HOUSE OF REPRESENTATIVES
COMMONWEALTH OF PENNSYLVANIA

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Airline Ticket Pricing

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House Transportation Committee
Subcommittee on Aviation

Room 205
Ryan Office Building
Harrisburg, Pennsylvania

Monday, February 26, 2001 - 1:08 p.m.

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BEFORE:

Honorable Russ Fairchild, Majority Subcommittee Chairman on Aviation
Honorable John Pippy, Majority Secretary
Honorable Dick Hess, Majority Subcommittee Chairman on Transportation Safety
Honorable Dennis Leh, Majority Subcommittee Chairman on Highways
Honorable Ron Marsico, Majority Subcommittee Chairman on Railroads
Honorable Ellen Bard
Honorable Kate Harper
Honorable Gene McGill
Honorable Stephen Stetler, Minority Secretary
Honorable Joseph Petrarca, Minority Subcommittee Chairman on Aviation

T2001-004

BEFORE (cont'd.):

Honorable LeAnna Washington, Minority Subcommittee Chairman on Public Transportation
Honorable David Levdansky, Minority Subcommittee Chairman on Railroads
Honorable Susan Laughlin

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House Transportation Committee

Dana J. Alwine
Majority Counsel

Paul Parsells
Minority Executive Director
House Transportation Committee

C O N T E N T S

CHAIRPERSON FAIRCHILD: Good afternoon, ladies and gentlemen. My name is Representative Russ Fairchild. And I'm the Majority Subcommittee Chairman on Aviation. And to my right is Representative Petrarca, who is the Minority Subcommittee Chairman on Aviation.

It's a pleasure to welcome you here today. Today's hearings are a result of what I feel is an awful lot of questions from constituents, business people, and the flying public over the years. And what we hope to do and what I've asked the testifiers to do is to lay out the problem and offer solutions for, if they perceive that there are solutions available, to offer those in their testimony today.

These are about the, the rates not only in Pennsylvania but for flights that originate here and have outside-the-state destinations. With that said, we have a busy list of testifiers today, and we're going to get right to the business of the Committee.

And the first testifier is Fred Testa, Junior, who is an aviation consultant. And Fred is going to hopefully lay out a series of dialogue on the problem at hand and basically where we are in Pennsylvania today. With that said, Fred, you may begin when you're ready.

MR. TESTA: Thank you, Mr. Chairman. Mr. Chairman, Committee members, Representative Petrarca, my testimony today is to give you an overview, sort of a primer on the airfares or air rates and what goes into making them what they are.

The US DOT recently released three reports having to do with airfares in the country and the airline practices. And these are the three reports. I haven't copied them for you because there's a little over 200 pages here. But I'm going to give these to Representative Fairchild's secretary.

And if any one of you would like to read those, they'll be available through his secretary's office. I'll go into them briefly. Or you can get them off the web on the US DOT site and then download them or print them as you see fit.

The three reports are findings and conclusions on economic policy legal issues, which is an enforcement policy DOT has proposed to enforce certain nonpredatory practices by airlines.

The second one is dominated hub fares. And I'm sure you've read about that in the newspapers. And it talks about certain hubs in the country, dominated hubs, meaning that a substantial portion of their air traffic is controlled by a single airline, and what the premiums are that people pay flying out of those hubs.

And the third one is predatory practices in the US airline industry. That was done by a couple of college professors and looked at predatory practices since 1995 or '96 or so and uses some data gathered.

On the enforcement findings, on the first one -- and I'll try to sum these up as briefly as I could -- "This administration has concluded that incumbent airlines at times have responded to new competition with fare cuts, capacity increases, and other practices that are apparently designed to eliminate or reduce competition. An airline's success in eliminating or reducing competition will harm the public by denying travelers the lower fares and better service created through competition."

And this particular report also goes into a policy on how to cure that or at least some enforcement that they feel DOT has enforcement rights on. To be fair, since we're in Pennsylvania and the dominant airline, to be honest, is US Airways here in Pennsylvania, the most examples in this report do not refer to US Airways.

It's mostly to do with Northwest predatory practices and protecting its Detroit and Minneapolis hubs and some Atlanta Delta practices when AirTran went in with low fare service and tried to compete with Delta. In fact, many of the low fare carriers that are cited in some of these -- to be fair now, I'm trying to present both sides -- who went out of business or are continuing to struggle have entered the business terribly underfunded using a few older aircraft and have generally performed in ways not conducive to continued operation.

And I won't mention names. But there are several airlines that really have raised 3 to $5 million, tried to start service with three aircraft and run those three aircraft 20 hours a day trying to create service between heavily populated areas. They haven't succeeded.

That's not to say low cost carriers haven't succeeded because they have. Southwest is a prime example followed by AirTran, which is the revamped, renewed Value Jet under new management with new aircraft in a whole new philosophy and doing extremely well, by the way.

And the new style of carrier, JetBlue, which actually had more money in the bank than most anybody else, they're $130 million in the bag before they even started. Those very well-financed carriers are doing very well with new aircraft enjoying the fruits of better fuel efficiency and enough money in the bank to withstand pressures.

Some of the smaller carriers that go on one or two flights a day really have a hard time fighting against a carrier that comes in with 20 or 30 or has 40 flights a day from that same hub to the same destination because it just cannot compete.

That's why Southwest when it goes into a new city goes in with a minimum of 15 flights a day, mostly 17 flights a day and builds up their services very, very rapidly so it can withstand the pressures of any dominant carrier in the market.

On the second report, dominated hub fares, this is the one you have seen. And attached to my testimony, by the way, are several articles. One has to do with Philadelphia's airfares being 30 percent higher than the average. And this report is the one that uses fares out of hub cities as opposed to fares out of other hub cities that have low fare competition.

And in dominated hubs as a whole, 24.7 million passengers pay on average 41 percent more than do their counterparts flying in hub markets with low fare competition. These are the four conclusions in the report. Passengers in short haul hub markets without a low fare carrier pay even higher fares or 54 percent more.

Charlotte, Cincinnati, Minneapolis, and Pittsburgh have the highest overall fare differentials. Those are the four hubs they have cited for the premium hub fare differentials. And the four rationales used by the major airlines commonly used to explain away high fares in hub markets - passenger mix, operational cost, quality of service, and the Southwest Effect - only apply if price competition is not present.

These are the four conclusions. Again, these have a lot more detail in them. But I won't bore you with the detail. What I've done is put together some information for you. Aggregate fares in the 19 large short haul markets that gained and kept low fare service since 1997. These are the 19 large markets that gained Southwest or AirTran and have held onto them since 1997.

The average -- now, they split it down to three categories: Between 250 miles, which is really short haul; 250 to 500 miles, which is the medium haul service; and then long haul, 500 to 750 miles. Average fare before entry was $177, 156, and 213.

After the entry by low cost carriers, those fares dropped to 79, 96, and 143. All carriers' airfares now. We're not just talking the low cost carrier. And the change in passengers, 86 percent increase under 250, 65 and 61. And the average change in fares in the minus category.

I've worked at two of those airports that have this kind of dramatic increase. One, Providence, before Southwest entry was dominated -- not dominated. It was an O and D market, but it primarily was served by US Airways. And when Southwest came to Providence, it dramatically increased from 2 1/2 million to 3 million passengers a year to over 5 million passengers a year. I was Deputy there.

And when I was Director in Manchester, when

Southwest came in plus other carriers also, that went from an airport with 700,000 passengers a year to last year's 3.2 million passengers a year. Manchester I'm very closely familiar with. It went from one of the ten most expensive airports to fly out of to one of the ten cheapest in the country to fly out of.

The predatory practices study, that's this one done by the two profs. This one I have a little bit of problem with. It's very interesting reading. And it talks about predatory practices mostly of the airlines I've already mentioned.

But this study is one which purports to show the fare premiums paid at dominated hubs that have no low fare competition. Some of the data in this report is three years old. And it has rapidly been changing in Philadelphia and Pittsburgh.

Both of those airports' fares have come down since the AirTran, especially in Philadelphia which is really not a heavily dominated airport, and Pittsburgh since the introduction of AirTran there for eight flights a day.

One theme is common through all of these reports and every other report you ever see in an airport produce. And that is, it's really axiomatic. When there is competition, fares fall. Where there is no competition, fares stay relatively high. It's the old capital theory of fare and demand. It works extremely well at airports.

Now I want to talk about -- most of the things I'm going to show you now are nationwide kinds of figures. But you have to understand this when I talk about the dominated hubs of Philly and Pittsburgh, especially in that Pennsylvania is a dominated state and with most of the service and most of the passengers going on US Airways.

Operating margins, which is a real telltale story of profitability of an airline. As you see, last quarter ending '99, last quarter ending 2000. Southwest has the best operating margin, and the worst has been US Airways in both instances.

You have Delta, Continental, American, Northwest, and United. I've left out things like Alaska and America West because they don't really come into the East Coast at all. And I am -- as you can see, the operating margins tell a story of profitability.

What goes into profitability? I'm going to -- again, there's some articles at the end of my testimony that I've copied, downloaded that explain the terms. But cost per available seat mile means how much does it cost to put that seat, whether it's full or empty, up in the air for one mile. No matter which, it's an average cost overall for the whole country.

Revenue per available seat mile is when you take the revenue from that plane that day or all the planes that time, how much revenue per available seat mile. Now, as you notice, US Air was, has the most expensive cost in the industry, also has the highest revenue per available seat mile.

However, it doesn't tell the whole story because yield is a very important picture factor. That yield is really referred to as revenue passenger miles or the actual number of seat miles flown. Even though the available seat mile revenue may have so many seats per available seat mile revenue, don't forget all those seats are not full.

How much are they actually getting per actual seat really flown? And that's the yield figure. Again, US Air has the highest yield of all the airlines. But again, none of these factors tell the true picture. I'll try to explain to you why.

Break-even points. If you look at the -- now, follow me here. I'm going to use the 146-seat aircraft times the cost per available seat mile, which means how much does it cost me to get that 146-seat aircraft up in the air each mile that it goes along?

You take their cost per available seat mile and multiply it by 146. You get the cost per aircraft mile for this 146-seat aircraft. By the way, this works for all number aircraft. I tried it with 95 seats and 180 seats. It works. So I just chose 146 seats, which is a 737. Four hundred seating capacity or 300. I forget which one.

