

The Wright Amendment Consumer Penalty



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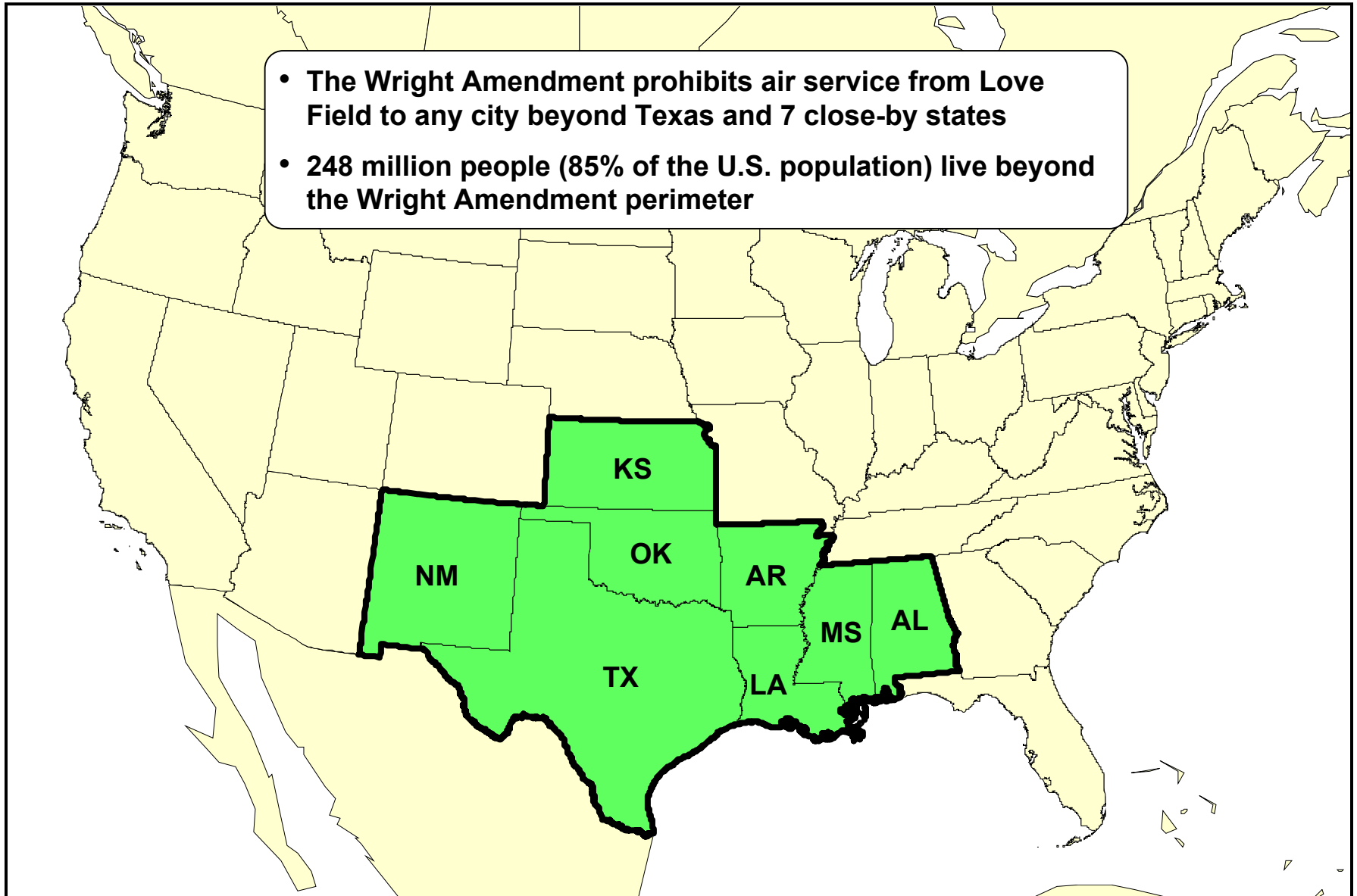
The Wright Amendment Consumer Penalty

Executive Summary

- **The Wright Amendment imposes an economic cost to travelers and communities throughout the U.S. by prohibiting competition from Dallas Love Field in air travel between North Texas and any point outside a seven-state perimeter. 85% of the U.S. population lives outside the seven-state perimeter.**
- **This study calculates the amount of the Wright Amendment Economic Penalty by observing what would happen if the law were repealed and Southwest Airlines were permitted to enter 15 now-prohibited markets from Love Field, with three daily roundtrip flights daily in each. Using empirical, publicly available data, the study concludes that:**
 - **3.7 MILLION MORE PASSENGERS WOULD TRAVEL IN THE 15 MARKETS ANNUALLY DUE TO NEW COMPETITION AND LOWER FARES.**
 - **PASSENGERS WOULD SAVE NEARLY \$700 MILLION ANNUALLY COMPARED TO AIRFARES CHARGED BY AMERICAN AIRLINES AT DFW AIRPORT WITHOUT COMPETITION FROM SOUTHWEST AIRLINES FROM LOVE FIELD.**
 - **NORTH TEXAS WOULD REAP AN ADDITIONAL \$1.7 BILLION IN ECONOMIC ACTIVITY ANNUALLY DUE TO INCREASED AIR TRAVEL TO THE REGION.**
 - **THE TOTAL WRIGHT AMENDMENT BURDEN ON PASSENGERS, NORTH TEXAS, AND CITIES BEYOND THE SEVEN-STATE PERIMETER EXCEEDS \$4 BILLION PER YEAR.**
- **North Texas and its residents now suffer from a lack of competition and high fares in longer-haul air travel. American Airlines provides over 80% of the service from DFW, and more than a third of American's nonstop DFW routes are monopolies. Repeal of the Wright Amendment would allow competition by Southwest from Love Field, force fares to decline at DFW, and increase travel to and from North Texas – generating enormous economic benefits for the region and its citizens.**

2. Chart Presentation

The Wright Amendment Perimeter



Components of the Wright Amendment Consumer Penalty

The *Wright Amendment Consumer Penalty* is the cost to the public from restricting competition in air service to and from North Texas. Components of the penalty include:

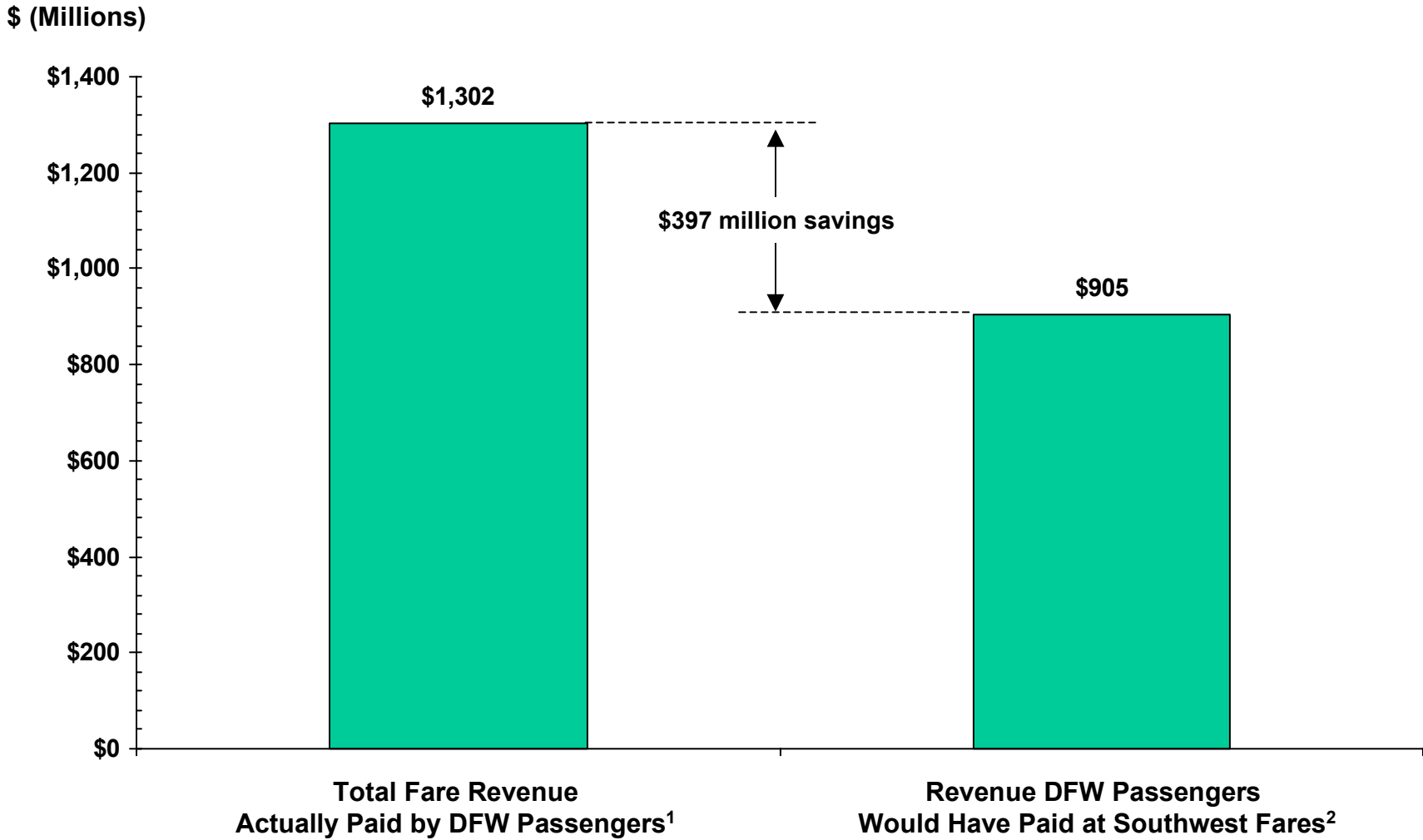
- **Excessive airfares** for North Texas residents to fly beyond the 7-state perimeter
- **Excessive airfares** for residents beyond the perimeter to fly to North Texas
- **Artificial suppression** of air travel to/from North Texas
- **Economic injury to North Texas** due to lack of airline competition, high prices, and lost air travel
- **Economic injury to other cities** and states outside the perimeter due to lack of airline competition and high prices to/from North Texas

