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Ms. Jackalyne Pfannenstiel
Chairman and Presiding Member, Efficiency Committee

Mr. Arthur Rosenfeld
Commissioner and Associate Member, Efficiency Committee

California Energy Commission
Buildings and Appliance Office
1516 Ninth Avenue, MS-25
Sacramento, CA 96814-5512

SUBJECT: Comments to 2008 Rulemaking on Appliance Efficiency Regulations; Docket No. 07-AAER-3-C; Televisions

Dear Ms. Pfannenstiel and Mr. Rosenfeld:

The Plasma Display Coalition (PDC), representing the world's best known and most respected manufacturers and marketers of high-quality Plasma and LCD televisions, appreciates the opportunity to comment on the California Energy Commission's (CEC) process and initiative to develop energy standards for high-definition televisions sold in California.

The Plasma Display Coalition's member companies: Hitachi Home Electronics, LG Electronics, Pioneer Electronics and Panasonic Corporation of North America are among the Consumer Electronic Industry leaders in eco-friendly initiatives in manufacturing, product development, and in offices and communities throughout the world. PDC member companies have invested billions of dollars in the new and growing flat panel industry and have made substantial progress in reducing television energy consumption (and, in turn, power plant emissions) over the past several years. As responsible corporate citizens, our member companies support and participate in the efforts of public and private sector that encourage energy efficiency, most notably the successful ENERGY STAR® program.

We commend the CEC for its initiatives to reduce energy consumption in California, understand its motivation for the proposed Title 20 standards, and intend to continue playing an active role in this effort. However, we are very concerned with the process, misinformation and direction being provided by utility Pacific Gas & Electric (PG&E) and the Natural Resources Defense Council (NRDC) and the unintended consequences that will result from establishing unusually strict energy standards. We encourage the Commission to fully consider the impact of regulations that could easily ban dozens of current HDTV products from store shelves. We implore the CEC to carefully weigh the impact of mandated energy standards against the potentially devastating effect of over-reaching regulations on California electronics retailers and on the state's tax collections. We also believe the current course will foster the emergence of a "black market" of HDTV goods purchased in nearby states.

ENERGY STAR: A Good Guidepost

Our experience with the Federal ENERGY STAR program demonstrates the substantial benefit for all parties that can be derived from a collaboration of all stakeholders (private and public) who agree on clear objectives. To our collective knowledge, no one from the consumer electronics TV industry participated in the development of PG&E's draft proposals prior to their release in April 2008 -- despite the proposal's potential severe impact. By stark comparison, the Environmental Protection Agency (EPA) recently completed the new "on-mode" ENERGY STAR Program to be implemented in November 2008, following a two-year consultative process with stakeholders including more than 20 companies and interested parties The resulting specification meets the needs of EPA, the business community and consumers. Absent such collaboration, the process devolves to the kind of debate and tension most recently found in the July hearing and subsequent draft replies submitted in the public docket by PG&E and the NRDC.

In July, Ms. Kathleen Hogan, Director of the U.S. EPA's ENERGY STAR program, stated in her letter to the CEC that beginning November 1, 2008, "we believe that about 27% of products on the market will meet ENERGY STAR requirements." Taken literally, this means that 73% of the HDTV sets in the market will not qualify for the ENERGY STAR logo. In a voluntary program, HDTV's that do not qualify will be on the market without the marketing advantage provided by the familiar ENERGY STAR logo. We believe it would be a tremendous hardship on our industry if up to 73% of all HTDV Sets were banned from California because of an arbitrary, mandated program proposed by one utility and adopted by the State. Additionally, because the PG&E standards go well beyond those agreed to in the collaborative effort of the EPA, the number of HDTV sets actually banned could be even higher. With the television category representing as much as 70% of revenues of all CE retailers, and with most every retailer driving their business around HDTV sales, one can imagine the disastrous consequences for retailers of taking high profit products off their store shelves.

We believe the proposals made by PG&E, (April 2, 2008 and July 30, 2008) are, in part, based on a misunderstanding of the complexities inherent in the Consumer Electronics industry. Several false assumptions were made by the utility in its April 2, 2008 draft proposal that warrant more thorough review. For example:

1. PG&E drew what is considered an arbitrary "straight line" on the EPA Final Version 3.0 ENERGY STAR specification graph, recommending that Title 20 should not give a power "allowance" to large screen TV's. In fact, ENERGY STAR's 2-year process concluded that large screens, the 'base line' product for Version 3, often incorporate the most desirable attributes and features to drive better picture quality (such as 1080 progressive scanning, audio enhancements and other high-end picture quality electronics) and thus require proportionally more power than the smaller size displays. It must also be noted that smaller screens inherently use less power per square inch than larger screens.
2. PG&E also draws broad conclusions that the industry can achieve their proposed standards in 2011, supporting its claim by citing press comments from one manufacturer and a retired industry executive. We caution against drawing broad conclusions that an entire industry can meet the Title 20 standards solely based on PR statements and general claims

rather than collaborating with TV industry executives in the United States. Quite simply, most TV manufacturers cannot definitively state the power consumption data of their pending 2009 model line-up, let alone models to be introduced three years from today. It is also necessary to understand that manufacturers must reconcile technological advancements with consumer demands for product performance. Consumers may dictate brighter, higher contrast pictures with richer sound, which could come at the expense of some future efficiency gains. Therefore, we don't believe government regulation should limit either competition or innovation for the purpose of meeting unreasonable standards proposed by those unfamiliar with TV industry dynamics.