So you've got the cost per aircraft mile, $18.47. And the revenues, in order to get a revenue just above the break-even point means that the break-even load factor for US Airways has to be 80 percent. Its costs are so high and its yields, although high, it has to break even at 80 percent load factor, which means 80 percent of its seats have to be filled.

Southwest, on the other hand, only has to fill 60 percent of its seats because of its low costs, high revenue, good yield factor, and only has to fill 60 percent. Now, these numbers are based only on seats for passengers. Every airline makes money in other ways.

It carries cargo, and it carries US mail. But I don't know those numbers, and you can't find out those numbers. So we have to base it upon the actual fares spent. These are all 1995 fares and costs.

In comparing the hubs, we'll take Atlanta and Cincinnati, which are Delta hubs. And the percentage figure there is a domination of that airline at that hub. So in Atlanta, the Delta has 62 percent of the passenger traffic. And its average fare, not the airport's average fare, its average fare is $178 over a distance averaging 748, which means that its actual fare per mile out of its dominated hub is 23.8 cents.

Out of Cincinnati, which is even more dominated with 74 percent, its actual fare is 27.3 cents a mile. Continental at Newark and Cleveland, you see 54 and 44 percent. Its fares are 18.6 and 22.1 cents per mile. Denver and Dulles, two United hubs, 21 and 18 cents a mile.

And the three US Air hubs, Charlotte, Pitt and Philly, Philadelphia, have fares per seat mile 32.8 cents at Charlotte; Pittsburgh at 28.6 cents per mile; and Philadelphia, 24.8 cents a mile. And there's a reason to this. Philadelphia is not a heavily dominated hub.

Only 51 percent of the actual traffic belongs to US Airways. It has lots of competition at the airport as compared to Pittsburgh at 69 percent and Charlotte at 69 percent. It has, Philadelphia has several low fare carriers such as ATA; American TransAir, which has limited service. AirTran, which is the old Value Jet, is now going to Philadelphia.

I think it has eight or nine flights a day. And it's just going to Pittsburgh also with eight flights a day. And it also has other small carriers like Van -- not Vanguard -- Espirit and some of the others. And that explains the fare differential.

There's also other factors in here. And the cost for each airport, that's cost per enplaned passenger. I haven't put those up because they don't seem to correlate in any way, shape, or form with the cost of the ticket out of that airport.

Charlotte's probably one of the lowest cost airports to work out of. I think its cost per enplaned passenger is around $3 a head, while the cost in Pittsburgh is somewhere around 8 or $9 per enplaned passenger. Now, in comparison with those fares you just saw, I've picked two low fare hub airports; and they're both Southwest.

One is Baltimore-Washington International. And Southwest has 30 percent of the traffic, and US Air has 28 percent of the traffic. The average fares in 1999 are 96 and 133 in the left you can see. And the fare miles, Southwest put its fares out at 11.6 cents a mile, while US Air put its fares out at 17.7 cents a mile.

So US Air did lower its fares in a lower cost hub down to 17.7 cents a mile as opposed to the hub fares you just saw. And in Providence where Southwest has now 31 percent of the market and US Air with 28 percent, see the average fare, 102, 148. Same thing, 10 1/2 cents a mile, 17 cents a mile.

I have a data list that's about several hundred pages of fares between city pairs. But again, trying to put together a list to show you the airfare differences and keep my testimony within certain reasonable bounds, I've picked some city pairs to show you some of the differences.

If you look at Baltimore-Washington International to Atlanta -- now, this is a Delta service. This is not US Airway -- fare distance is 576 miles, $340 at Baltimore. While at Harrisburg -- that MDT, by the way, is Harrisburg's three call letters -- it's $430.

Now, that's not US Air. But it's just to show you that when low cost service goes into an airport, generally all fares decline even if that carrier does not service it. Southwest does not serve Atlanta, only Delta does in these two markets. So you see the difference.

I've picked a 4-city pair here because it's a good indication of you looking area-wise. If I'm trying to go from Harrisburg to Pittsburgh or at least from that area of the state to the western end of the state and maybe even the eastern part of, the extreme eastern part of Ohio, Harrisburg to Cleveland is 280 miles. It's $541.

By the way, these are actual average fares paid in 1999. All the revenues divided by all the passengers, fare-paying passengers. Nonfares and nonrevs have been excluded. Now, Harrisburg to Pittsburgh, 185 miles because it's closer than Cleveland. It's a $380 fare, the average airfare.

BWI to Pittsburgh, 210 miles. $450 was the average fare paid. But if you went to Baltimore, which is only an hour from Harrisburg, and you flew to Cleveland, which is what, an hour and something west of Pittsburgh, the fare was $127. So if you were in the area going to do business or pleasure or leisure, the move is to go out of state.

Another is Boston. Now, if you're flying from Harrisburg to Boston, 335 miles. The fare was $442, average fare. BWI to Boston, on the other hand, was $292. But if you worked your magic and looked at the area fares and you went to Baltimore and flew to Providence or Manchester -- now, both of those airports are only 50 miles from Boston.

If you were going north of the city or in that area, that's Manchester. If you were going south of the area, that would be Providence. The fare dropped to $116, actual fare paid. Pittsburgh to Boston, $390. Now, Erie to Boston is $450.

And I put that up because that would be expected. I mean, Erie would have to stop in Pittsburgh and then go on to Boston. What isn't explainable and I just put it up here was the BWI to Pittsburgh is $450, same fare as up here. However, Erie to Baltimore is $211. That was the actual fares paid in 1999.

Now, I've used average fares here. And averages you have to be careful with because in any competitive response to an air carrier dropping its fares, most carriers match fares. So if a carrier comes in or offers a low fare, you'll find competitive low fares, even out of Harrisburg. And you'll be hearing from its chairman.

And you'll find that the fares to Orlando are pretty much in line with flying out of Baltimore, even flying out of Harrisburg pretty much. But we don't know exactly how many seats on that aircraft are low fare because this bucket we call in the aviation industry contains all of the seats on that aircraft at all of the fares.

Now, those fares may range from the matching fare of $103 or $105 one way to a higher 4- or $500 and give you this average. However, there may only be two or three or four seats of the low cost variety on one aircraft; and the other aircraft may have 60 low cost seats. So we can't tell that; therefore, have to use the averages.

And that's my overview. And you'll be hearing more specific details from the airports that will be testifying and the airlines that will be testifying before you today. But if you have any questions, I'll be glad to answer them.

CHAIRPERSON FAIRCHILD: Thank you.

MR. TESTA: Oh, excuse me. I'm not quite finished. Excuse me. I had Dana get me some data. As an exercise, I had the Pennsylvania Turnpike Commission give us figures on how many cars enter Philadelphia to Harrisburg, Harrisburg to Philadelphia. And that's almost 3 million vehicles a year.

Pittsburgh to Harrisburg and Harrisburg to Pittsburgh there are almost 600,000 vehicles a year making that trek. That's quite a haul, four hours or so. Philadelphia to Pittsburgh, Pittsburgh to Philadelphia, a little less. There's about 250,000 vehicles a year.

I have those figures and can give them to you. But I wanted an indication of how many people were driving that distance on the pike as opposed to flying, which is far easier. I'm sorry, Mr. Chairman. Excuse me for interrupting you.

CHAIRPERSON FAIRCHILD: Thank you. On your chart of the sample average fares, I think just about the last one, if I understand that correctly -- and I realize these are average and it was 1999 when these were taken -- but if I understand that correctly, if I lived in Harrisburg and I wanted to go to Pittsburgh, I would have basically two choices.

One would be to fly -- or I'm sorry. To Cleveland. To Cleveland. One, I could fly from Harrisburg to Cleveland and pay $541; or I could drive an hour and a half to BWI, Baltimore-Washington, and fly for $127.

MR. TESTA: Yes.

CHAIRPERSON FAIRCHILD: That's about a $414, if I did my math correctly, difference --

MR. TESTA: Yes.

CHAIRPERSON FAIRCHILD: -- for --

MR. TESTA: There are a lot more examples.

CHAIRPERSON FAIRCHILD: -- for more air miles. I mean, you're flying a longer distance. Okay.

MR. TESTA: Usually, flying a longer distance does give you a lower per seat average, average-wise across the country because it, it's more efficiency rather than up and down, up and down, up and down with long taxi times and stuff like that.

But yeah, you're right. That's the difference in fares. And the same way with trying to go to Boston.

CHAIRPERSON FAIRCHILD: That brings me back to kind of my second question. On the chart that shows the aggregate fares in 19 large short haul markets --

MR. TESTA: Yes.

CHAIRPERSON FAIRCHILD: -- since 1997, that first line, that's average fare before entry.

MR. TESTA: Of a low cost carrier.

CHAIRPERSON FAIRCHILD: Yes. I mean, it seems to me like -- I don't want to say a targeted market. But it seems to be that less than 250 miles they seem to pay a, the higher rates. Is that pretty true in the industry?

MR. TESTA: That's pretty true in the industry.

CHAIRPERSON FAIRCHILD: So could the conclusion be made that those short rates are consistently the most expensive but also suffer from probably the least competition? Is that a fair statement?

MR. TESTA: It's a fair statement.

CHAIRPERSON FAIRCHILD: And the last question -- and then I'm going to put it out to the other members -- is from a broad perspective, what do you see as far as recommendations that Pennsylvania could do to enhance the, make the fares better for flying in Pennsylvania?

MR. TESTA: Actually, there are some airports with very low levels of service that are very small and probably could not fiscally support more frequency or a larger aircraft which are more efficient in flying. So for those airports, there's probably not much.

It's just the convenience of supplying a small aircraft that will get you to a hub such as Pittsburgh or Newark or Philly or Cleveland. And that convenience of flying close to home costs you some money. For those markets in Pennsylvania -- and there are several of them -- that are big enough to support, I think, better service, it is up to the airports. With, I think, the state's help, they can go out and market their wares.

It's a very extremely -- this is going to be a long-winded answer. Airlines used to have very good planning departments at one time. And lately, in the '80s and early '90s, they just got rid of them all. So they really knew marketing and markets pretty well before they put aircraft in.

It's up to the airports now to convince airlines of every strike, whether it be a major carrier or a low cost carrier, why my market has the ability to support better service. Or lower your fares, and we'll put more people on aircraft. And that way your yield per aircraft will go up.

And that is really beyond the ability of some of the medium-sized airports in the state, Wilkes-Barre, Harrisburg. Probably money available to do marketing and to do some real in-depth statistical research on marketplaces and what they produce, incomes and things like that.