Measuring the Wright Amendment Consumer Penalty

- **Repeal of the Wright Amendment would allow Southwest Airlines to offer low-fare competition from Love Field to markets outside the 7-state perimeter.**
- **Assuming that Southwest began nonstop service to just 15 now-protected markets* with three daily roundtrip flights in each, this study quantifies:**
 - **The number of additional passengers that would fly in these markets**
 - **The fare savings to passengers residing both inside and outside North Texas**
 - **The resulting economic benefits to North Texas and to the cities and states that Southwest is able to serve outside the perimeter.**
- **All calculations in the study are based on publicly-available data.**

* Baltimore, Boston Area, Chicago Area, Kansas City, Las Vegas, Los Angeles, Orlando, Philadelphia, Phoenix, Reno, St. Louis, San Diego, San Francisco Bay Area, Seattle, Tampa.

New Low-Fare Service by Southwest in 15 Wright Amendment Protected Markets Would Save Current DFW Passengers \$397 Million Annually

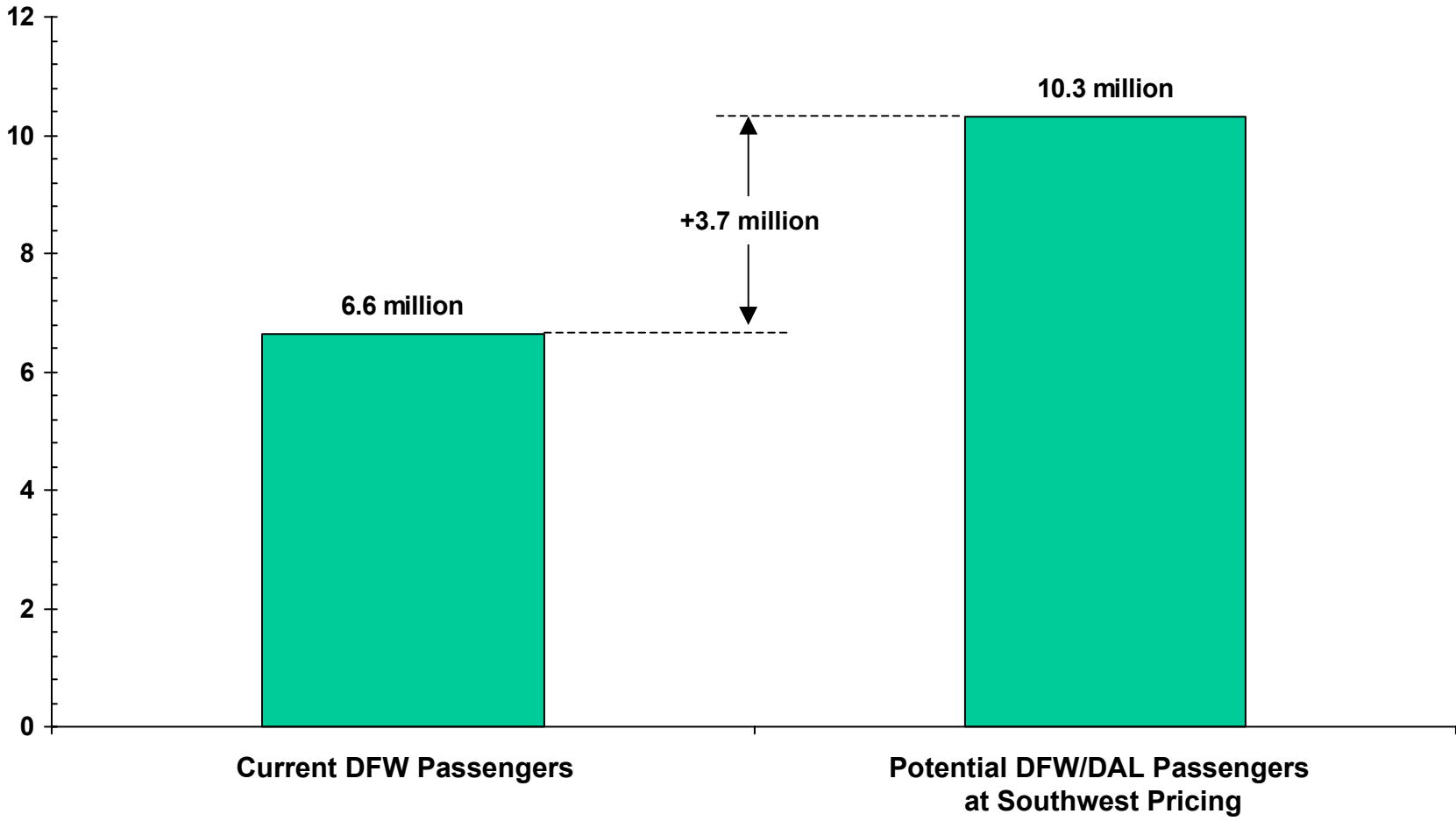


15 Selected DFW Markets Protected by the Wright Amendment³

1/ U.S. DOT, Origin-Destination Passenger Survey, CY 2004, via Data Base Products, Inc. Does not include taxes and other surcharges.
2/ CY 2004 DFW passengers at fares computed from regression of WN system fares as shown in Exhibit A.
3/ Boston Area, BWI, Chicago Area, LAS, LAX, MCI, MCO, PHL, PHX, RNO, SAN, SEA, SF Bay Area, STL, TPA. Assumes Southwest provides 3 roundtrips per day in each market.

New Low-Fare Service by Southwest In 15 Wright Amendment Protected Markets Would Generate 3.7 Million New One-Way Passengers Annually To/From North Texas

Annual O&D Passengers (Millions)

