Today’s Topics

- Tier 2 Demand Profile
- Context for Possibilities (The Industry)
- Air Service Options
- Likely Build-out
- Facility Implications
- Strategies to Recruit Air Carriers
- Strategies to Lower Air Fares
- Next Steps
- Project Wrap-up
Capture Rates

- **Duluth**
  - Local Capture: 51%
  - Diverted: 49%

- **Eau Claire**
  - Local Capture: 33%
  - Diverted: 67%

- **Rochester**
  - Local Capture: 43%
  - Diverted: 57%

- **St. Cloud**
  - Local Capture: 19%
  - Diverted: 81%
Total Market

- Duluth
- Eau Claire
- Rochester
- St. Cloud

2002 Enplanements
Additional Potential
Near Term Potential

- Rochester: 65% = 198,962
- Duluth: 58% = 197,359
- St. Cloud: 51% = 61,036
- Eau Claire: 65% = 40,756

% = Capture Rate Goal
Context for Possibilities

- Industry Recovery
- Future of Hubs
- Low Cost Carriers
- Competition
The Bottom: Is it Here?

Domestic Passenger Revenue as % of Nominal GDP

Courtesy of Eclat Consulting
## Market Still Has No Confidence

<table>
<thead>
<tr>
<th>Network Carriers</th>
<th>Market Capitalization ($ millions)</th>
<th>Available Seat Miles (000)</th>
<th>Market Capitalization ($ millions)</th>
<th>Available Seat Miles (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>America West</td>
<td>137</td>
<td>6,962,073</td>
<td>AirTran</td>
<td>534</td>
</tr>
<tr>
<td>American/TWA</td>
<td>992</td>
<td>32,933,032</td>
<td>Alaska</td>
<td>506</td>
</tr>
<tr>
<td>Continental</td>
<td>728</td>
<td>12,915,744</td>
<td>America Trans Air</td>
<td>54</td>
</tr>
<tr>
<td>Delta</td>
<td>1,648</td>
<td>25,656,828</td>
<td>Frontier</td>
<td>208</td>
</tr>
<tr>
<td>Northwest</td>
<td>767</td>
<td>14,916,855</td>
<td>JetBlue</td>
<td>2,165</td>
</tr>
<tr>
<td>United</td>
<td>142</td>
<td>25,625,719</td>
<td>Midwest Express</td>
<td>47</td>
</tr>
<tr>
<td>US Airways</td>
<td>48</td>
<td>12,008,746</td>
<td>Southwest</td>
<td>12,517</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,461</strong></td>
<td><strong>131,018,997</strong></td>
<td></td>
<td><strong>$16,030</strong></td>
</tr>
</tbody>
</table>

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</tr>
</thead>
<tbody>
<tr>
<td>Low Cost/Niche Carriers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Will the Network Hubs Remain?

- 30 hubs in the U.S.
- 30,000 city pair markets
- 5% of city pairs = 73% of all passengers
- Rest served by hub & spoke systems
- Why pressure is on smaller markets
Future of Tier 2 and Tier 3?

**Extinction?**
- A prolonged and difficult recovery for mainline network carriers (Northwest, American, United, Delta, Continental, US Airways).
- Continued retirement of turboprop aircraft and deployment of regional jets on mainline routes.
- A willingness of Minnesota and Wisconsin air passengers to drive to MSP.
- Absence of competition for incremental passengers at perimeter airports.

**Bright Future?**
- Premium prices at Tier 2 and Tier 3.
- Increased highway congestion lengthens travel time & hassle.
- Time savings to drive, park, and clear security at the local airport.
- Community interest in sharing the financial risk of added service.
- A Tier 2 strategy to serve as competitive gateways to the national network of air transportation.
LCC’s Exploit Mainline Troubles

Low Cost Carrier Growth vs Difference in Cost per ASM

0.0 0.5 1.0 1.5 2.0 2.5 3.0 3.5 4.0 4.5 5.0
0% 2% 4% 6% 8% 10% 12% 14% 16% 18%


LCC ASM Share  CASM Diff.

Courtesy of Eclat Consulting
Top 10 CMSA Markets, March 2003

Low Cost Carrier Market Share

- Total Los Angeles 31%
- Total San Francisco 29%
- Total Dallas/Ft. Worth 24%
- Total Chicago 17%
- Total Houston 28%
- Total Washington 17%
- Total Philadelphia 2%
- Total New York 8%
- Total Boston 6%
- Total Atlanta 13%

Courtesy of Eclat Consulting
Mainline Carriers Fight Back with Regional Jets

Seat Mile Costs
Mainline and 50-Seat Regional Jet

- **RJ Cost Curve**
- **Mainline Cost Curve (Pre-Restructuring)**
- **Hypothetical Cost Curve (Post-Restructuring)**

Courtesy of Eclat Consulting
Real Competition is Other Major Carriers

Share of Passengers in Each Carrier's LCC Markets

- AA
- AS
- CO
- DL
- HP
- NW
- UA
- US

Major | LCC | Other Maj

 Courtesy of Eclat Consulting
Air Service Options

- Planning Parameters
- Key Markets
- Service Build-up
## Aircraft Planning Parameters