It is often difficult for a manufacturer to project final specifications of their product even a few months in advance of introduction, let alone three years in advance. Thus, no company is in a position to definitively conclude a feature set and electrical design necessary to pinpoint power consumption. And no outside entity is in a position to make definitive energy claims for TV manufacturers three years in advance as PG&E and NRDC have done to support their proposal. Therefore, we can't accurately predict how many TV models would be excluded from the California market (and perhaps the entire U.S. market) should the PG&E proposal be adopted as submitted. While manufacturers typically create mid-range plans with targets for all to reach, they can only make educated, rational assumptions three years in advance.

Banning HDTV Sets is Not the Answer

Our organization's member companies understand the objective of CEC's initiative and we support a voluntary standards proposal to achieve real energy savings. We believe a mandated proposal to effectively ban certain High-Definition Televisions from the California market will have far-reaching and unintended, dire consequences for consumers, retailers, manufacturers and the State of California. With proper stakeholder collaboration, we believe an effective energy-saving plan can be designed and implemented to move the marketplace toward the CEC energy goals without risks associated with an outright HDTV ban.

California is a leader with many "early adopter" consumers buying cutting-edge consumer electronics products. Yet many of these high-end, leading technology CE products might be forced off the market due to not meeting established energy requirements. While some consumers may settle for what they find in retail stores, we believe many consumers will shop out-of-state or online for the products that deliver the performance they desire.

What are the consequences of government regulations that ban a significant amount of HDTV products? Retailers in California risk losing revenue not only on the sale of HDTV sets themselves, but they also risk losing the very important revenue and profit on add-on sales such as accessories, TV stands, furniture, and extended warranties. With retailers already facing annual price declines of 15-20% characteristic of the highly competitive HDTV industry, the profitability of the HDTV business and the lifeblood of many retailers rest on offering a full range of competitive high-definition sets and related products to meet the needs of consumers. Each year the independent retailers struggle to maintain sales and profit levels necessary to sustain a viable business plan. Selling more units, related products and services in the face of price declines is one mechanism for retailers to maintain sales and profit levels necessary for sustained health. Taking away the opportunity to sell the most desirable product (generally the larger, higher-end more profitable product) seriously impacts the revenue and profit opportunity and complicates business plans necessary for survival of all retailers in the California. Additionally, banning product from the State of California hinders consumer choice and places local independent retailers in a competitive disadvantage in the U. S. market place, in which they compete.

As a result, we believe consumers will opt to purchase high-demand HDTV products elsewhere. They'll face increased costs and related negative environmental impacts of long-distance deliveries. In NRDC's reply comment of July 18, 2008, it stated "[consumers] are not likely to buy big screen on the internet". The PDC members strongly disagree. Retailers will disagree, particularly those who are already selling via the Internet – a powerful, successful and growing channel of distribution in consumer electronics. To force loyal California consumers to purchase high-demand products from out-of-state weakens local retailers who have spent years working to attract and keep customers. Economically, the PG&E proposal could threaten the very existence of some California electronics retailers.

Lost Sales for Retailers, $46 million lost in State Sales Taxes

Based on historical trends, it is reasonable to project that California consumers could purchase as many as 4.2 million HDTV sets in 2011. Manufacturers will certainly make advances to reduce power consumption by 2011 and might qualify perhaps 80% of all HDTV Sets under a very strict Title 20 mandate. This would leave 20% of available HDTV Sets banned from California, representing a possible loss of some 840,000 unit sales by California retailers.

It's true that some consumers will only buy what is offered in stores. But even if <u>half</u> of those lost sales are made up by consumers who choose from available stock rather than buying out-of-state, that still leaves 420,000 HDTV units <u>not</u> sold by California retailers, or 10% of the total expected sales in the California.

At an average 2011 selling price of $1,100 (these "lost opportunity" sales are generally higher-end HDTV products), California retailers stand to lose some $462 million in revenue on HDTV sales, alone. Further, higher-end HDTV products are what retailers desire to sell because they add revenue and profit at an increasing rate versus smaller screens. Therefore, dollar sales loss could be as high as 20% of total revenue -- a damaging situation for any business. As noted earlier, there are also "lost opportunity" in revenue and profit from sales of related add-on accessories, TV stands, warranties, and other services. Many retailers indicate that add-on sales can be as high as 40% of the price of a new HDTV.

At the California tax rate of 7.25%, the potential tax loss to California on sales of 420,000 HDTV units, $462 million, is $33,495,000. If add-on sales represent another 40% in revenue, or $184,800,000, the State of California could potentially lose an additional $13,398,000 in tax revenue for a one-year potential total tax loss of $46,893,000.

In conclusion, the Plasma Display Coalition firmly believes a voluntary Title 20 regulation that does not ban HDTV products from the market is in the best interests of the business community, consumers, and the State of California. There are appropriate and effective means and mechanisms to encourage the sale of the most efficient HDTV products to meet State's goals, some of which have been discussed and presented at the CEC hearing on July 16, 2008. We hope you will agree with us that an acceptable approach that both minimizes business risk for manufacturers and retailers and helps the State to reach its energy efficiency goals would be the most appropriate course of action.

We stand ready to help lead a constructive discussion about what is possible and reasonable to help the State of California and its citizens conserve electricity, to curb demand on the state's power grid, and to cut power plant emissions.

We look forward to a continuing dialogue on this important matter, since our members, California retailers and their employees, and all TV viewers in the State have so much at stake.

Very truly yours,

James M. Palumbo
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