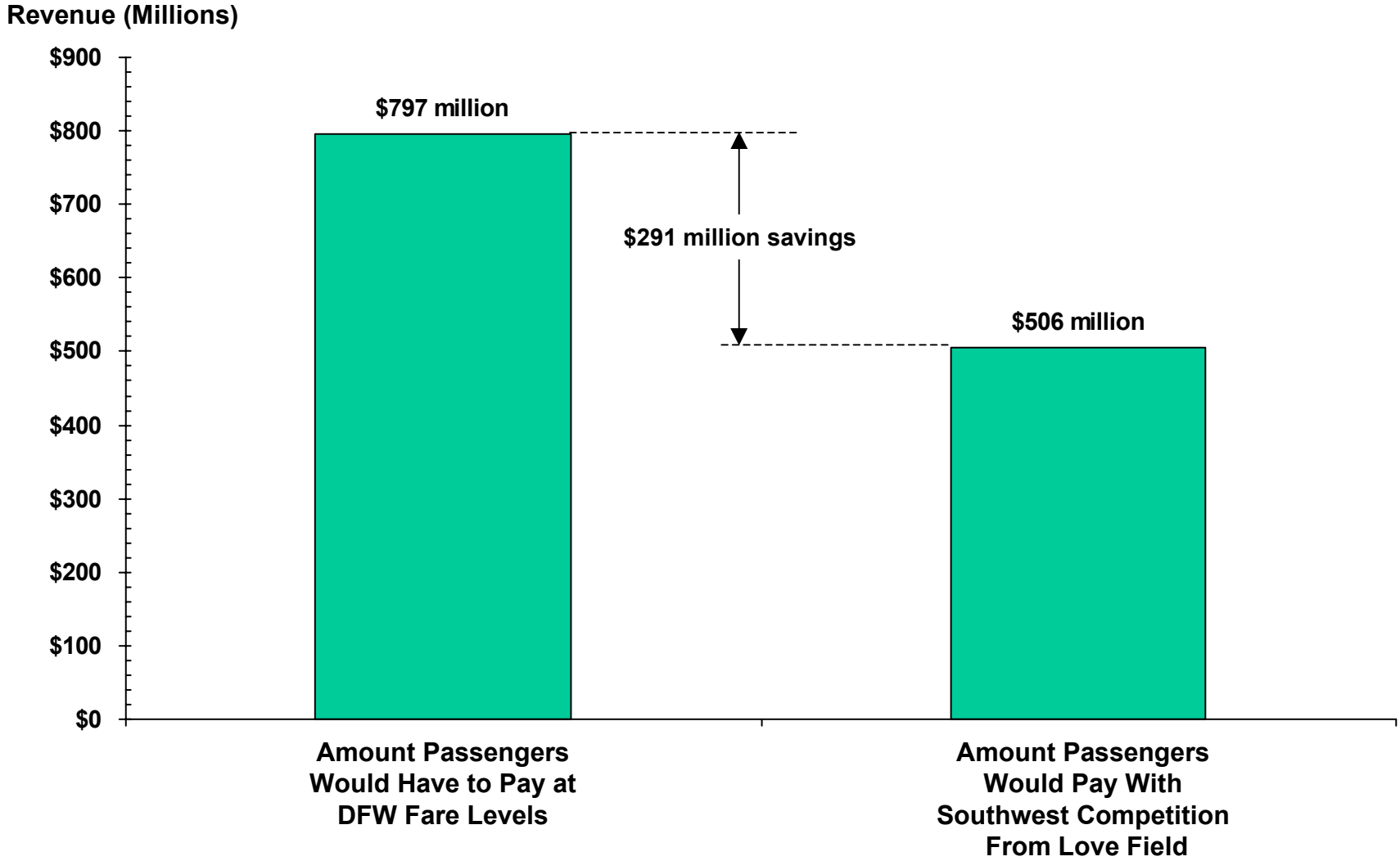


15 Selected DFW Markets Protected by the Wright Amendment¹

¹/ Boston Area, BWI, Chicago Area, LAS, LAX, MCI, MCO, PHL, PHX, RNO, SAN, SEA, SF Bay Area, STL, TPA.

Source: Exhibit A.

New North Texas Passengers in the 15 New Markets Would Save \$291 Million Annually



15 Selected DFW Markets Protected by the Wright Amendment¹

^{1/} Boston Area, BWI, Chicago Area, LAS, LAX, MCI, MCO, PHL, PHX, RNO, SAN, SEA, SF Bay Area, STL, TPA.

Source: Exhibit A.

Total Passenger Fare Savings in Just 15 Wright Amendment Protected Markets Would be Almost \$700 Million Annually

	Annual Savings
Current DFW Passengers	\$397 million ¹
New DAL/DFW Passengers	\$291 million ²
Total Passenger Fare Savings	\$688 million

Average Roundtrip Savings per Passenger³ = \$134

1/ Chart 103.

2/ Chart 105.

3/ 6.6 million current and 3.7 million new one-way passengers. See Exhibit A.

North Texas Would Gain \$1.7 Billion Annually in Economic Benefits From Allowing Love Field Competition in 15 New Markets

Assuming Competition in Just 15 Currently Protected Markets:

Total New One-Way O&D Passengers	3,689,238 ¹
New Roundtrip Passengers With North Texas as Destination	848,902 ²
Average Economic Benefit per Texas Destined Passenger	\$2,010 ³

**ANNUAL Economic Benefit to North Texas
From New Passengers in 15 Markets**

\$1.7 billion⁴

1/ Exhibit A, Column D.

2/ New one-way passengers generated by fare reductions shown in Exhibit C, Column D, converted to roundtrip passengers at 50%.

3/ Economic impact for Texas and other states developed by CESTA. See Exhibit E, Column 5.

4/ 848,902 passengers times \$2,010 per passenger.

The Wright Amendment Costs North Texas \$2.4 Billion Annually

Economic impact on North Texas from new air travel	\$1.7 billion annually¹
Savings to existing DFW passengers	\$397 million annually²
Savings to new DAL/DFW passengers	\$291 million annually³
<hr/>	
Total cost to North Texas from Wright Amendment	\$2.4 billion annually

1/ Chart 107.
2/ Chart 103.
3/ Chart 105.

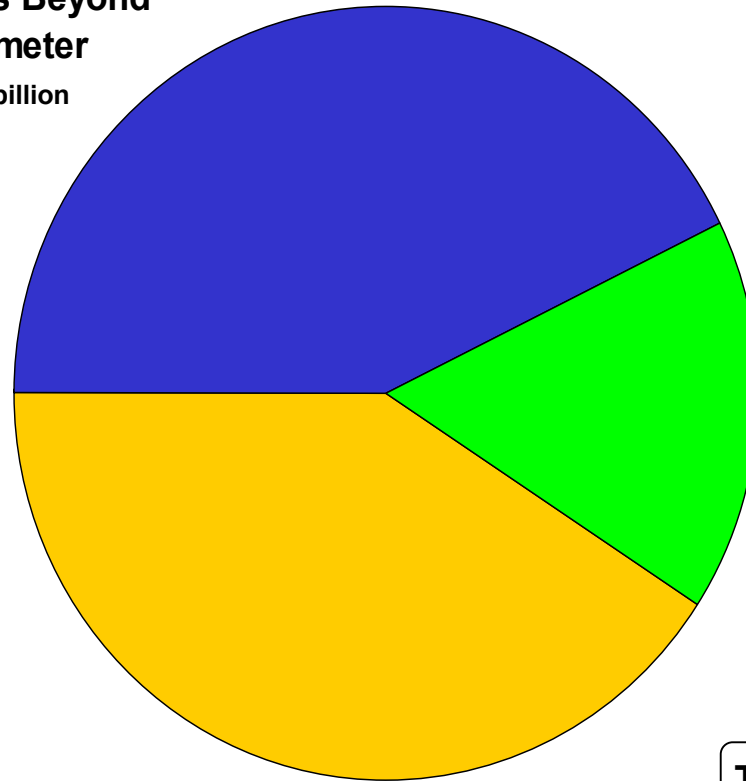
The Wright Amendment Costs Other Cities and States Beyond the Perimeter an Additional \$1.8 Billion Annually

<u>Examples</u>	<u>Annual Economic Impact</u>
PVD/MHT (Boston Area)	\$101 million
BWI	\$43 million
MDW (Chicago Area)	\$196 million
LAS	\$34 million
LAX	\$119 million
MCI	\$123 million
MCO	\$36 million
PHL	\$265 million
PHX	\$169 million
RNO	\$10 million
SAN	\$119 million
SEA	\$145 million
SJC/OAK (SF Bay Area)	\$286 million
STL	\$95 million
TPA	\$41 million

Total economic cost on 15 markets beyond Wright Amendment perimeter	\$1.8 billion
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The Total Wright Amendment Penalty to the U.S. Exceeds \$4 Billion Annually

**Economic Impact
on Cities Beyond
Perimeter**
\$1.8 billion

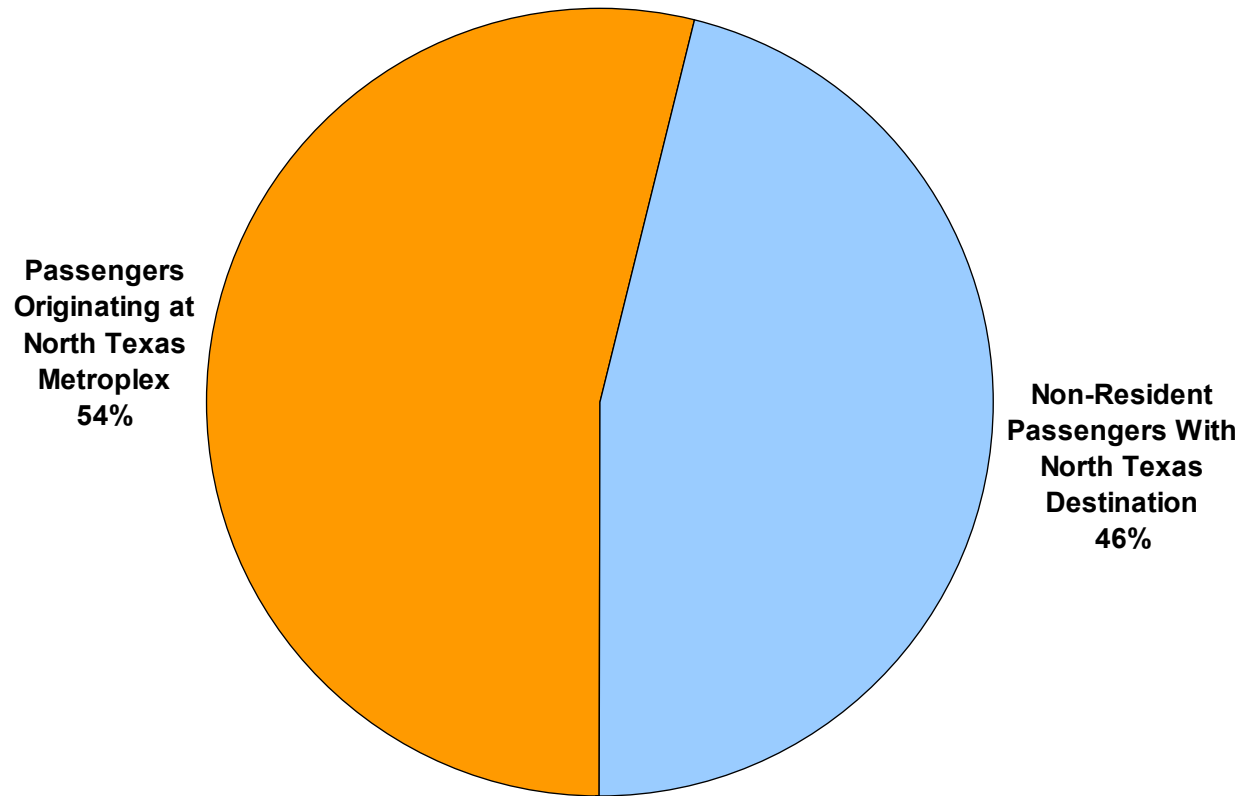


**Passenger Fare
Savings**
\$688 million

Total Penalty = \$4.2 Billion

**Economic Impact
on North Texas**
\$1.7 billion

46% of the Newly Generated Passengers Will Be Non-Residents Visiting the North Texas Metroplex

