This is an important issue as the intent of the labeling program has implications for evaluating program effectiveness and determining what changes to the program and the label design would improve its effectiveness.

2. *Seek input on the research plan and timeline from stakeholders with expertise in the field.* Numerous stakeholders with expertise in energy efficiency, energy information, label design, and consumer research are available to comment on the FTC's research plan. Among the many organizations qualified to provide this expertise are ACEEE, CEE, CLASP, Consumers Union, and the appliance manufacturers.

Label Design

3. *The FTC research plan should build on prior research results.* ACEEE supports FTC's efforts to collect additional information on the effectiveness of the alternate label designs. To make the most of the time and resources available, any research conducted should build on the results of prior research on the EnergyGuide labeling program and the design of effective energy labels conducted in the U.S. and abroad. Additional research can inform the FTC's decision making as it moves forward to meet the requirements of the Energy Policy Act of 2005 by addressing issues that have not been adequately addressed in earlier research.

   Prior research of particular interest is that conducted on the U.S. labeling program by ACEEE and the Association of Home Appliance Manufacturers (AHAM). While there are some differences in the research findings, our review of the AHAM-sponsored research indicates that this single study supports several of the conclusions of ACEEE's extensive research on the EnergyGuide and alternate label designs. Details are outlined in a February 21, 2006 letter to the FTC which is included with these comments as Attachment A. We recommend that the FTC contact CLASP to identify the most comprehensive and relevant research on international labeling experience.

4. *Hire a research firm with experience in consumer research related to information design and public policy tools.* A number of professional research firms have experience evaluating public policy programs and in particular informational tools. These firms have the qualifications and experience to understand the nature of the FTC's research related to the appliance labeling program beyond that of a firm with a more limited focus on consumer products market research.

5. *Any new variations on the EnergyGuide label design must be tested alongside the primary alternatives identified in earlier research before further consideration.* Additional formats and label designs, such as the combined label with percentages proposed by the FTC must be evaluated through research with consumers before they are considered as serious alternatives to previously tested designs. In addition, international experience with and research on percent-based labels should be reviewed.

As noted above, ACEEE supports the comments submitted by CEE on these and other issues raised at the workshop. We also anticipate submitting more specific comments in response to FTC's upcoming release of additional details on its research plans. We appreciate FTC's efforts to improve the appliance labeling program and look forward to continuing to work with you as this process unfolds.

Sincerely,

Jennifer Thorne Amann
Senior Associate

American Council for an Energy-Efficient Economy
WASHINGTON, DC

ATTACHMENT A

February 21, 2006

Hampton Newsome
Federal Trade Commission
600 Pennsylvania Ave, NW
Washington, DC 20580

RE: Response to Comments Submitted by AHAM on Energy Labeling, Project No. R511994

Dear Mr. Newsome:

Please accept the following comments of the American Council for an Energy-Efficient Economy (ACEEE) in response to formal comments submitted by the Association of Home Appliance Manufacturers to the FTC on the Appliance Labeling Rule. ACEEE would like to clarify several points related to research conducted by ACEEE and offer comments on research findings presented by AHAM.

First, AHAM's comments on ACEEE research reflect a misunderstanding of our research and misrepresentation of our findings. AHAM staff participated in our research project and attended all meetings where research results were presented, however the primary participant is no longer with AHAM. This may account for some of the discrepancies in their comments related to our research. As a result, we feel it is necessary to submit clarifying comments on the following points.

ACEEE conducted a multi-method iterative research project including both qualitative and quantitative research studies. Focus group research, including sixteen different focus group panels in six different cities, and quantitative survey research were conducted by Shugoll Research, an independent consumer research firm with over twenty years of experience. Contrary to the assertion on Page 8 of AHAM's comments that ACEEE's research was not scientific and did not produce quantifiable results, ACEEE research included two quantitative research studies, a consumer survey and a simulated shopping experience. While it is true that the focus group studies were qualitative research tasks, quantitative, generalized results were not the stated intent or purpose of these research tasks. Any credible focus group consultant will point out that the findings from focus group research are directional and cannot be generalized to the larger population; AHAM comments reveal a misunderstanding of the purpose of focus group research and use the explanatory text provided in our report to misrepresent the nature of the findings from our extensive research undertaking.