<table>
<thead>
<tr>
<th>Aircraft</th>
<th>Seats</th>
<th>Trips/day</th>
<th>Trips/year</th>
<th>Seats/year</th>
<th>Enplaned Load Factor @ 70%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saab 340</td>
<td>34</td>
<td>6</td>
<td>2,190</td>
<td>74,460</td>
<td>52,122</td>
</tr>
<tr>
<td>ERJ 135</td>
<td>37</td>
<td>3</td>
<td>1,095</td>
<td>40,515</td>
<td>28,361</td>
</tr>
<tr>
<td>ERJ 140</td>
<td>44</td>
<td>3</td>
<td>1,095</td>
<td>48,180</td>
<td>33,726</td>
</tr>
<tr>
<td>CRJ 200</td>
<td>50</td>
<td>3</td>
<td>1,095</td>
<td>54,750</td>
<td>38,325</td>
</tr>
<tr>
<td>CRJ 700</td>
<td>70</td>
<td>3</td>
<td>1,095</td>
<td>76,650</td>
<td>53,655</td>
</tr>
<tr>
<td>ERJ 190</td>
<td>100</td>
<td>3</td>
<td>1,095</td>
<td>109,500</td>
<td>76,650</td>
</tr>
</tbody>
</table>
## Direct Operating Costs (DOC)

<table>
<thead>
<tr>
<th>Aircraft</th>
<th>Seats</th>
<th>Average DOC per ASM</th>
<th>Carrier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saab 340</td>
<td>34</td>
<td>0.16</td>
<td>Northwest</td>
</tr>
<tr>
<td>ERJ 135</td>
<td>37</td>
<td>0.099</td>
<td>American Eagle</td>
</tr>
<tr>
<td>ERJ 140</td>
<td>44</td>
<td>0.079</td>
<td>American Eagle</td>
</tr>
<tr>
<td>CRJ 200</td>
<td>50</td>
<td>0.093</td>
<td>Air Wisconsin</td>
</tr>
<tr>
<td>CRJ 700</td>
<td>70</td>
<td>0.053</td>
<td>American Eagle</td>
</tr>
<tr>
<td>ERJ 190</td>
<td>100</td>
<td>new</td>
<td>Jet Blue</td>
</tr>
</tbody>
</table>

ASM = seats X trip miles
## Estimating Direct Route Costs

<table>
<thead>
<tr>
<th>Aircraft</th>
<th>Saab 340</th>
<th>ERJ 140</th>
<th>CRJ 200</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrier</td>
<td>Northwest</td>
<td>American Eagle</td>
<td>Air Wisconsin</td>
</tr>
<tr>
<td>Seats</td>
<td>34</td>
<td>44</td>
<td>50</td>
</tr>
<tr>
<td>Route</td>
<td>STC-MSP</td>
<td>DLH-ORD</td>
<td>EAU-ORD</td>
</tr>
<tr>
<td>Stage Length</td>
<td>65</td>
<td>397</td>
<td>268</td>
</tr>
<tr>
<td>ASM’s per Trip</td>
<td>2,210</td>
<td>17,468</td>
<td>13,400</td>
</tr>
<tr>
<td>Cost/ ASM</td>
<td>0.16</td>
<td>0.079</td>
<td>0.093</td>
</tr>
<tr>
<td>Direct Costs Per Segment</td>
<td>$354</td>
<td>$1,380</td>
<td>$1,246</td>
</tr>
<tr>
<td>Six Segments per day (3 RJ’s)</td>
<td>$2,122</td>
<td>$8,280</td>
<td>$7,477</td>
</tr>
<tr>
<td>Annual Direct Operating Cost</td>
<td>$774,384</td>
<td>$3,022,139</td>
<td>$2,729,178</td>
</tr>
</tbody>
</table>

Based on Average Costs/ASM, IIIQ, 2002
Total Revenue Parameters

- Direct Operating Costs do not include company administration or the cost of operating the hub & spoke network.
- Carriers assign a fully allocated cost to each segment that includes DOC plus overhead.
- Every company has a different formula for fully allocated costs.
- Range is approximately 50% to 200% more than direct operating costs.