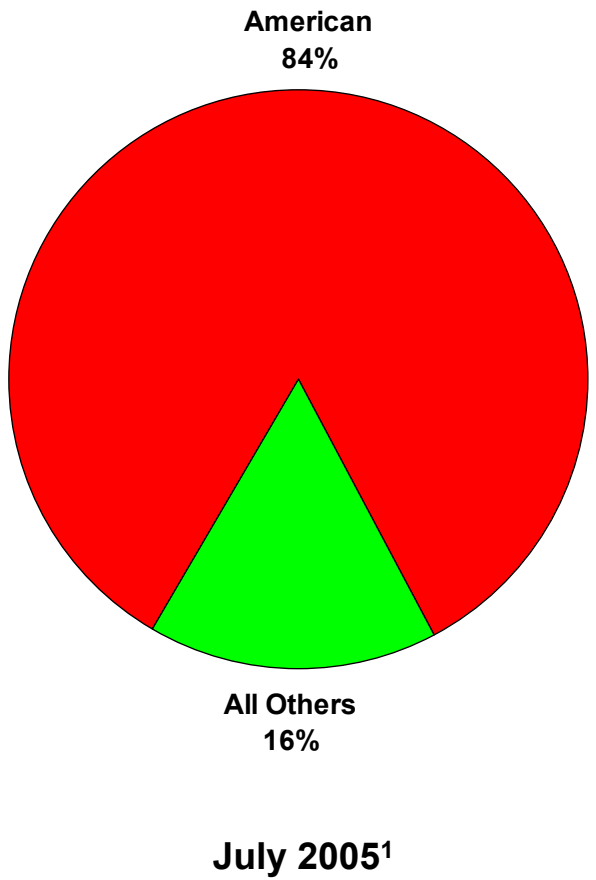
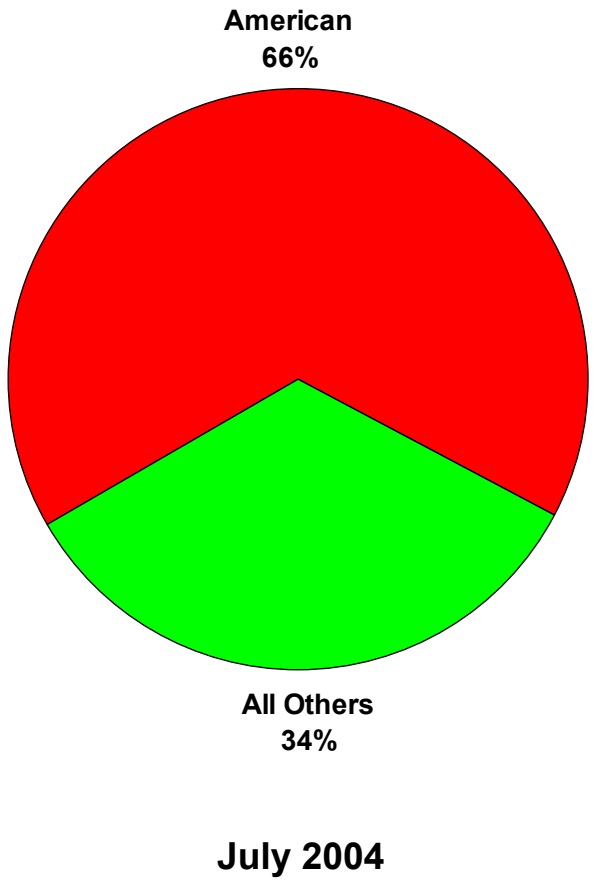


3.7 Million New Passengers

North Texas Needs More Airline Competition

With Delta's Withdrawal, DFW Service Will be Even More Heavily Dominated by American Airlines

Aircraft Departures



^{1/} American will have 83% of DFW seat departures.
Source: Official Airline Guide, schedules for the week of July 12-18, 2004 and July 11-17, 2005.

AA's Monopoly Markets in Wright Amendment Protected States

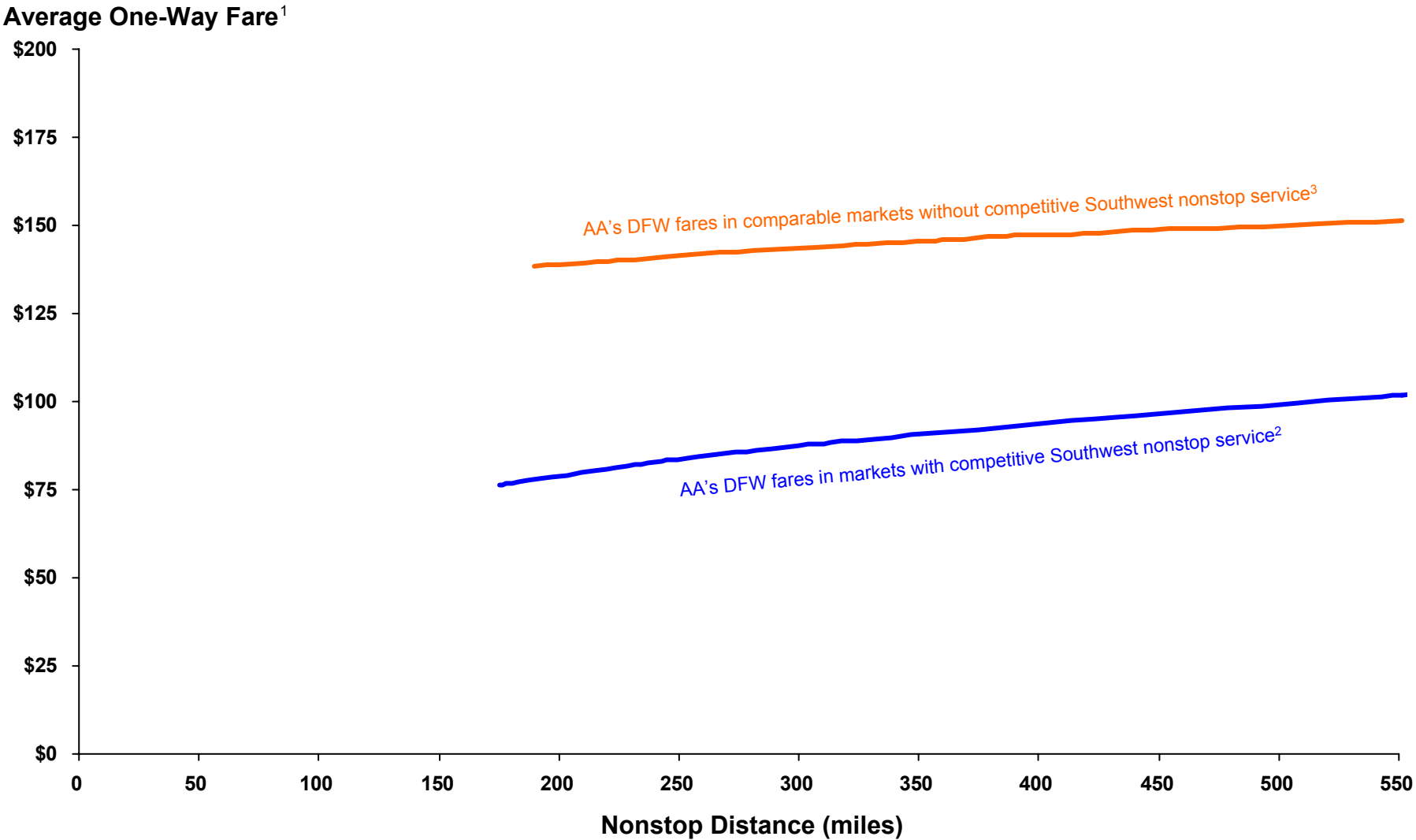
<u>Rank</u>	<u>Airport</u>	<u>CY 2004 O&D Passengers</u>	<u>Rank</u>	<u>Airport</u>	<u>CY 2004 O&D Passengers</u>
1	New York LaGuardia	750,570	26	Omaha	91,820
2	Boston	461,290	27	Reno	90,630
3	Tampa	299,140	28	Tucson	88,470
4	St. Louis	298,710	29	Greensboro	85,030
5	San Diego	291,130	30	West Palm Beach	82,350
6	Kansas City	277,210	31	Norfolk	79,490
7	Orange County	270,760	32	Louisville	75,770
8	San Jose	215,220	33	Providence	74,700
9	Raleigh/Durham	208,080	34	Ft. Myers	62,910
10	Miami	187,340	35	Grand Rapids	60,870
11	Long Beach	183,700	36	Des Moines	57,420
12	Oakland	162,990	37	Buffalo	54,620
13	Portland	162,410	38	Kahului	52,370
14	Ontario	162,040	39	Knoxville	52,040
15	Nashville	158,310	40	Greenville/Spartanburg	44,400
16	Columbus	142,000	41	Pensacola	43,610
17	Burbank	140,160	42	Fresno	36,840
18	Sacramento	139,940	43	Cedar Rapids	34,280
19	New York Kennedy	133,110	44	Palm Springs	33,400
20	Jacksonville	124,390	45	Fort Wayne	28,390
21	Hartford	112,430	46	Springfield	22,800
22	Dayton	107,580	47	Santa Barbara	22,350
23	Honolulu	105,000	48	Peoria	14,400
24	Colorado Springs	97,190	49	Champaign/Urbana	4,390
25	Richmond	93,970			
				Total	6,578,020