And what I'm doing, I'm giving you the formula I used at Manchester, which is a city of 100,000 people stuck in New Hampshire where not, most people don't believe anybody lives except maybe a few grizzly old men who hunt for their dinner every night.

To convince airlines that there are actually people who lived up there who would spend money was very difficult. I went from an airport with 350,000 enplanements, actually 700,000 passengers to 3.2 million because we were willing to spend money.

When I first got to that airport in 1991, we had a marketing budget of zero. Three years later, we had a marketing budget of $600,000. I had a very, very willing city council and advisory board who was willing to give me that kind of money to do some marketing.

$600,000 for a tiny airport is a lot of money. And you're going to hear from some other airports that will tell you that they just can't spend that kind of money. So I would think that in that, that way, you could be very helpful. It comes down to money.

CHAIRPERSON FAIRCHILD: Thank you. Representative Petrarca.

REPRESENTATIVE PETRARCA: Thank you, Mr. Chairman. Mr. Testa, thanks for coming here to testify. Coming from Western Pennsylvania, I guess my, my concern deals with the Pittsburgh International Airport. I understand there are problems with US Air in Philadelphia.

I think, as you testified, there's probably a little more acute in Pittsburgh.

MR. TESTA: Yes.

REPRESENTATIVE PETRARCA: It sounds like one of the solutions is to, as you've stated, is to increase the competition. And being from Southwestern Pennsylvania, there's, practically everyone I know about that flies for business or pleasure has some story about trips to Cleveland, to fly in and out of Cleveland.

The amount of traffic going in and out of Cleveland from Pittsburgh is, it's outrageous. And, you know, to me, it seems like we should be able to do something a little more involved than try to provide some marketing dollars for, for these airports or these carriers to do studies or to market, what have you, as you stated.

Do you have any thoughts on -- well, or the question is, what, what can be done to open up these airports or an airport such as, such as Pittsburgh Airport, 69 percent controlled by US Airways? Obviously, if that control was at 51 percent, as in Philly, or something lower, those fares would come down.

MR. TESTA: There's several answers to your question. And I don't want to make it more complicated than it really is. Pittsburgh has done, they just landed AirTran, eight flights a day going to Chicago, New York, La Guardia and Atlanta, which is business markets.

By lowering airfares, you'll find matching airfares to those markets. Pittsburgh has a lot of capacity and a lot of gates that can be used. Another underlying thing is Pittsburgh by itself without being a hub is a small market airport-wise.

I mean, its O and D market -- that means its origination and destination based upon the population of the area -- is more akin to Providence, Rhode Island than it is to Philadelphia or Chicago. And most of the traffic, about 80 percent of the traffic in Pittsburgh is pass-through traffic which never get out of it. And it's really a convenience to the airline that's using it as a hub.

But I would say this about the administration in Pittsburgh, who I know very well, they're doing a good job in trying to get other competition into the area. And it really is about competition.

REPRESENTATIVE PETRARCA: And how does that work? How can that happen in Pittsburgh?

MR. TESTA: By showing the marketplace, showing what a premium they pay for airfares and how the low cost carrier come in and actually make money at the airport. And what the low cost carrier also does is stimulate the market. And one of the, one of the carriers can stimulate.

Now, as far as governmental action, you got to understand that the federal government has preempted states in this area. You cannot enact anything that has to do with rates, routes or, rates and routes rather, nothing at all. I mean -- so that limits the ability for a state legislature to act.

But you have the bully pulpit, and there's something to be said about the bully pulpit.

REPRESENTATIVE PETRARCA: Does US Air -- I know some of your articles, you headlined a Philadelphia article talking about how US Air controls some of the traffic that comes through that airport. I mean, can they -- and we hear these stories in Pittsburgh.

I don't know. I don't have a complete understanding of this. But can US Air, for instance, in Pittsburgh control the amount of competition that comes in --

MR. TESTA: No.

REPRESENTATIVE PETRARCA: -- by locking or controlling so many gates? I mean, how does that happen?

MR. TESTA: In both airports -- when Pittsburgh was being built, that was a very expensive proposition; and it was backed by US Airways. I mean, let's face it, they're paying the bill. And bottom line is, for all their fees, they pay off the bonds.

I forget how much it cost at the time, a billion dollars or somewhere in that range. And a result of which, in order to make those bond sales palatable, they got long-term leases from US Airways on a number of gates. So they leased a huge number of gates to US Airways because US Airways promised that it would keep those gates and keep paying the bonds.

Even if they pulled out, they're still responsible. So the --

REPRESENTATIVE PETRARCA: Even if they don't use them?

MR. TESTA: Right. They pay for those gates. Same with Philadelphia. They have some long-term 20-year leases that are not up till 2006. And US Airways, to be honestly fair about it, has underwritten, not with a sign, but has taken so many gates and said I will pay for these gates no matter what. And if you don't make enough money by the end of the year, I will take money out of our corporate pocket and get you back up to where you can afford to pay everything.

So there's a risk on both ends. So to be fair, the airlines underwrite some of that stuff. Now, there are airports like Phoenix which have no leases. It's a day-to-day operation. But Phoenix has a huge population and will soon be bigger than Philadelphia.

In fact, I think the next census, they will take over the 5th spot from Philadelphia in the country. They have a huge population, growing rapidly. And they have no -- they operate on a day-to-day operation basis. And if they want to move you around, they move you around. There's a lot of schemes there.

REPRESENTATIVE PETRARCA: Do you know why the operating margins are so poor for US Air?

MR. TESTA: I would request that you ask that question of the US Air people when they testify.

REPRESENTATIVE PETRARCA: Okay. Thank you.

CHAIRPERSON FAIRCHILD: Representative McGill.

REPRESENTATIVE McGILL: Thank you, Mr. Chairman. Thank you, Mr. Testa. Mr. Testa, is there any incentive for, for Philadelphia to bring in a low cost airline?

MR. TESTA: In Philadelphia's case, they don't have enough gates.

REPRESENTATIVE McGILL: They don't have enough gates. They don't have enough -- they don't have capacity on the runways.

MR. TESTA: No.

REPRESENTATIVE McGILL: And they're landlocked. So --

MR. TESTA: It's very, very difficult.

REPRESENTATIVE McGILL: We've spoken about this before in the other hearing that you were a part of.

MR. TESTA: Yes.

REPRESENTATIVE McGILL: And I see the numbers. And if it's simply supply and demand, wouldn't really the only incentive be that the, that a number of people will jump on I-95 and go down to Baltimore-Washington instead of flying out of Philly International because they can get a better rate on a Southwest which we can't get in?

MR. TESTA: Well, between those people who drive from Philadelphia and suburbs to either Newark or Baltimore, it's about 6 million a year.

REPRESENTATIVE McGILL: So there's 6 million air passengers leaving Philadelphia and going elsewhere?

MR. TESTA: Yes. And you got to understand, too, Philadelphia is over capacity right now 10 times a day even on a beautiful clear day. It's actually over its airfield capacity 10 times a day. It only has 68 gates or 69 gates. And of those, US Air only controls 38 of them.

But the other airlines, United has a bunch of gates, TWA has a bunch of gates, Continental, and Delta. They all have a bunch of gates which control most of them.

AirTran, when it tried to get into Philadelphia, really there was no gates. So they had to piggyback.

And they're being handled by United for a while until the airport, as you see in that article, builds four more gates for AirTran, which was started when I was there. So there are some physical limitations. And even if -- now, they're building, with US Air's help, a brand new international terminal and a brand new commuter terminal to add more gate capacity to the airport.

But even when they bring that capacity, the airfield can't take anymore capacity. It's a delay waiting to happen.

REPRESENTATIVE McGILL: So what's, what's the solution? I mean, you know, do they, do they build into the river, do they --

MR. TESTA: No. There are solutions. They started a master plan that would have given, we could have increased capacity from 500,000 to about 1,200,000 operations a year that would have made it so much easier and would have actually supported flights directly to Asia nonstop. But it won't happen.

In fact, I think that master plan that was started was already junked.

REPRESENTATIVE McGILL: Thank you.

CHAIRPERSON FAIRCHILD: Representative

Laughlin.

REPRESENTATIVE LAUGHLIN: Just, I think, in the last two or three months, Pan Am was coming from Pittsburgh to Harrisburg and back. And the fare for round-trip was $279. But there were flights coming down here with maybe one or two people on there.

So just, I guess, two weeks ago, they just discontinued. I don't know whether people didn't know that, you know, they had a low fare like that or what happened. But I guess they didn't advertise enough. But it just seems like even though their fares were $279 for those two or three months, the US Airways did not come down on their fares.

I guess they probably expected them to close up after a few more months.

MR. TESTA: I will be totally honest with you. I know Pan Am like I know the back of my hand because they're based in New Hampshire, and I know the two owners very well. One is an heir to the Carnegie, Carnegie Mellon fortune; and he likes to play with toys. And he put an airline in to play with.

Pan Am does not sell its tickets through travel agents. So travel agents can't get you a ticket on Pan Am. They do not advertise. They just hope people get on the web and try to find low fares. And Pan Am has aging

727s that it owns. I think it owns three of them and leases two or three others.

They're pulled not only out of Pittsburgh, they're pulled out of mid-America and mid-East. It was running from New Hampshire. They called it Boston to Florida. And they couldn't get enough people on. And they don't run to Orlando. They run to Orlando-Sanford.

And every place that they ran to gave them free landing fees to try to get them to run there. And they're running to Garry, Indiana instead of Chicago. So Pan Am is not a good -- remember, in the beginning slide, I said some of the low fare upstarts have been poorly run.

My opinion, strictly personal opinion, Pan Am was one of them. And Pan Am didn't have the marketing plan, didn't have a strategy. And if I were US Air, all they'd do is ignore them. US Air did not do any predatory practices with Pan Am. They just ignored them.

They went away by themself because they couldn't convince them because they didn't spend any money. So one has to be careful of the level of competition. I think in Pittsburgh now with AirTran, they have several ex-US Airways people running the airline.

They have got a business plan that's really well thought out and good and very low fares with no Saturday night stay required. You can buy a single way with a $25 upgrade to the front of the plane. And you'll find -- I think they're starting off service to -- and I'm not touting any particular service.

But that's competition. That is competition. And that will give you flights to Atlanta, Chicago, New York. And maybe they're going to go Philly to Pittsburgh. I don't know. But I agree.

REPRESENTATIVE LAUGHLIN: I have no idea of what it costs an airline to fly, say, a short period like that, a short distance from Pittsburgh to Harrisburg. I mean, what kind of gas, I mean, how many gallons do they use?