On Pages 8 and 9 of their comments, AHAM takes further issue with the iterative nature of our research design. An important feature of this project was the multiple study design that was deliberately sequential and cumulative in nature. Studies were designed so that knowledge gained in each study fed directly into subsequent studies leading to continuous refinement of research questions and design of appliance labels. For example, the early focus groups and in-

store interviews consistently demonstrated some problems with the current label design; questions on these specific elements were not repeated in subsequent parts of the research.

Likewise, interviews with manufacturers found that the "speedometer" label would be difficult and costly to produce, therefore this design was not considered in further testing. In addition, because the research goals were challenging, this approach allowed us to address them in an organized and systematic fashion. Throughout the project, the research design was reviewed with numerous experts and found to be a strong and valid approach without bias towards any particular outcome. Our plan from the beginning was to identify the optimal categorical and continuous label designs for final testing.

As noted on page 11 of AHAM's comments, a few focus group participants and survey respondents raised a concern that a stars-based rating might be misperceived to connote product quality in addition to energy performance. AHAM fails to mention that ACEEE conducted a simulated shopping experiment, with input from AHAM and other members of our research working group, to explore whether the label designs recommended by our research would mislead consumers with regard to product quality. Results of our study showing that the stars-based label does <u>not</u> imply a rating of product quality to consumers were shared with AHAM in writing and during a spoken presentation by the independent consultant that conducted the study.

ACEEE has reviewed the results of AHAM-sponsored research on label designs as submitted with their comments to the FTC. We find that the AHAM-Synovate study supports several of ACEEE's own research conclusions. Specifically, the AHAM-Synovate study found that the stars-based label best expresses energy efficiency and does not mislead consumers with regard to product quality, performance, or reliability. As presented in Synovate's research summary, these findings are somewhat contrary to AHAM's assertions in their comments.

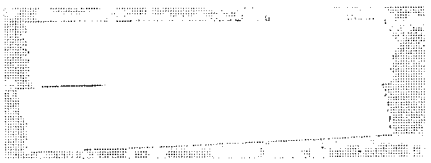
More specifically, the stars-based label significantly outperformed the other designs in communicating energy efficiency (87% of respondents reported that the stars-based label provided information about energy efficiency, compared with 74% to 80% for the other three designs). This is an important finding given specific language in the Energy Policy Act of 2005 reiterating Congress' interest in the ability of the labeling program both "in assisting consumers in making purchasing decisions and improving energy efficiency." On the issues of product quality, performance, and reliability there was virtually no difference in how each of the four labels tested in the AHAM study performed: 7-8% of respondents reported that the label provided information on product quality; 13-15% on performance; and 5-6% on reliability.

Further, one drawback of the AHAM-Synovate study is the failure to test actual label comprehension. The study focuses on consumer preferences and self-reported ease of understanding. ACEEE's work on both appliance and vehicle labels in the U.S. as well as studies of energy labels conducted overseas show that stated preference and comprehension are not always the same thing. In other words, consumers may believe that a label is easier to understand, but a test of comprehension reveals that the label is not interpreted correctly. The only question addressing comprehension appears to have been designed to confuse respondents by including the Energy Star logo on each label even though the labeled appliance was a poor

energy performer that would never qualify for the Energy Star designation. Responses to this deliberately misleading question are used to claim that a specific label design is confusing.

ACEEE appreciates the FTC's work to refine and improve the EnergyGuide label and the opportunity to provide input into the process. I look forward to discussing any comments or questions about our original comments or the material presented here.

Sincerely,



Jennifer Thorne Amann
Senior Associate