The Major U.S. Airlines Avoid Competing With American at DFW Except to Their Hubs

- **United serves only 5 DFW routes: Chicago, Denver, Los Angeles, San Francisco and Washington Dulles**
- **Northwest serves only 4 DFW routes: Minneapolis, Detroit, Memphis and Indianapolis**
- **Continental serves only 3 DFW routes: Houston, Newark and Cleveland**
- **US Airways serves only 4 DFW routes: Pittsburgh, Philadelphia, Charlotte and Washington Reagan**
- **Delta serves only 3 DFW routes: Atlanta, Cincinnati and Salt Lake City**
- **America West serves only 2 DFW routes: Phoenix and Las Vegas**

In addition, AA far outschedules these airlines. Overall, AA has 174 departures on the above DFW routes compared to 100 for the other carriers combined.

American's Fares at DFW Are Sharply Higher When Southwest Does Not Have Competing Service at Love Field



1/ Average fare paid per passenger excluding zero fare passengers (frequent flyer redemptions, etc.) as reported by the U.S. DOT, Origin-Destination Passenger Survey, CY 2004.

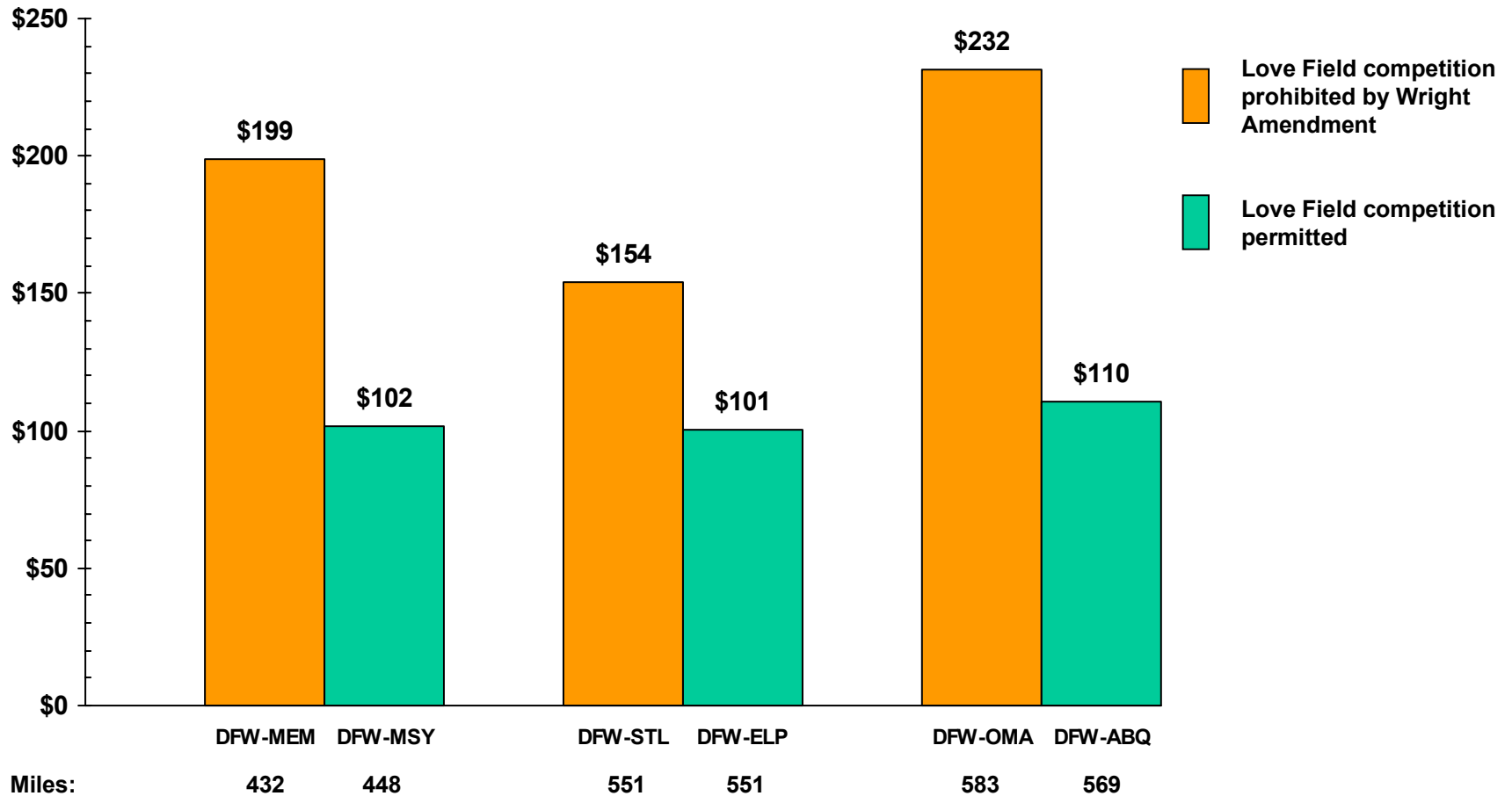
2/ Regression formula: Fare = Distance x e^{-0.7516 x Ln(Distance) + 7.6595}; R² = 0.9518. Nonstop Southwest cities include ABQ, AMA, AUS, ELP, HOU, IAH, LBB, LIT, MAF, MSY, OKC, SAT, and TUL.

3/ Regression formula: Fare = Distance x e^{-0.9146 x Ln(Distance) + 9.0856}; R² = 0.5121.

Source: U.S. DOT, Origin-Destination Passenger Survey, and T-100 Data, CY 2004, via Data Base Products, Inc.

Examples of Higher American Airlines Fares at DFW When Southwest is Barred From Competing