MR. TESTA: Well, it's pounds of fuel. But they use -- it all depends on the aircraft. All of the newer aircraft -- and I can give you an example. Most of the new aircraft, the newer aircraft have about a 30 to 33 percent fuel savings over the older aircraft.

And fuel is a huge hit on the airlines today. They were buying fuel in the 40 cents a gallon range -- because jet fuel is really highly refined kerosene, like number 2 heating oil -- and 50 cent range. And then all of a sudden, fuel started going through the roof.

Those airlines that hedged prices -- meaning they bought future contracts against future prices at low fares -- they are doing okay. The smaller carriers, none of them have the financial ability to spend lots of money buying a futures contract. So they buy on the spot market today.

And they're paying through the nose for fuel at $1.20, $1.30 a gallon. And that's costing them a ton of money, whereas the bigger guys, including Southwest and AirTran, are hedging fuel. How much does it cost to run? I can't tell you because that cost varies so much from airline to airline.

I can tell you that US Air used to run a DC-9 from Manchester to --

CHAIRPERSON FAIRCHILD: Perhaps US Air could answer that one.

MR. TESTA: Yeah, probably. That would be better. You're right.

REPRESENTATIVE LAUGHLIN: Okay. Thank you.

CHAIRPERSON FAIRCHILD: Final question, Representative Pippy.

REPRESENTATIVE PIPPY: Thank you, Mr. Chairman. The question I have goes to the hub comparisons. In particular, you mentioned Pittsburgh International at 8 to $9 cost per enplaned passenger.

MR. TESTA: Yes.

REPRESENTATIVE PIPPY: That seems to be like an old number. They've been talking less than 6 now. Maybe US Air would know this as well. But what does that mean? If Pittsburgh International is at, say, $5.70 or $6 and Chicago's at 13 but they have more -- why do we want to always reduce the cost per enplaned passenger; and how does that benefit the airport?

MR. TESTA: It reflects the airport costs on the airline. So if I have a hub that I have, costs me $2.45 an enplaned passenger, my airport fees for a 100-passenger aircraft are $245, whereas for a $113 cost -- and some of them I think as high as, La Guardia might be as high as 18 today -- $113 is $1,300 for that same plane. A difference between $1,300 and $245 is $850 a plane.

If you run 700 flights -- I'm sorry -- 350 flights in, 350 flights out, it's 350 times $800. Now, you're talking some serious bread every day. So that cost is -- but total cost, airport cost of themselves only run between 3 and 6 or 7 percent of an airline's total costs.

So it's not overwhelmingly high. But they're the highest cost of labor set by fuel and aircraft costs. Today, aircraft costs are huge. A new airplane costs between 50 and -- I don't even know what the 330 costs today. 150 million? -- between 50 and $150 million per aircraft.

But those costs -- I think Pittsburgh started off at 15, but it's managed to get its cost way down. Now, I know Philadelphia is in the $6.40 range. Pittsburgh, last figures I saw for 1999 were $8.61. They've managed to come down quite a bit. And that's through efficiencies.

REPRESENTATIVE PIPPY: Bottom line, though, the competition seems to be the way to reduce fares and you can run an efficient airline, airport. We see that number a lot. And that's why -- it's 3 to 6 percent then you're saying of the total budget?

MR. TESTA: Yes.

REPRESENTATIVE PIPPY: Thank you, Mr. Chairman.

CHAIRPERSON FAIRCHILD: Thank you very much, Mr. Testa.

MR. TESTA: My pleasure.

CHAIRPERSON FAIRCHILD: The next testifier will be Paul Hudson, who is the Executive Director of the Aviation Consumer Action Project. Make yourself at home. While you're getting set, I would just like to recognize Mr. William Shaffer, who is the Director of the Pennsylvania Bureau of Aviation. Bill, thank you very much for attending today.

Paul, thank you for joining us today. And when you're ready, you may begin.

MR. HUDSON: Thank you. Good afternoon. My name is Paul Hudson. I'm the Executive Director of the Aviation Consumer Action Project or ACAP. ACAP was founded as an independent nonprofit organization by Ralph Nader in 1971 to act as a voice and ear for air travelers on major national aviation issues.

We have previously testified on behalf of consumers on airline competition and merger issues before the US Congress, specifically the House Judiciary Committee in '98 and a Senate Subcommittee on Antitrust before Senator Specter last fall.

We will be filing our comments on the United/US Airways merger and related mergers with the Justice Department this week. I'm assuming -- I think properly after hearing most of the last witness -- that other witnesses have testified as to the problem.

And my testimony will then focus on what Pennsylvania State Government can do to bring down high airfares; and secondly, why they're so high; and thirdly, I would like to mention some of the economic problems that the state will face if nothing is done and the airfares remain high.

Affordable and convenient air travel, since air travel is the primary form of long distance travel, is an essential element of the modern economy. Areas that lack this are at an enormous disadvantage, similar to communities in the 19th Century that were bypassed by the railroads or in the second half of the 20th Century that lacked interstate highways.

Businesses will not relocate to areas without good air transportation, and existing businesses have a large incentive to move away from such areas. And affordability and convenience are the two criteria as to why we need to find good air service.

The problem of high airfares, of course, is not unique to Pennsylvania. The six major domestic airlines, which are United, American, Delta, Northwest, Continental, US Airways, and Northwest, have learned since 1995 how to prevent most low cost airlines from competing effectively with them.

They use the lack of fair access rules to key facilities and also the laws that prohibit foreign competition and capital investment to lock or squeeze out low cost competitors. US Airways has been in a dominant position in Pennsylvania, and it has used this to maintain high airfares and to keep low cost airlines out.

Now, this is done by a number of techniques. And I'd just like to mention some of the major ones. They may or may not apply to all of your situations here in Pennsylvania. The first way it's done is through monopoly-like contracts with airport authorities, especially long-term gate leases and what has been called the majority in interest clause.

This is a clause that's put in many airport contracts and even buying ventures. It gives an airline or a group of airlines that is dominant at an airport a veto power over airport expansion. When these methods fail, predatory pricing is often used.

This involves two things: A new entrant comes in, and the existing airline will then flood the market usually with additional flights that bracket the schedule of the international airline. They will also reduce their fares temporarily to the same or less than what the new entrant is charging.

Once the new entrant is driven out, which usually is a matter of weeks, then the fares are brought back up; and the additional flights are eliminated. We have proposed to DOT some antipredatory pricing rules that would reduce, if not eliminate, this practice.

Finally -- and I think this is particularly relevant in Pennsylvania from what I have seen in some of the testimony at other hearings -- the dominant airline will often use the promise of jobs or threats to jobs with airport and government officials to block competition that would otherwise lower airfares.

In essence, the argument is made, Well, if you don't play ball with us, we will pick up our marbles and we will take our operation somewhere else. And therefore, the jobs are eliminated. If you're serious about reducing airfares in Pennsylvania, you have the power in state government to do so.

Some of the things that you can do I have listed here. First is to outlaw monopoly contracts by Pennsylvania airport authorities as in restraint of trade. Airport authorities are usually local government authorities. And the state, in general, charters them and has broad powers over them.

If the federal government will not outlaw such contracts, the state can do so in various ways. By the way, airports are not generally regulated in your contracting methods by the federal government. Some other specifics would be to pass shared gate access rules so that all airlines can share gates when they're not used by the primary leaseholder.

This rule was in effect when railroads were the main source of long distance travel. And it's still on the books in US DOT. What it provides for is that when a gate is not being used by the primary leaseholder, then it can be used by another carrier.

The carrier has to pay fair value for it in terms of rent. But if it can't agree on what the value is, then a condemnation-like procedure is followed and value is set. So therefore, a dominant carrier cannot lock out new ones where there is excess gate capacity, as there is at every airport.

Secondly, by outlawing the majority in interest clause. Now, this probably could not be done for some of the existing contracts; but it could certainly be done for future ones. Thirdly would be to pass -- and this can be done at a state level -- an antiprice gouging rule for intrastate flights.

The rule we had proposed is called the Triple 50 Rule. And it would cap fares at 50 cents per passenger mile plus $50 for all flights over 50 miles. Now, this is roughly 5 to 10 times the break-even point. It's not going to amount, give you a low fare.

But for instance, for a 300-mile trip, the fare would be approximately $200 plus tax. This can be done for intrastate fares. It cannot be done for interstate fares. And it would be grounded on the police power the state has to prevent price gouging, which it doesn't -- most states have price gouging laws in a number of other areas.

Fourthly would be to limit airport leases. Some are now up to 30 years in length. And this not only locks out competition, but it gives the leaseholder often a windfall in terms of a value of the lease going up drastically over the term.

Fifthly, we would encourage you to look at regional jets. These are jets with subsidy -- excuse me -- with a capacity of 20 to 60 passengers. They've only been operating really in the last 5 years, and they make it much more economic to serve small and medium-sized communities. And Pennsylvania has quite a few of them.

They have two big advantages: One, they are faster; and secondly, they have a longer range. So communities with a population of, we believe, in the neighborhood of 50 to perhaps as low as 30,000 can have regular jet service, whereas now they would be restricted to turbo props going to usually a hub airport where people would have to transfer to another airplane and get on a 100- to 200-passenger jet to fly to their destination.

You can have air service between smaller communities. And also, you can have it to larger city airports. And where those city airports are crowded, the regional jets can fly into secondary airports, which the major ones cannot.

Some states are now, in effect, enacting subsidies to encourage this. Many of the companies that are wanting to start up regional jet service do not have the capital, and they can use subsidies to get the proper financing.

The major airlines have, in their labor contracts, limitations on the total fleet that can be regional jets. It's generally been 20 percent. This is strictly a job protection provision because the pilots who fly the larger jets make more money than those who fly the smaller jets. And the concern is that, by the policy, is if regional jets come on too fast, some of the high priced jobs will be lost.

Finally would be to guarantee low cost airlines the facilities they need, particularly in Philadelphia and Pittsburgh, which of course there are many airports in Pennsylvania. If you take these steps, airfares, we believe, will decline. If you don't and things don't happen on their own, then Pennsylvania economy will obviously suffer.

Now, the areas around you used to be high airfares; but they're no longer. In the last three years, Upstate New York, Ohio, New England, Baltimore, Washington, Long Island are all now served by Southwest, Metrojet, and others. So Pennsylvania has become an island of high airfares.