Profitable Route = Fully Allocated Costs
## Top Markets for Tier 2 Airports

<table>
<thead>
<tr>
<th>Rank</th>
<th>Market</th>
<th>CY 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>O’Hare Intl, IL (ORD)</td>
<td>37,910</td>
</tr>
<tr>
<td>2</td>
<td>Sky Harbor Intl, AZ (PHX)</td>
<td>23,770</td>
</tr>
<tr>
<td>3</td>
<td>Denver Intl, CO (DEN)</td>
<td>18,590</td>
</tr>
<tr>
<td>4</td>
<td>Orlando Intl, FL (MCO)</td>
<td>17,620</td>
</tr>
<tr>
<td>5</td>
<td>McCarran Intl, NV (LAS)</td>
<td>15,830</td>
</tr>
<tr>
<td>6</td>
<td>Ronald Regan Natl, DC (DCA)</td>
<td>15,260</td>
</tr>
<tr>
<td>7</td>
<td>La Guardia, NY (LGA)</td>
<td>14,890</td>
</tr>
<tr>
<td>8</td>
<td>Dallas/Ft Wor Int, TX (DFW)</td>
<td>13,890</td>
</tr>
<tr>
<td>9</td>
<td>Los Angeles Intl, CA (LAX)</td>
<td>13,520</td>
</tr>
<tr>
<td>10</td>
<td>Seattle/Tacoma In, WA (SEA)</td>
<td>13,440</td>
</tr>
<tr>
<td>11</td>
<td>Wm B Hartsfield, GA (ATL)</td>
<td>13,420</td>
</tr>
<tr>
<td>12</td>
<td>San Francisco In, CA (SFO)</td>
<td>12,550</td>
</tr>
<tr>
<td>13</td>
<td>Logan Intl, MA (BOS)</td>
<td>12,470</td>
</tr>
<tr>
<td>14</td>
<td>Wayne County, MI (DTW)</td>
<td>11,210</td>
</tr>
<tr>
<td>15</td>
<td>Lindberg Field, CA (SAN)</td>
<td>9,850</td>
</tr>
</tbody>
</table>

Subtotal: 244,220
Other: 353,430
Total: 597,650

3 flights 50 Seat CRJ @ 70% LF = 38,325/yr

USDOT O&D Survey and 298C Data, 2002
Air Service Models

- Improved Network Access
- Shuttle to Chicago’s Midway Airport
- Satellite Airports
- Alternate Airport
### Current Daily Summer Schedule

<table>
<thead>
<tr>
<th>Airports</th>
<th>Minneapolis</th>
<th>Chicago</th>
<th>Denver</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duluth</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eau Claire</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rochester</td>
<td>9</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>St. Cloud</td>
<td>5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Near Term Service Increment

<table>
<thead>
<tr>
<th>Airports</th>
<th>Goal</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duluth</td>
<td>Chicago</td>
<td>Reinstatement of Chicago Service</td>
</tr>
<tr>
<td>Eau Claire</td>
<td>More MSP</td>
<td>Higher Frequency, better connecting schedule at MSP, confirm capture rate, go after Chicago</td>
</tr>
<tr>
<td></td>
<td>Chicago</td>
<td></td>
</tr>
<tr>
<td>Rochester</td>
<td>Denver</td>
<td>Begin Denver recruitment, targets: United and Frontier</td>
</tr>
<tr>
<td>St. Cloud</td>
<td>More MSP</td>
<td>Higher Frequency, better connecting schedule at MSP, RJ’s to Chicago</td>
</tr>
<tr>
<td></td>
<td>Chicago</td>
<td></td>
</tr>
</tbody>
</table>
Shuttle to Midway - Concept

- **Goal:** To get into the low cost carrier systems
- **Challenge:** Address security and baggage issues.
- **Solve:** Interline issues at Midway
- **Solve:** Low cost shuttle to Midway
Low Cost Carrier Chooses Tier 2

Satellite Airports

- Assumption: LCC does not go to MSP
- Duluth too far
- Rochester infrastructure sufficient
- St. Cloud has location but needs to build out
- Eau Claire constrained by urban development?
- A Southwest-scale operation solidifies a larger role for Tier 2 airports in the future

Strategic positioning - Yes
Premature investing – No
Metro Area Goes Regional

Alternate Airport

- Big LCC goes to Tier 2
- MSP originating passengers double
- NW ramps up MSP hub; significant capacity and delay issues

Formal relationship between MSP & Tier 2
Ground access improved to alternate airport
Regional Plan in place to coordinate & invest
Infrastructure Needs

- Network Improvements
  - Loading bridges compatible with RJ’s
  - Additional parking at STC

- Satellite Airport
  - Improve roadway access at RST – County Road 16 and Highway 63
  - Modify/expand terminal at EAU, expand ramp and increase parking area
  - Expand terminal at STC, expand ramp, increase car parking, and improve roadway access
Infrastructure Needs (cont.)

- Alternate Airport
  - Initially, same as Satellite Airport
  - Longer range, add parallel runway
  - Expand or replace terminal
  - Expand or replace ramp, depending on terminal location and design
  - Expand car parking
  - Category II precision instrument approach
  - Connect to downtown MSP via rail or other system.
Recruiting New Service

- Good numbers not enough
- Minimum revenue guarantees
- Travel Bank
- Local support for station and staff costs
- Advertising
- Congressional interest and support
Strategies to Lower Air Fares

- Near term, support MSP initiatives to attract smaller low cost carriers
- Decide best airports for Southwest
- Schedule a Minnesota day at Southwest (even if you can’t agree on airports)
- Consider partnering with DIA in efforts to attract LCC
Next Steps

- Force Multiplier – THE INCUBATOR
- Build Enplanement Base at Tier 2
- Regional Plan
- Reserve St. Cloud option

Legislative Actions

- Revise MN Air Service Program to reflect today’s reality
- Support Federal initiatives to promote investment in regional and the regional concept of airports
For more information on this study, please contact:

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