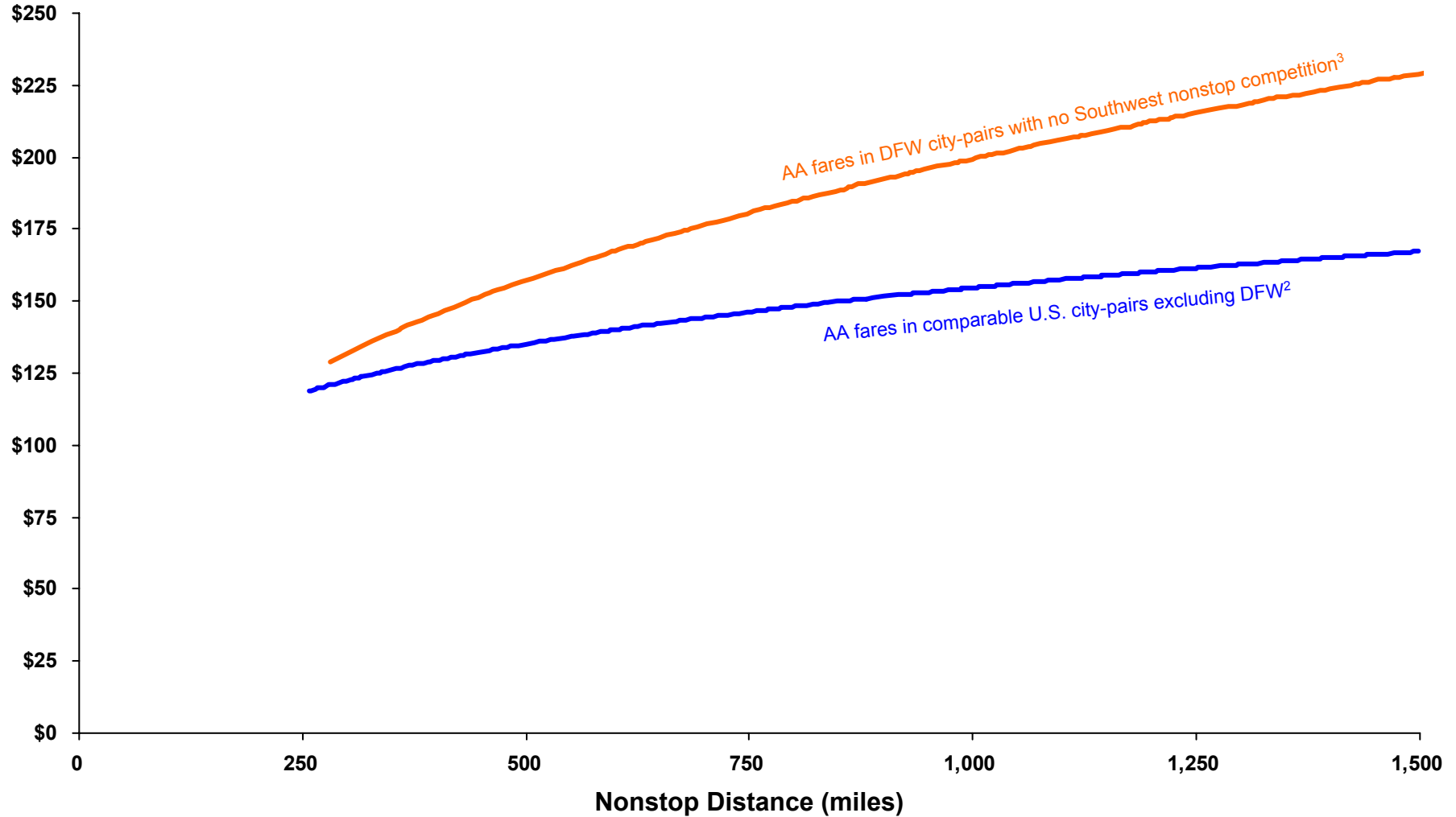
Average One-Way AA Fare¹



¹/ Average fare paid per passenger excluding taxes and zero fare passengers (frequent flyer redemptions, etc.) as reported by the U.S. DOT, Origin-Destination Passenger Survey, CY 2004.
Source: U.S. DOT, Origin-Destination Passenger Survey, CY 2004, via Data Base Products, Inc.

Because of the Wright Amendment American's Fares at DFW Are Even Higher Than its Fares at other U.S. Cities

Average One-Way Fare¹



1/ Average fare paid per passenger excluding zero fare passengers (frequent flyer redemptions, etc.) as reported by the U.S. DOT, Origin-Destination Passenger Survey, CY 2004.

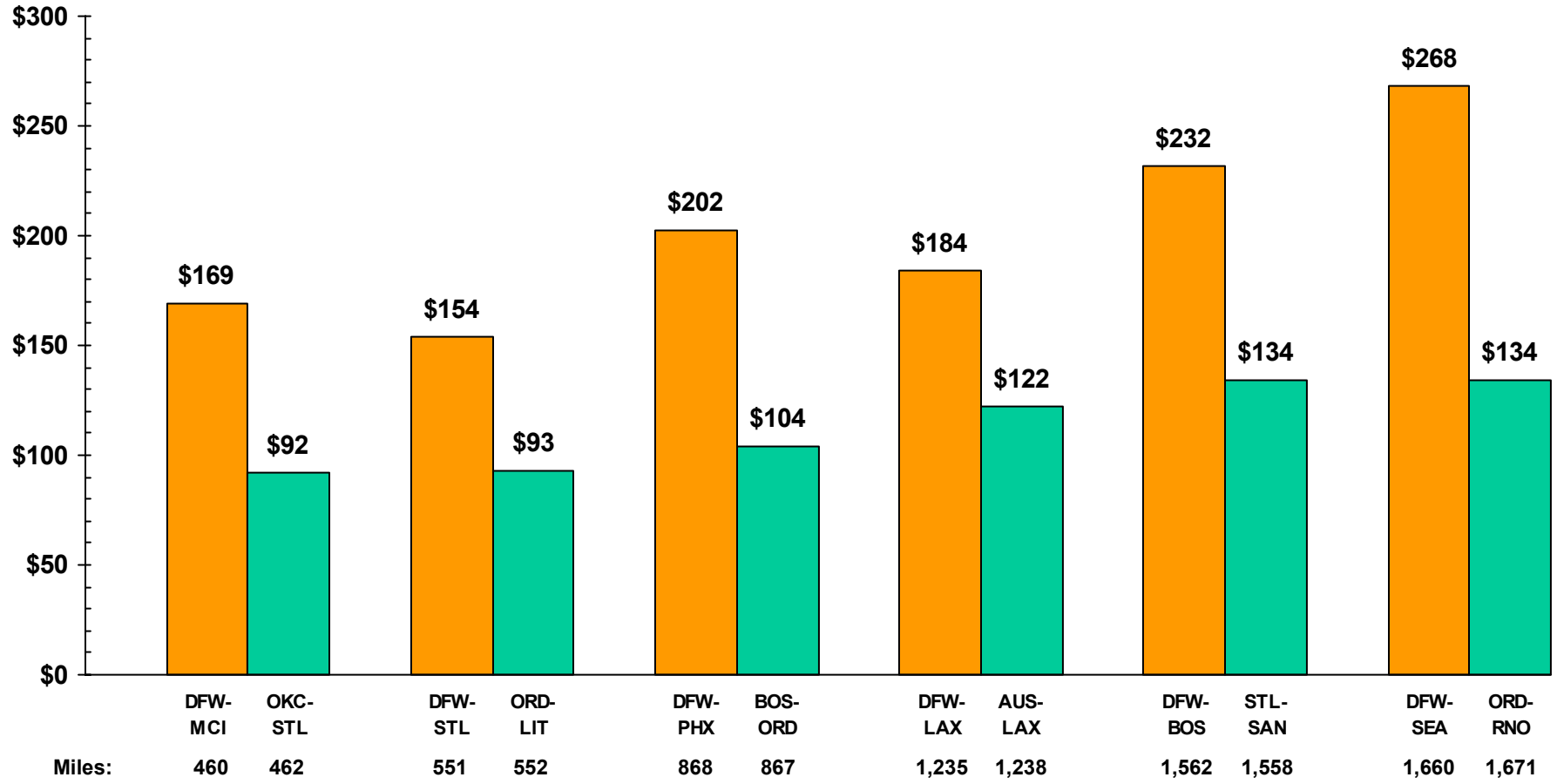
2/ Regression formula: Fare = Distance x $e^{-0.806 \times \ln(\text{Distance}) + 8.3065}$; $R^2 = 0.7541$.

3/ Regression formula: Fare = Distance x $e^{-0.6573 \times \ln(\text{Distance}) + 7.5335}$; $R^2 = 0.7895$.

Source: U.S. DOT, Origin-Destination Passenger Survey, and T-100 Data, CY 2004, via Data Base Products, Inc.

Examples of Higher DFW Fares Compared to Other American Airlines Markets

Average One-Way AA Fare¹



^{1/} Average fare paid per passenger excluding taxes and zero fare passengers (frequent flyer redemptions, etc.) as reported by the U.S. DOT, Origin-Destination Passenger Survey, CY 2004. Source: U.S. DOT, Origin-Destination Passenger Survey, CY 2004, via Data Base Products, Inc.

Abbreviations/Airport Codes

Airport codes mentioned in this study

ABQ	Albuquerque	MEM	Memphis
AMA	Amarillo	MHT	Manchester
AUS	Austin	MIA	Miami
BOS	Boston	MSY	New Orleans
BWI	Baltimore	OAK	Oakland
DAL	Dallas Love Field	OKC	Oklahoma City
DFW	Dallas/Ft. Worth	OMA	Omaha
ELP	El Paso	ORD	Chicago O'Hare
FLL	Ft. Lauderdale	PHL	Philadelphia
HOU	Houston Hobby	PHX	Phoenix
IAH	Houston Bush Intercontinental	PVD	Providence
ICT	Wichita	RNO	Reno
LAS	Las Vegas	SAN	San Diego
LAX	Los Angeles	SAT	San Antonio
LBB	Lubbock	SEA	Seattle
LIT	Little Rock	SFO	San Francisco
MAF	Midland/Odessa	SJC	San Jose
MCI	Kansas City	STL	St. Louis
MCO	Orlando	TPA	Tampa
MDW	Chicago Midway	TUL	Tulsa

Other definitions used in this study

Boston Area =	Airports at Boston, Manchester and Providence
Chicago Area =	Airports at Chicago O'Hare and Chicago Midway
SF Bay Area =	Airports at San Jose, San Francisco and Oakland
O&D =	A one-way passenger trip from airport of origin to airport of destination