A US DOT study that looked at this rather exhaustively, for instance, found that where Southwest is providing service, whether you're flying on Southwest or not, the fares are about 62 percent of what they would otherwise be.

Another example is Albany, New York to Washington, D.C. I lived for a couple of decades in Albany. Until this past May, the fare was $650 round-trip, a distance of about 300 miles. It's now $140. And that's unrestricted walk-up fare. Obviously, Pittsburgh and places like that are at a big disadvantage when they don't have those kind of fares.

That really concludes my testimony. I'd be glad to answer any questions.

CHAIRPERSON FAIRCHILD: Thank you. I guess the overall in the suggestions -- and I really thank you for laying those out for us -- overall, how do you, how do you attract an investment or ask any company to come and invest in your community if you're not going to give them, let's say, a longer lease period rather than three -- three years seems awful short to me to make the kinds of commitments necessary to --

MR. HUDSON: Well, there can be longer lease terms; but they can have options. They can have, they can have buy-out clauses. There are various ways beyond this. I'm not suggesting that, that you necessarily have a situation where someone can be thrown out after, after,

after three years.

But the situation you have now is with leases going out as long as 30 years, the existing leaseholder can lock everyone else out.

CHAIRPERSON FAIRCHILD: I assume that the longer lease periods are probably in relationship to the, to the financing of the gates and makes a big circle here, I guess. But probably that's -- my perception is that that's, it follows the lease --

MR. HUDSON: There's a general, there's a general interest by airport authorities to relieve local taxpayers of the risk and the burden of floating these bonds that are used to finance airport improvements, whether it's runways or gates or whatever.

And that has skewed many of the contracts giving major carriers far more control than they would otherwise normally have. We can understand that interest. However, if you're looking at the bigger picture, particularly on a state or regional level, you want to have an airport facility that is both affordable and convenient for the consumer.

And that means that many of these contracts, you know, have to be scrutinized. And they are not compatible, in our view, with competitive low cost airfares in some cases.

CHAIRPERSON FAIRCHILD: So to be able to accomplish that, I guess what you're suggesting is that rather than have the airlines basically take that burden away from the taxpayer and the municipality or the city or the authority, that your opinion would be that in the long run, it would be better off running or investing in those bonds themselves and doing a clear bond or financing issue without respect to any long-term lease agreements?

MR. HUDSON: Yes. I mean, there are many ways to skin this cat. Bonds can be insured. They may have higher risk. It may carry a higher interest rate. There's many ways that the state could at least partially underwrite these things as a guarantor or have an authority that does so as it does for many municipalities in other areas.

CHAIRPERSON FAIRCHILD: Has some of the suggested changes been enacted in other states that you're aware of?

MR. HUDSON: No, they have not. And I think a lot of the reason is that as the previous witness indicated, the feeling is the states can do nothing. But our analysis is that that's really not the case. And the other, the other reason, I guess, is that there are fewer and fewer areas that don't have any low cost airfares or, you know, relatively speaking.

Pennsylvania is -- I believe that had there not been a break in the situation in the last year, that New York would have seriously taken up some of these. But there has been a major break now with service at Buffalo and Albany, also Long Island with low cost service. And that seems to be spreading rapidly.

CHAIRPERSON FAIRCHILD: My last question is a quick one. Under the Triple 50 Rule, what happens if -- the 50 cents per passenger mile plus $50 for all flights over 50 miles, what happens if fuel cost goes up or operating cost goes up?

There's a contract that's negotiated with the union. And obviously, someone is going to pay the bill. Is that -- how do you adjust that into the 50 rule; or is that 50 cents per passenger mile, is that adjustable?

MR. HUDSON: I don't think that it's, it needs to be adjustable with any foreseeable fuel price increase.

CHAIRPERSON FAIRCHILD: How do you --

MR. HUDSON: We're talking about now, as I say, giving them a 500 to 100 percent profit margin. If you look at the industry as a whole and reports that are filed with the SEC regarding revenue per passenger mile, from 1996 through '99, the industry domestically had record profits each year.

No airline has, to my knowledge, reported more than 11 or 12 cents per passenger mile. What you're seeing now in areas like Pennsylvania with these high airfares is consumers, in effect, having to pay 80 cents to up to $2 a mile. That's equivalent, in our view, to paying $8 to $20 per gallon of gas.

And airfares, it's not generally understood by the public how high the fares really are. But it's become a cliche' that it's cheaper to fly to Europe than it is between many cities in the northeast. And members of ours who are coming here from other countries, they cannot believe how extraordinarily high the fares are here domestically.

CHAIRPERSON FAIRCHILD: But I don't -- I could be wrong, but I don't know of any other countries that use the Triple 50 Rule.

MR. HUDSON: There is a, a cap on international airfares, a reasonableness cap which is in the treaties with other countries. So an airline cannot --

CHAIRPERSON FAIRCHILD: How much is that per passenger mile?

MR. HUDSON: It's far less than 10 cents for Trans-Atlantic or Trans-Pacific flights.

CHAIRPERSON FAIRCHILD: Okay. Thank you very much. Representative Leh.

REPRESENTATIVE LEH: Yes. Thank you, Mr.

Chairman. Just one question, Mr. Hudson. And that is, you recommend passing shared gate access rules. Are such rules in place at any other airports in the country or the world for that matter; and if so, how do they work?

MR. HUDSON: They're not. And the lack of fair access rules is the main, that with the shelter from foreign competition, in our view, the main reason why we have this crisis in competition in this industry. In every other infrastructure industry, we have fair access rules.

For example, in telephones, it used to be originally that AT&T, even after they technically lost their monopoly, could say to a competing telephone company, these are our wires. These are our switches. You just can't use them. The same thing goes for electric, for gas, other infrastructure industries.

You cannot get competition in any infrastructure industry unless all the players can have reasonable access to the key facilities. And in addition to airport gates, that includes things like where it's called code sharing, which is access to reservation systems, access to the computer reservation systems, access to interline baggage and frequent flyer programs.

Right now, because there are no fair access rules, the smaller carriers cannot effectively compete with the larger ones. The larger carriers make agreements between themselves -- often called alliances -- by which they share these key facilities. But there's no fair access rule.

So there is no way for smaller airlines to break in on a competitive basis in those situations.

REPRESENTATIVE LEH: I'm assuming that with regards to the gates, the airlines have long-term contracts. If such legislation was enacted, how would that affect the contracts? The contracts would have to run out before the legislation actually took --

MR. HUDSON: Yes. But contracts are always coming up. And ultimately, the state has a power of eminent domain.

REPRESENTATIVE LEH: Okay. Thank you very much.

CHAIRPERSON FAIRCHILD: Thank you. Representative McGill.

REPRESENTATIVE McGILL: Thank you. Thank you, Mr. Hudson. I apologize if you were here for the previous presenter. But I'm going to ask basically the same question with respect to the City of Philadelphia. I ask you how, based upon facilities that we currently have at the Philadelphia International Airport, how you would propose to get an economy carrier in there when we have roughly 80 gates, we're landlocked, we have a regional runway that was put in after 10 years or 12 years of work and labor only to have an enormous crane sitting right down at the end of the runway so we can't bring these regional jets in?

We have two runways. The two runways that are there, you have to cross one runway in order to get around. And to come in with kind of a comment that bringing in a regional carrier or bringing in a low cost airline will solve this problem when the airport is already running at just about maximum capacity, I would like to hear how you resolve that because I don't see that it's, I don't see that it's a problem with Philadelphia trying to prohibit people from coming in other than the fact that unless you're going to dig out into the river, there's no place to put them.

MR. HUDSON: Well, I'm not familiar with the crane at the end of the runway problem.

REPRESENTATIVE McGILL: Well, it's there. Believe me. And all you have to do is try to get a regional jet in, and you will hit it.

MR. HUDSON: I assume that's something that, at some level, the government has power to remove.

REPRESENTATIVE McGILL: Well, not at $300 million which it cost to put the thing in there. It's the Kvaerner crane sitting at the Kvaerner Shipyard that happens to be right in line with the end of the runway so that there is concern there. And it was put in after the fact.

But believe it or not, we have to live with that. And just throwing the, throwing the option of bringing in a low cost carrier doesn't resolve that problem one bit.

MR. HUDSON: Well, I can suggest some general things. I can't say that they will all apply to your airport in Philadelphia.

REPRESENTATIVE McGILL: Except you're generalizing with the airports in Pennsylvania. And our major airports are Harrisburg, Pittsburgh, and Philadelphia. Philadelphia being the major of majors. And just to take shots, you know, it's not -- we need to have some answers if that's what you're providing.

MR. HUDSON: Philadelphia is, is not an overly congested airport compared to -- it does not certainly make the top 5 list, and it normally wouldn't be near the top 10. There are airports that have many more serious congestion problems than Philadelphia.

I would suggest that if there was a, for instance, a fair, a fair access, set fair access rules or shared gate rules at Philadelphia, that you would, you would, you would find any number of low cost carriers would be, would be interested in providing service.

In terms of if there is not enough runway capacity, the short-term answer, of course, is to make sure that the runway capacity is used efficiently for as many hours a day as possible. Longer term, you may have to look at beefing up a secondary airport and/or even building a new airport if there is a problem with land.

Our general -- and the congestion problem right now has, of course, become a crisis because it's causing enormous increase in delays. We're now up to the point where one out of three flights are being seriously delayed an hour, whereas three years ago it was one out of five.

We have suggested a 4-point plan to reduce congestion. And I believe that it relates to this problem also. First is to --

CHAIRPERSON FAIRCHILD: Paul, could you summarize and make your link quickly. That's an issue --

MR. HUDSON: I'd be glad to provide specifics, but I can't without taking a lot of time to get into --

REPRESENTATIVE McGILL: Thank you.

CHAIRPERSON FAIRCHILD: I think you have some information that's available on that issue. If you would like or if you could --

MR. HUDSON: Yeah. Our web site I can refer you to has much more detail.

CHAIRPERSON FAIRCHILD: If you would get that to Dana over here.

MR. HUDSON: Yes. It's on the cover of our report.

CHAIRPERSON FAIRCHILD: Okay. Representative Marsico.

REPRESENTATIVE MARSICO: Thank you, Mr. Chairman. Just a few quick questions. One of your recommendations is to encourage regional jets of 20 to 60 passengers between smaller cities, and you say with subsidies. What do you mean by subsidies?

MR. HUDSON: Basically guaranteeing that the provider, that they will have a certain amount of revenue.