3. Narrative Discussion

4. Supporting Exhibits

Total Passengers Benefiting From Repeal of the Wright Amendment

	Current DFW O&D Passengers	Current DFW Average Fare Including Tax	Probable WN Fare Including Tax	New Passengers Generated by Fare Reduction	Total Passengers After Fare Reduction	Passenger Savings	
	(A)	(B)	(C)	(D)	(E)	Current Passengers (F)	New Passengers (G)
15 Assumed New Markets							
Boston Area ¹	501,030	\$233	\$153	333,457	834,487	\$40,202,647	\$26,756,590
BWI	453,580	\$163	\$142	83,009	536,589	\$9,643,111	\$1,764,771
Chicago Area ²	994,470	\$189	\$141	419,390	1,413,860	\$47,605,279	\$20,076,199
LAS	714,510	\$141	\$128	83,217	797,727	\$8,824,199	\$1,027,730
LAX	574,290	\$188	\$142	230,120	804,410	\$26,308,225	\$10,541,797
MCI	264,930	\$191	\$108	264,287	529,217	\$21,978,593	\$21,925,250
MCO	561,720	\$141	\$124	92,170	653,890	\$9,391,958	\$1,541,082
PHL	361,230	\$257	\$145	363,405	724,635	\$40,537,231	\$40,781,309
PHX	365,870	\$225	\$122	407,853	773,723	\$37,794,371	\$42,131,215
RNO	82,700	\$193	\$152	27,600	110,300	\$3,394,835	\$1,132,980
SAN	258,600	\$229	\$139	214,268	472,868	\$23,271,414	\$19,281,977
SEA	301,590	\$259	\$154	264,886	566,476	\$31,615,680	\$27,767,999
SF Bay Area ³	636,540	\$250	\$150	542,940	1,179,480	\$63,443,942	\$54,114,830
STL	278,240	\$178	\$110	220,429	498,669	\$18,942,579	\$15,006,806
TPA	275,810	\$175	\$124	142,207	418,017	\$14,055,278	\$7,246,869
Totals/Avg.	6,625,110	\$196		3,689,238	10,314,348	\$397,009,340	\$291,097,405

See Page 2 for notes.

1/ Boston, Providence, Manchester.

2/ O'Hare, Midway.

3/ San Jose, San Francisco and Oakland.

Source: U.S. DOT, Origin-Destination Passenger Survey, CY 2004, via Data Base Products, Inc.

Total Passengers Benefiting From Repeal of the Wright Amendment

Notes to Exhibit A

- (A) U.S. DOT O&D Survey, CY 2004, excluding zero fare passengers.
- (B) U.S. DOT O&D Survey, CY 2004, excluding zero fare passengers. Includes security segment fee, 7-1/2% excise tax and Passenger Facility Charge (PFC) appropriate to each airport.
- (C) Based on log-log regression analysis of Southwest's historical (CY 2004) average fares between each assumed new city and all other Southwest cities.

	<u>Elasticity Coefficient (R²)</u>		<u>Elasticity Coefficient (R²)</u>
Boston Area	$e^{-0.6859\text{Ln}(\text{Distance})+7.1959}$; (0.8146)	PHX	$e^{-0.5932\text{Ln}(\text{Distance})+6.4928}$; (0.7953)
BWI	$e^{-0.6046\text{Ln}(\text{Distance})+6.6016}$; (0.9127)	RNO	$e^{-0.5698\text{Ln}(\text{Distance})+6.3860}$; (0.9264)
Chicago Area	$e^{-0.6298\text{Ln}(\text{Distance})+6.7901}$; (0.7933)	SAN	$e^{-0.6729\text{Ln}(\text{Distance})+7.0825}$; (0.8901)
LAS	$e^{-0.6756\text{Ln}(\text{Distance})+7.0477}$; (0.9358)	SEA	$e^{-0.6159\text{Ln}(\text{Distance})+6.6513}$; (0.8611)
LAX	$e^{-0.6474\text{Ln}(\text{Distance})+6.9023}$; (0.8548)	SF Bay Area	$e^{-0.6555\text{Ln}(\text{Distance})+6.9674}$; (0.9387)
MCI	$e^{-0.6254\text{Ln}(\text{Distance})+6.8352}$; (0.7583)	STL	$e^{-0.5343\text{Ln}(\text{Distance})+6.1959}$; (0.7340)
MCO	$e^{-0.7170\text{Ln}(\text{Distance})+7.3296}$; (0.8927)	TPA	$e^{-0.6989\text{Ln}(\text{Distance})+7.2069}$; (0.9062)
PHL	$e^{-0.4812\text{Ln}(\text{Distance})+5.4304}$; (0.8374)		

Because of Southwest's partial year service, fares at Philadelphia are assumed to follow the Baltimore regression equation. All fares include security and segment fees, 7-1/2% excise tax and PFC appropriate to each airport.

- (D) New passengers generated by fare reductions using a coefficient of price elasticity (E_p) of -1.2. See Exhibit D.
- (E) Total DFW/DAL market after fare reductions (Column A plus Column D).
- (F) Current passengers savings computed by multiplying passengers in Column A by the difference in the fares shown in Columns B and C.
- New (or stimulated) passenger savings computed by multiplying passengers in Column D by the difference in fares shown in Columns B and C.

DFW Originating Passengers Benefiting From Repeal of the Wright Amendment

	Current DFW Origin Passengers	Current DFW Average Fare Including Tax	Probable WN Fare Including Tax	New Passengers Generated by Fare Reduction	Total Passengers After Fare Reduction	Passenger Savings		Incremental Economic Impact
	(A)	(B)	(C)	(D)	(E)	Current Passengers	New Passengers	(H)
15 Assumed New Markets								
Boston Area ¹	248,693	\$233	\$153	165,516	414,209	\$19,955,126	\$13,281,004	\$101,401,722
BWI	212,001	\$163	\$142	38,798	250,799	\$4,507,141	\$824,845	\$42,998,271
Chicago Area ²	519,372	\$189	\$141	219,031	738,403	\$24,862,338	\$10,485,014	\$196,010,842
LAS	618,747	\$141	\$128	72,064	690,811	\$7,641,525	\$889,990	\$34,293,096
LAX	308,999	\$188	\$142	123,817	432,816	\$14,155,244	\$5,672,057	\$118,674,261
MCI	139,265	\$191	\$108	138,927	278,192	\$11,553,424	\$11,525,384	\$123,030,973
MCO	404,084	\$141	\$124	66,304	470,388	\$6,756,284	\$1,108,603	\$35,845,600
PHL	167,205	\$257	\$145	168,212	335,417	\$18,763,745	\$18,876,751	\$264,518,416
PHX	208,019	\$225	\$122	231,889	439,908	\$21,488,363	\$23,954,134	\$169,081,864
RNO	63,266	\$193	\$152	21,114	84,380	\$2,597,069	\$866,730	\$10,047,519
SAN	149,624	\$229	\$139	123,974	273,598	\$13,464,664	\$11,156,420	\$118,824,740
SEA	159,168	\$259	\$154	139,797	298,965	\$16,685,581	\$14,654,920	\$145,031,000
SF Bay Area ³	349,810	\$250	\$150	298,372	648,182	\$34,865,563	\$29,738,737	\$285,979,119
STL	135,700	\$178	\$110	107,505	243,205	\$9,238,456	\$7,318,940	\$95,204,278
TPA	147,624	\$175	\$124	76,115	223,739	\$7,522,919	\$3,878,820	\$41,149,672
Totals/Avg.	3,831,577	\$192		1,991,435	5,823,012	\$214,057,442	\$154,232,349	\$1,782,091,373

See Page 2 for notes.

1/ Boston, Providence, Manchester.

2/ O'Hare, Midway.

3/ San Jose, San Francisco and Oakland.

Source: U.S. DOT, Origin-Destination Passenger Survey, CY 2004, via Data Base Products, Inc.

DFW Originating Passengers Benefiting From Repeal of the Wright Amendment

Notes to Exhibit B

- (A) U.S. DOT O&D Survey, CY 2004, excluding zero fare passengers. DFW initiated passengers are those passengers whose entire ticket shows DFW as the point of origin.
- (B) U.S. DOT O&D Survey, CY 2004. Includes security segment fee, 7-1/2% excise tax and Passenger Facility Charge (PFC) appropriate to each airport.
- (C) Based on log-log regression analysis of Southwest's CY 2004 average fares between each assumed new city and all other Southwest cities.

	<u>Elasticity Coefficient (R²)</u>		<u>Elasticity Coefficient (R²)</u>
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BWI	$e^{-0.6046\text{Ln}(\text{Distance})+6.6016}$; (0.9127)	RNO	$e^{-0.5698\text{Ln}(\text{Distance})+6.3860}$; (0.9264)
Chicago Area	$e^{-0.6298\text{Ln}(\text{Distance})+6.7901}$; (0.7933)	SAN	$e^{-0.6729\text{Ln}(\text{Distance})+7.0825}$; (0.8901)
LAS	$e^{-0.6756\text{Ln}(\text{Distance})+7.0477}$; (0.9358)	SEA	$e^{-0.6159\text{Ln}(\text{Distance})+6.6513}$; (0.8611)
LAX	$e^{-0.6474\text{Ln}(\text{Distance})+6.9023}$; (0.8548)	SF Bay Area	$e^{-0.6555\text{Ln}(\text{Distance})+6.9674}$; (0.9387)
MCI	$e^{-0.6254\text{Ln}(\text{Distance})+6.8352}$; (0.7583)	STL	$e^{-0.5343\text{Ln}(\text{Distance})+6.1959}$; (0.7340)
MCO	$e^{-0.7170\text{Ln}(\text{Distance})+7.3296}$; (0.8927)	TPA	$e^{-0.6989\text{Ln}(\text{Distance})+7.2069}$; (0.9062)
PHL	$e^{-0.4812\text{Ln}(\text{Distance})+5.4304}$; (0.8374)		

Because of Southwest's partial year service, fares at Philadelphia are assumed to follow the Baltimore regression equation. All fares include security segment fee, 7-1/2% excise tax and PFC appropriate to each airport.

- (D) New passengers generated by fare reductions using a coefficient of price elasticity (E_p) of -1.2. See Exhibit D.
- (E) Total DFW/DAL market after fare reductions (Column A plus Column D).
- (F) Current passengers savings computed by multiplying passengers in Column A by the difference between Columns B and C.
 - New (or stimulated) passenger savings computed by multiplying passengers in Column D by the difference between Columns B and C.
- (H) New (or stimulated) passengers in Column D converted to roundtrip passengers at 50%, multiplied by the economic impact per inbound destination passenger in Exhibit E.

DFW Destination Passengers Benefiting From Repeal of the Wright Amendment

	Current DFW Destination Passengers	Current DFW Average Fare Including Tax	Probable WN Fare Including Tax	New Passengers Generated by Fare Reduction	Total Passengers After Fare Reduction	Passenger Savings	
	(A)	(B)	(C)	(D)	(E)	Current Passengers	New Passengers
15 Assumed New Markets							
Boston Area ¹	252,337	\$233	\$153	167,941	420,278	\$20,247,521	\$13,475,586
BWI	241,579	\$163	\$142	44,211	285,790	\$5,135,970	\$939,926
Chicago Area ²	475,098	\$189	\$141	200,359	675,457	\$22,742,941	\$9,591,185
LAS	95,763	\$141	\$128	11,153	106,916	\$1,182,673	\$137,740
LAX	265,291	\$188	\$142	106,303	371,594	\$12,152,981	\$4,869,740
MCI	125,665	\$191	\$108	125,360	251,025	\$10,425,168	\$10,399,866
MCO	157,636	\$141	\$124	25,866	183,502	\$2,635,674	\$432,480
PHL	194,025	\$257	\$145	195,193	389,218	\$21,773,486	\$21,904,558
PHX	157,851	\$225	\$122	175,964	333,815	\$16,306,008	\$18,177,081
RNO	19,434	\$193	\$152	6,486	25,920	\$797,766	\$266,250
SAN	108,976	\$229	\$139	90,294	199,270	\$9,806,750	\$8,125,557
SEA	142,422	\$259	\$154	125,089	267,511	\$14,930,098	\$13,113,080
SF Bay Area ³	286,730	\$250	\$150	244,568	531,298	\$28,578,379	\$24,376,093
STL	142,540	\$178	\$110	112,924	255,464	\$9,704,123	\$7,687,866
TPA	128,186	\$175	\$124	66,092	194,278	\$6,532,359	\$3,368,048
Totals/Avg.	2,793,533	\$203		1,697,803	4,491,336	\$182,951,897	\$136,865,056

See Page 2 for notes.

1/ Boston, Providence, Manchester.

2/ O'Hare, Midway.

3/ San Jose, San Francisco and Oakland.

Source: U.S. DOT, Origin-Destination Passenger Survey, CY 2004, via Data Base Products, Inc.

DFW Destination Passengers Benefiting From Repeal of the Wright Amendment

Notes to Exhibit C

- (A) U.S. DOT O&D Survey, CY 2004, excluding zero fare passengers. “Not DFW initiated” are those O&D passengers whose entire ticket shows an origin other than DFW.
- (B) U.S. DOT O&D Survey, CY 2004. Includes security segment fee, 7-1/2% excise tax and Passenger Facility Charge (PFC) appropriate to each airport.
- (C) Based on log-log regression analysis of Southwest’s CY 2004 average fares between each assumed new city and all other Southwest cities.

	<u>Elasticity Coefficient (R²)</u>		<u>Elasticity Coefficient (R²)</u>
Boston Area	$e^{-0.6859 \ln(\text{Distance}) + 7.1959}$; (0.8146)	PHX	$e^{-0.5932 \ln(\text{Distance}) + 6.4928}$; (0.7953)
BWI	$e^{-0.6046 \ln(\text{Distance}) + 6.6016}$; (0.9127)	RNO	$e^{-0.5698 \ln(\text{Distance}) + 6.3860}$; (0.9264)
Chicago Area	$e^{-0.6298 \ln(\text{Distance}) + 6.7901}$; (0.7933)	SAN	$e^{-0.6729 \ln(\text{Distance}) + 7.0825}$; (0.8901)
LAS	$e^{-0.6756 \ln(\text{Distance}) + 7.0477}$; (0.9358)	SEA	$e^{-0.6159 \ln(\text{Distance}) + 6.6513}$; (0.8611)
LAX	$e^{-0.6474 \ln(\text{Distance}) + 6.9023}$; (0.8548)	SF Bay Area	$e^{-0.6555 \ln(\text{Distance}) + 6.9674}$; (0.9387)
MCI	$e^{-0.6254 \ln(\text{Distance}) + 6.8352}$; (0.7583)	STL	$e^{-0.5343 \ln(\text{Distance}) + 6.1959}$; (0.7340)
MCO	$e^{-0.7170 \ln(\text{Distance}) + 7.3296}$; (0.8927)	TPA	$e^{-0.6989 \ln(\text{Distance}) + 7.2069}$; (0.9062)
PHL	$e^{-0.4812 \ln(\text{Distance}) + 5.4304}$; (0.8374)		

Because of Southwest’s partial year service, fares at Philadelphia are assumed to follow the Baltimore regression equation. All fares include security segment fee, 7-1/2% excise tax and PFC appropriate to each airport.

- (D) New passengers generated by fare reductions using a coefficient of price elasticity (E_p) of -1.2. See Exhibit D.
- (E) Total DFW/DAL market after fare reductions.
- (F) Current passengers savings computed by multiplying passengers in Column A by the difference between Columns B and C.
- (G) New (or stimulated) passenger savings computed by multiplying passengers in Column D by the difference between Columns B and C.

Lower Fares Will Increase North Texas Passenger Volume

“Total elasticity of demand for air travel is a measure of air travelers’ response to variations in the cost of air travel. This parameter measures the percentage change in air passenger trips resulting from a one-percent change in trip prices. Total elasticities are negative because price and quantity demanded are inversely proportional. ...

... FAA sponsored an extensive review of the economic literature regarding total elasticity of demand for air travel at a national level. The findings of this review are summarized in Chapter 2 and Appendix G of Report to Congress: Child Restraint Systems, Vol. 1 and 2, May 1995. The elasticity values found in the academic literature range from -0.6 to -4.5 . Representative values for business and non-business travelers are presented in Table C.2. Values in Table C.2 can be tailored to the mix of passengers at an airport. Overall weighted values are -0.79 and -1.59 for business and non-business travelers, respectively, with an overall average (assuming the 50/50 mix typical of the nation at large) of -1.2”

Economic Impact of Aviation

Impact Rank	State	CY 2000 Aviation Impact ¹ (\$ billion)	CY 2000 Total Inbound Destination Passengers ²	CY 2000 Economic Value Per Inbound Destination Passenger ³	2000-2003 GSP Growth Rate ⁴	Forecast CY 2005 Economic Value Per Inbound Destination Passenger ⁵
		(1)	(2)	(3)	(4)	(5)
1	California	\$118.40	74,110,818	\$1,597.62	11.6%	\$1,916.93
2	Texas	\$59.80	36,111,535	\$1,655.96	12.3%	\$2,010.15
3	Florida	\$41.65	50,138,084	\$830.66	17.1%	\$1,081.25
4	Illinois	\$38.61	24,184,440	\$1,596.36	7.1%	\$1,789.80
5	Pennsylvania	\$33.26	13,159,742	\$2,527.62	14.0%	\$3,145.06
6	Washington	\$22.02	12,647,448	\$1,741.19	11.1%	\$2,074.88
7	Missouri	\$16.59	11,077,387	\$1,497.23	10.6%	\$1,771.16
8	Arizona	\$15.02	13,140,728	\$1,142.93	15.7%	\$1,458.30
9	Maryland	\$14.01	8,334,169	\$1,680.48	18.1%	\$2,216.52
10	Nevada	\$11.70	16,502,092	\$709.12	19.3%	\$951.74
11	Rhode Island	\$2.49	2,679,240	\$928.55	18.1%	\$1,225.28
Total/Average		\$373.5	262,085,683	\$1,425.25	12.6%	\$1,737.25

1/ From Communities for Economic Strength Through Aviation (CESTA), The Economic Benefits of Aviation to the U.S. Economy and the Potential Impact of Service Disruptions, adjusted to eliminate the general aviation and aerospace manufacturing sectors.

2/ From U.S. DOT, T-100 Data and Origin-Destination Passenger Survey, via Data Base Products, CY 2000. Statistics include both domestic and international passengers.

3/ Column (1) divided by Column (2).

4/ U.S. Department of Commerce, Bureau of Economic Analysis.

5/ Column (3) inflated by Column (4). The growth rate was compounded using 5/3 as the number of periods.