REPRESENTATIVE MARSICO: Where would those subsidies come from?

MR. HUDSON: They normally come from government.

REPRESENTATIVE MARSICO: So upstate local and federal --

MR. HUDSON: For instance, New York passed some legislation a couple of years ago providing for, among other things, subsidies.

REPRESENTATIVE MARSICO: Any other states where --

MR. HUDSON: They also could involve partially underwriting bond issues to buy the planes, things of that nature, to lower interest rates.

REPRESENTATIVE MARSICO: So you said New York passed similar to what you --

MR. HUDSON: Yes. They passed a legislation that went beyond infrastructure and would actually provide operating subsidies. It turns out that a lot of this has not been necessary because there's been a big increase in low cost air travel.

But for smaller communities, I think you're going to need, at least initially, subsidies.

REPRESENTATIVE MARSICO: Okay. One more question, Mr. Chairman. You mentioned that Southwest Airlines has raised fares that are 62 percent of the other airlines. Okay. Are you aware of Southwest being, having any gates at all in Pennsylvania; or do they have any gates at all here?

MR. HUDSON: No. What I meant to say was that in markets where Southwest serves the market, the fares, on average, are 62 percent lower, not necessarily on Southwest. And right now in Pennsylvania, if you want Southwest, you have to drive out of state.

REPRESENTATIVE MARSICO: Okay. So you're saying that Southwest is really, is not part of the

Pennsylvania market at all as far as having gates or anything like that?

MR. HUDSON: No. I think it probably has maybe a slight effect on keeping airfares lower in the western part of the state because people are driving to Buffalo and Cleveland.

REPRESENTATIVE MARSICO: What can we do to bring Southwest Airlines into Pennsylvania to, or those lower rates? I guess that's the bottom line.

MR. HUDSON: I can't speak for Southwest.

REPRESENTATIVE MARSICO: What are your suggestions?

MR. HUDSON: They generally, they generally have certain criteria which are readily available as to what they need in order to go into a community. One is certain size population base, which is normally several hundred thousand people at a minimum.

Secondly -- and I -- second only to that is they need to have the ability to get into and out of an airport quickly because the way they make their money in large part involves short turnaround times.

REPRESENTATIVE MARSICO: Okay. Thank you.

CHAIRPERSON FAIRCHILD: Thank you. Representative Pippy.

REPRESENTATIVE PIPPY: Thank you, Mr.

Chairman. In the interest of time, I'll reduce my number of questions. First, you mentioned monopoly contracts by Pennsylvania airport authorities. Which one did that? Do we have any that have established -- one of your key points was outlaw monopoly contracts by Pennsylvania airport authorities. I'd like to know which one of our authorities has done that.

MR. HUDSON: I'm speaking generally of all airports.

REPRESENTATIVE PIPPY: Okay. I just want to establish that. First, we don't have any authorities that have a monopoly contract or that established one?

MR. HUDSON: Well, I don't know whether you do or not. Most airports do. I'll give you some examples.

REPRESENTATIVE PIPPY: But in Pennsylvania, because this is -- here's my point. And I think my colleague brought it up earlier. You're saying -- and I understand this would be great if we were establishing a new airport and we were trying to do it.

But the situation we have right now, we don't have any airport authorities that I'm aware of that have established -- because most of the airports are not under authority. Or the ones that are, it's a brand new authority. So to say that by doing that would immediately reduce fares I don't think is -- I don't want to be harsh -- but I don't think is true.

Second, you talked about limiting airport leases to three years. And then when questioned, you said, Well, let's maybe make it longer. You finished your testimony by saying that we can change a situation now if we do these things.

But is that not true because even if we could, which I would question you based on the contracts that may have been established by previous airports, governments, et cetera, I don't think we can do this. And I don't think any of these proposals are specific to Pennsylvania.

To tell the people who are watching this right now that the state can come in tomorrow and change contracts or outlaw monopolies that don't exist or authorities, contracts that have never existed I think gives the wrong idea.

Now, I understand your concern. But could you give me one of these examples here that may apply to Pennsylvania?

MR. HUDSON: Sure. Most airports have monopoly-like contracts with ground providers.

REPRESENTATIVE PIPPY: But not authorities because for the people watching, they're going to get the impression that our authorities are making monopoly contracts, which is not the case. So they'll come back and say, Why don't you just change that?

And we can't. We can't change -- we got Pittsburgh International Airport in the state it's in now because the airlines and the county government and the people worked together and came up with a plan. The cost of that was a long-term lease. We understand that.

But the state government can't subsidize the airport the way you want to because for all those people who don't fly, they don't want their taxpayer dollars paying to subsidize someone that's flying.

My question -- and I'm going to stop, Mr. Chairman, because I think we can go on for a long time. But if there are ideas that can work in Pennsylvania given our current situation, I'd love to hear them or I'll check them up on your web page.

But I haven't seen one here that we could apply right now that would affect rates in the next five years.

MR. HUDSON: All I can say is that I'm not aware of any major airport that doesn't have some of these contracts.

REPRESENTATIVE PIPPY: Right. I agree they have them. But we can't -- this is a standing contract. Now, you said eminent domain. I won't get into that because I don't think any airline would ever come into

Pennsylvania if we just start to break their contract with eminent domain because of their fare.

We found out that competition is the key. But I want to make clear for the record that I haven't found the solution here in this testimony that will help reduce the fares within the next five years. Maybe long term when we redo the contracts, I agree. But we're not there.

We're trying to figure out a way to handle it now. Now, if you want to know why I'm interested, I was just appointed to the airport authority recently. I haven't gone to my first meeting. But I live one mile away from the Pittsburgh International Airport and have been facing these issues for a long time.

And I appreciate your testimony. But I still want something current. And the people I represent want something current that we can use, not an idea that may apply in 10 or 20 years. Thank you.

CHAIRPERSON FAIRCHILD: Thank you, Representative Pippy. And thank you, Mr. Hudson. I believe in your testimony when you started off, you indicated that a lot of these solutions are long-term solutions and it's pretty hard to implement under an existing authority or control.

And I don't want to put words in your mouth, but I think that's what you said.

MR. HUDSON: No. I believe most of these are short to medium-term solutions. The long-term solutions would be things like building more airports.

CHAIRPERSON FAIRCHILD: Yeah. But you can't have it both ways. You testified that it would be next to impossible to go back and change an existing contract.

MR. HUDSON: What I said was that in some cases, you can change the existing contracts. In some cases, you can't. You would have a longer lead time where there's a body of contracts and they gradually turn over. But I would submit that if you don't do any of these things and if you don't look at what some other states around you and airports around you have done to lower airfares -- and they have dramatically come down in the last year in New York and some other places -- then the State of Pennsylvania will pay a price.

CHAIRPERSON FAIRCHILD: I just -- that brought on another question. I'm sorry for dragging this out. If I -- if my picture is correct, seeing a lot of that competition that's coming not necessarily from the, what we would call the ultra large airports -- and I'm talking about the northeast -- but it's, it really got its start in those medium-sized, which kind of bumps up the competition level; and that transcends up through the biggies. Is that a fair assumption?

MR. HUDSON: Well, Southwest, of course, is the main player in the low cost airfare business. And they have used a strategy in the northeast in the last three years really, which is to bypass the major airports which are heavily congested and to use medium-size airports but ones that are close enough to the large cities that people will go by ground transportation to them.

CHAIRPERSON FAIRCHILD: Thank you very much for being here today. The next testifiers, the next testifiers are Robert Hazel, Vice President of Properties and Facilities, US Airways; and Gary Harig, Vice President of Pricing and Inventory Management, US Airways.

Why don't we all just take about a 60-second break here while they get set up, and then we'll get back to business.

(A brief recess was taken.)

CHAIRPERSON FAIRCHILD: Okay. Mr. Hazel and Mr. Harig, whenever you are ready.

MR. HAZEL: We're ready. And thank you for inviting us. My name is Bob Hazel, Vice President of Properties and Facilities for US Airways. With me is Gary Harig, our Vice President of Pricing and Inventory Management and also my colleague Sharon Taylor, who is Director of Public Affairs and who's in the audience.

Mr. Harig, Mr. Harig has a presentation on pricing. And then I'd be glad to answer any questions about airport issues since we just had a lively discussion on that subject.

MR. HARIG: I've submitted written testimony for the group. What I'd like to do is go through a slide show which touches on some of the major points that are made, which were made in that testimony. And what I'd like to do is start with basically outlining very briefly US Airways' commitment to Pennsylvania because pricing is simply one element of that commitment.

We'll talk about some major factors that influence pricing and then get into some of the specifics that we've been talking about here before and how they impact prices. From the Commonwealth, we serve 16 airports, 6 with jet service, 8 where we're the only airline. We serve 2 hubs, Pittsburgh and Philadelphia, in the case of Philadelphia with 378 daily departures, Pittsburgh with 490.

We provide service to over 100 cities through these hubs throughout the United States, Canada, the Caribbean, and major points in Europe.

CHAIRPERSON FAIRCHILD: Excuse me.

MR. HARIG: Certainly.

CHAIRPERSON FAIRCHILD: Could I ask you a question? I know some of the members are flipping through looking for that chart. Could we get hard copies of the, of this stuff?

MR. HARIG: Oh, certainly. I'll make hard copies for you. Of course. Certainly. In total, we have 990 departures a day, almost 1,000 departures a day. In the year 2000, we enplaned 17.7 million passengers in the, within the Commonwealth. Fifteen million of those were on our mainliner jet service, the remainder 2.7 on the express service.

Continuing on to commitment. We provide employment to over 17,000 people, annual salaries 1.4 billion, approximately 2.1 billion in total annual expenditures, total tax payments of about 57 million. And one point I think we're very proud of, we've been serving the Commonwealth since 1949. Our roots go back to all American Airways.

So with that, let me turn now to some of the, what I call macro elements that influence pricing. And these will be -- you'll see these will track throughout the conversation as we go on today. And there's really three: Market density, cost of providing service, and the competitive marketplace.

And certainly, they're not mutually exclusive. They're interrelated, and they're dependent upon one another. For example, the market density, which refers to the volume of passengers, that allows you to fly more flights, provides you a larger passenger base, and lets you spread the cost over a larger passenger base, thus taking some of the pressure off of fares.

We're talking about intraPennsylvania service here. And one of the things I thought that would be interesting is we can look at the traffic volumes within the state. And we've expressed these in terms of average passengers per day each way.

This is just on an origin and destination basis. It does not include any of the traffic which would be flowing beyond any of these cities or beyond our hubs. We've highlighted those markets which have a passengers per day each way greater than 25.

And as you can see, there are a handful of them. But for the most part, many of the intraPennsylvania markets are characterized by fairly low traffic density. I mentioned before about costs and about spreading costs. If you look at airlines' costs -- and this is more than just US Airways. This includes some other airlines as well -- approximately 60 percent of our costs really don't vary with mileage.

And if you think about it, if you have a gate agent that's working a flight that is going 200 miles or a gate agent that's working a flight that's going 600 miles, it really doesn't matter. That gate agent's salary is going to be fixed for that one flight.

What does matter is the number of passengers, the density that's coming through to spread that cost across. But we're -- about 60 percent of the costs are the ones that do not vary with mileage.

This one is a little bit more complicated. It's not clear-cut at all. When we are going through and monitoring competitive actions, we look not only in the local marketplace that's directly affected; but we also recognize there is mobility between airports.

And what we've tried to do here is depict some of the circles of influence just to give you some idea. When we look at Harrisburg pricing, we do look at the, the effect of the fares out of Baltimore as well as the Readings and the Lancasters.

When we're looking at Pittsburgh, we do look at what's going on in Cleveland. And the one point I would like to make here, though, is that as we look at some of these, these markets, there are factors other than fares that affect people driving from one city to another to catch a service.

For example, in the case of Harrisburg to Orlando versus Baltimore to Orlando, if you looked at the fares, the fare levels are the same. But in the case of

Baltimore, you have 11 nonstop flights, 7 by US Airways, 4 by Southwest. In the case of Harrisburg, we provide, US Airways provides service, nonstop service only on the weekend.

So you do see a reasonable number of people driving to Baltimore even though the fares are exactly the same. And they're driving because of the service considerations. This goes back to the traffic density I gave you. You can provide more flights. Thus, you can provide more service; and passengers are going to take advantage of it.

Representative Petrarca was talking about the markets of Pittsburgh and Cleveland and how many of the people are driving from Pittsburgh to Cleveland. We're very aware of that. We see clippings coming in from the Pittsburgh papers all the time talking about this great exodus of passengers.

We measure the diversion, as we call it, between cities by monitoring the computer reservation systems made in Pittsburgh for passengers going out of Cleveland. And we can do the same thing for passengers, or agencies in Cleveland with passengers going out of Pittsburgh.

We've measured this a number of times over the past five or six years. And each time, Pittsburgh ends up in the favorable position. There really is very little diversion. In one case, it's about 6 1/2 percent of the passengers going from Cleveland to use Pittsburgh and about 5 1/2 percent going from Pittsburgh to use Cleveland.

So the diversion numbers are low. But in each case, Pittsburgh has come out in a more favorable position. And probably one of the reasons it's come out is I've just alluded to the service considerations. You saw before that the Pittsburgh hub receives almost 500 departures a day. It's a bigger hub than Cleveland. But we do track through these things, and we watch. And it's certainly not an exact science. And we try to monitor the activities and maximize the revenue contribution.

Turning from these macro elements, I'm sure one of the questions that was, or one of the questions that was brought up before and one of the things we'd like to address is this whole issue of Southwest and why they can charge fares that they do versus why the network carriers like US Airways charge the fares that they do.

And in going through this, certainly the concept of market density comes into play very strongly. If you looked at Southwest and you looked at US Airways on a system basis, we both enplane roughly the same number of passengers. If you look at US Airways and you include our express operations, we're about 66 1/2 million last year.

Southwest would be 63.7.

If you took our express operations out, you take about 8 million out. So we'd be somewhere in the high 50's. So we're roughly the same enplanement levels that your networks are. But now as you start to look at the number of airports that are served to generate those enplanement levels, as you can see, Southwest serves only 59 airports.

US Airways, on the other hand, serves 172. If we start to break down the composition of those and start to look again at the concept of density coming through, you look at those communities that are served with a population of over 500,000. Over 80 percent of the Southwest airports fall under that category. Only 42 percent of US Airways' system meets that criteria.

Going down one step further, Southwest has 17 percent of their cities, or their airports in the 500,000 to 200,000 range. And they have none, they have none under 200,000. Thirty-one percent of US Airways' airports on the system basis have populations of under 200,000.

And if we profile Pennsylvania, it becomes even more dramatic. Six of the 16 fall into the under 200,000 category. And if you look at the under 500,000 category, you're looking at almost 70 percent of the city pairs in Pennsylvania under 500,000.

So I think this goes part of the way in explaining why Southwest, it's one of the factors in explaining why Southwest can charge the fares that it does. And if I move on and I look at costs, this becomes an even more powerful chart.

Southwest, very efficient airline. They have a single fleet type. They have simplified work rules. And the net effect of all these things is they can produce a seat mile at about 7.7 cents. US Airways, on the other hand, on a domestic system is 14.7 cents.

And one of the things is I have not adjusted these for stage length. The example for Southwest, the 7.7 cents is at 485 miles. The US Airways' stage length is 588. They are going to adjust that so they both be comparable. US Airways' cost would be even higher.

So you'd be looking at a cost that would probably be in the 16 to 17 cent range to be a direct comparison to Southwest. So our costs are more than double theirs. But in going through and looking at the profile and the service patterns of Southwest, as I noted, one of the things they do is they do rely on the height density in the communities that they serve.

They also relied on another factor. They rely on drive from neighboring communities. I think if you're going to draw an analogy, you can probably use the Wal-Mart effect where Wal-Mart comes into an area; and because of their incredible purchasing economies, they're able to set up a store and charge prices that are much lower than the local retailers.

And people will drive from distances around to be able to take advantage of the prices that Wal-Mart charges. The local retailers don't have the economies and can't match the prices. So they face the same dilemma in many, in many ways that US Airways faces in competing with Southwest.

And I think as you go through and you look at the Southwest formula when they come in, a very successful formula, if you were the city that they select to serve, it's a very nice day for you. If you're one of the neighboring communities that doesn't get selected, then you're going to see traffic that originally boarded at your airport driving to the Southwest airport to use their services. So not everyone wins in the equation. There are some losers here.

Let me move on now to another issue that came up. And that concerns the fares at Pittsburgh and Philadelphia versus comparable hubs. When I say comparable hubs, those are going to compare Pittsburgh to Cincinnati and Cleveland. And when you start to do fare comparisons, it can get very complicated.

So what I've done here is I've selected only the business fares. And we've looked at those cities within the top 25 population count of the United States. And since we're comparing ourselves, US Airways, to Delta in the case of Cincinnati, Continental in the case of Cleveland, we've removed those city pairs that are impacted by low fare competition.

So we're saying in these cities where US Airways competes against Continental or Delta, the other two full service network carriers, how do the fares in Pittsburgh on a rate per mile basis stack up with Delta and Continental? And the fares stack up fairly successfully.

As you can see, Pittsburgh is slightly lower than Cleveland and a little bit lower than Cincinnati. And to reinforce this, I think the Pittsburgh Airport asked the same question or they had the same concerns. And they brought in an independent consultant, Boyd Group from Evergreen, Colorado.

And I think if you look through the Boyd Group Study, you'll find that they drew exactly the same conclusions. That was Pittsburgh. Let me move to, to Philadelphia where we're comparing Philadelphia and Newark. Using the same criteria that I did before, you can see that they're virtually identical.

So for the Commonwealth's two major hubs or the two hubs, Pittsburgh and Philadelphia, when you look at comparable-sized hubs, the fares of network carriers are roughly the same. Okay. Let me move on now to the next area, which I'm sure is of concern.

And that involves some of the DOT studies which show a relatively high average fare per mile for Pittsburgh. And as we go through and look at this and analyze what's in back of these numbers, there's really two factors that are driving this analysis.

One is the mix, the mix between business and leisure fares. And the second is the cities that are included in the sample that the DOT constructs. And when you look at mix, I know it's probably a blinding close-up of the obvious; but business fares are higher than leisure fares.

The business passenger requires flexibility. He wants to have refundability so he can change his itineraries, and he also requires last-minute seat availability. So we have to basically save seats for him. There's a risk associated with that. His seat may go unused, and there's a loss of revenue.

So on a broad basis, the, certainly the business fares do tend to be higher than leisure fares. So if I can just go through and perhaps illustrate the impact of mix on these. We have two destinations, two destinations, A and B.

The leisure fares are almost the same. Business fares, B is higher than A. So one would reasonably expect that when you look at the average fare or the DOT fare that comes up, that B would probably be higher. Not really the case.

In one case, A is Pittsburgh-Minneapolis. And you can see the yellow portion at the top is the percentage of business traffic using that fare versus the much smaller amount in the market like Orlando. And when you rate the two out, the Orlando market comes out of an average fare of $129 versus the $153 for Pittsburgh-Minneapolis. So mix is a very important part of the equation.

The other one is the market selection that I referred to that's included. In constructing the charts, the Department of Transportation goes through the top 1,000 domestic markets. Of those 1,000 top domestic markets, 26 of those involve Pittsburgh.

When you look at the 26 and categorize them between business and leisure and perhaps mix, which would be a component of both, it's heavily weighted towards the business side. Of 14 or over half of them in business, probably 5 in mix and 7 leisure.

So when you factor these two things together, the mix of business/leisure and the preponderance of business markets versus leisure markets, Pittsburgh ranks fairly high. And I think that makes a lot of sense when you think about Pittsburgh being a major headquarter city for Fortune 1,000 companies.

At one time, I think it was actually third. I think it's a little bit lower now. But it certainly is a major commerce center. And as we go through this, I think one of the things that happens is it's, you get caught up in low fares. And it's easy to get mesmerized with the velour fares.

But there are certain, a lot of benefits that accrue to communities as a result of a network, network operation or network carrier like US Airways. And one of the things that you get or residents in the Commonwealth get is that in places like Williamsport, if you want to go to Los Angeles, you have services of two hubs.

You have eight options throughout the day from 6:00 in the morning to 6:00 at night to be able to make connections going from Williamsport to Los Angeles. And one other one, Wilkes-Barre/Scranton to Orlando. If I wanted to look at this, nine connections afforded by the two hubs.

So all in all, while, you know, I'm sure some of the fares are certainly not at the levels that you would like to see or that we would like to charge, there are benefits that accrue in the state to the Commonwealth as a result of the service of a network carrier. Thank you.

MR. HAZEL: I'd just like to add a few words on the subject of airport access because in our view, airport access is not a cause of or related to any fare disparity issues that this Committee may look at. And let me just discuss that subject briefly.

Starting first with Pittsburgh International and putting aside the question of why there are long-term leases there and why they were in fact needed to sell the bonds. The simple fact is that there are at least 10 available empty gates in Pittsburgh. And that's according to the airport director's own statement.

So to spend time on the subject of whether new entrants can get access to Pittsburgh is, makes no sense. There are 10 gates ready and available today. We serve 16 airports in the Commonwealth of Pennsylvania. And let's talk about Philadelphia last because it's the most complicated.

But I think if you asked the airport directors of any of the remaining 14 whether there are any difficulties in an airline gaining access to a gate at those airports, the answers will be uniformly no. The gates are available. And I would submit to you that no airline that has ever sought to serve any airport in this

Commonwealth of Pennsylvania has ever been denied access.

But let's now turn to Philadelphia, which is the most complicated situation. The fact is that Philadelphia is a congested airport. It has -- its airfield is limited, and its gates are limited. The airport is adding new gates; therefore, new gates to be opened at the end of this year.

Those will all be under airport control. There are 38 commuter gates that are opening in June. Those will all be under airport control. We hope to use most of the commuter gates, but they're all under airport control.

There's a new international terminal opening next year with 12 wide-body gates, again all under airport control. But then let's add to that. We're all sort of paying the price in Philadelphia equally. We're adding new international flights, but there's no room for our flights to get access to a gate.

So what do we do? Our flights harp on the hardstand, and our passengers take a vehicle in the form of a bus to the terminal. So to suggest that we are not suffering as much as anyone else is simply not the case. AirTran, AirTran will testify tomorrow. AirTran may say it was difficult to get into Philadelphia.

The fact of the matter is AirTran is at

Philadelphia. AirTran has expanded service since starting in Philadelphia. And no new entrant, to our knowledge, has been denied access. But it is a congested airport, and it is a tough situation.

And frankly, if there were more gates, our schedule would be different as well. But, you know, we're dealing with a resource that's being shared and I think being shared fairly. So that's, those are my comments on airport access.

CHAIRPERSON FAIRCHILD: Thank you. I'm sure Representative McGill will have a couple of questions on Philadelphia Airport as he usually does. On the -- isn't the issue with the gates, as I understand it, that yes, some gates may be available; but it's like, it's like somebody having a business at a good position along a roadway; that there are better gates, and then there are fair gates, and then there are poor gates as far as attracting consumers?

MR. HAZEL: Well, I think in Pittsburgh, first of all, they're all good gates. The airport was opened in 1992. At one time, there was one rental rate. You could be a little further from the core or a little bit closer. But the fact of the matter is, the gates available are pretty close to the air side core.

So in Pittsburgh, you certainly could not draw the conclusion.

CHAIRPERSON FAIRCHILD: So Southwest Airlines could come into Pittsburgh --

MR. HAZEL: Absolutely.

CHAIRPERSON FAIRCHILD: -- and say I understand you have 15 gates available and we would like to negotiate with you for all those?

MR. HAZEL: Absolutely. And I can assure you that the Pittsburgh Airport director has invited Southwest to do just that.

CHAIRPERSON FAIRCHILD: Like everyone.

MR. HAZEL: And AirTran started service to Pittsburgh. And one other thing I'd point out is if you notice the first three markets they selected, New York, Chicago, and Atlanta, what sort of markets are they picking? Well, they're exactly the markets that my colleague suggested they would pick, the biggest markets.

And that's another thing we need to be conscious of when we're talking about fares. There really is a difference in the fares that are charged in high density markets versus very small markets.

CHAIRPERSON FAIRCHILD: On the testimony concerning the, what I call the commuter airlines, the connector airlines from the, some of the smaller airports in Pennsylvania, are they all US Airway owned; or are they subcontracted?

MR. HARIG: No. They're not all alone. We own three. And the others that operate are independent. They're subcontractors per se. And what that means, what you might be getting at in terms of pricing, setting rates in the local market, if we own that carrier, we will set the prices.

If they're independent and just operating under the US Airways' banner for that market, then they set the local rate there.

CHAIRPERSON FAIRCHILD: I've been -- one airport director mentioned a problem with a subcontracted carrier who said that basically their hands were tied because when they got from point A, meaning that smaller airport, to the hub airport, they still had fixed costs that they felt were pretty high compared to the industry standards which put them at a competitive disadvantage.

They had no choice in the matter. If you want the contract, there it is. You pay our price when you get there using our baggage service, our ramp service, fuel service, et cetera.

MR. HARIG: I really wouldn't know how to comment on what industry standard is on things like that. I, I just couldn't comment on that.

CHAIRPERSON FAIRCHILD: But you -- I mean, just so I understand that relationship, you would be contracting to them for the right to use your facilities and operate under your banner. Is that how it works?

MR. HARIG: They would pay a fee to use our facilities and the US Airways name, yes.

CHAIRPERSON FAIRCHILD: All right. There's been a -- from the traveling public, there's been a lot of questions on people that call the airport and say, Gee whiz, I saw in the paper or I saw on the Internet or whatever that these fantastic rates were advertised.

Then they call their travel agent. And all of a sudden, no, there's no seats available. And they say, yeah, the rates, that's good. But there were only X amount of allocated seats for that flight under, that pertained to this rate.

Is that person, are these people leading us astray? Or how many flights -- when you advertise for low rates, how many seats are allocated for that? And how does the flying public know that they're not getting scammed somehow in this deal? And obviously, I'm not picking on US Air. But it's industry-wide.

MR. HARIG: There really isn't a fixed number that are set. But what we do do before we offer and advertise any city pair, any fare and any city pair, we go through the exercise to make sure that there is adequate availability because if we don't, we have the DOT watching. And the Department of Transportation Bureau of Enforcement does get involved in these issues.

So we're very careful that before we offer that, that the, that there's adequate seats available. Now, it could be that what's happening is that if they're coming in at the end of the sale, maybe the flight, a particular flight they want may not be available, when in fact everything is sold out. So it might be a question of timing when they come in.

MR. HAZEL: One of the areas that the federal government does get involved in obviously is deceptive practices and fair treatment of consumers, and they look at this area. And I just want to go back to a statement that another testifier made, which was that there are no guarantees of access to airports.

That is also in the federal legislation, the Aviation Act. It requires federal government to assure that there's nondiscriminatory treatment of carriers and that there are fair and reasonable access to them. And I think -- so there's a variety of regulatory work in this area.

CHAIRPERSON FAIRCHILD: What I'm trying to understand is just -- I think I've got it. But if you have a, an airplane with 180 seats -- I'll pull 180 out of the air -- and a low fare is advertised, does that now, does that apply for the whole economy class, business class?

I mean, obviously, it wouldn't apply to the business and first class, I guess. But where does it -- how many seats out of the 180 would it apply to?

MR. HARIG: Well, I can't give you a hard and fast answer to that because it depends upon the other demand we expect on the flight. It will be a reasonable number. It probably won't be the whole back compartment, or that's an exceptionally weak flight.

So it would be a reasonable portion of that compartment would have seats available. We'd also look at it on a --

CHAIRPERSON FAIRCHILD: When you say the back portion, you're talking about the economy?

MR. HARIG: Coach. Right.

CHAIRPERSON FAIRCHILD: Well, how does -- I mean, it seems to me like, wait a minute. You have out of that back section -- let's use 90. Let's cut the plane in half. It seems to me that out of that 90, let's say 50 percent of those took care, or took advantage of that low rate. What about the other 50 percent?

Did they not know about the rate, or was it just arbitrarily set that we're only going to allow 50 percent of this flight to take advantage of the low rate?

So the other 50 percent you say the hell with you.

MR. HARIG: I don't know if we'd say the hell with you. I think the way we normally do these things --

CHAIRPERSON FAIRCHILD: It sounds like it.

MR. HARIG: Not quite. The way we do these things is we would start with the demand for the higher revenue business passengers and allocate down from that. So that when you get down to the sale, you'd be looking at seats that we expect that would go, would normally go empty as a result of this.

Those would be the ones that would be available for sale. So that if you had a flight going from Pittsburgh to Los Angeles at 8 o'clock in the morning, there may be fewer seats there than there are on the flight that's at 8 o'clock at night because the inherent demand for the morning flight is going to be stronger.

So there may be 20 flights in the morning, 20 seats in the morning flight, 50 seats on the evening flight. So it varies by time of day, by market, and everything else. But the check is made. Before we do the advertising, before we advertise that sale fare in any market, there has to be a reasonable number of seats available for consumers to get.

CHAIRPERSON FAIRCHILD: When you're advertising them, why don't you list the times if that's the case? I mean, I call my travel agent and I say get me a ticket, lowest fare. I don't care what time I fly. And she comes back and says, There isn't any low fare. They're all taken.

I see in my newspaper, it says fly to San Francisco for $150. But it doesn't say when I have to fly to San Francisco. It doesn't tell me the percentage of availability that I might expect as a consumer reading that paper.

MR. HARIG: But it would be difficult for us to advertise availability because that's going to change every day that the sale goes on. So if we put a number in there before the sale started that 20 percent of the seats are available at that fare level, the second day half of those might be gone.

So the advertising, if you picked up the paper the second day, would immediately be misleading. So it's difficult to do. We just have to make sure at the beginning of the process that there are seats available in these markets.

CHAIRPERSON FAIRCHILD: Well, it seems to me if you want to fill flights, if that's your, if that's your intention, you already know, you already know what seats are vacant and what flights need assistance. And it seems to me if you're going to do that, in order to fill those flights, it would be very easy to tell the flying public, Hey, if you want to fly, we offer these rates at this time and this is the reason we're doing it. I'm not going to belabor the point.

MR. HAZEL: It's actually not all that simple because we don't know in terms of business demand, which we want to put the full fare business travelers' needs first. Those needs keep changing day by day. And so the whole thing is really, really does change every day.

If the business demand turns out to be unexpectedly high or unexpectedly low, we would then change the other categories.

MR. HARIG: The other thing --

CHAIRPERSON FAIRCHILD: Wait a minute. Could I -- let me just do a follow-up.

MR. HARIG: Sure. I'm sorry.

CHAIRPERSON FAIRCHILD: What do you mean they're changed every day? So every day -- if I'm a consumer looking for the best rate, my best deal is to call the, your airline every day because it's going to change every day?

MR. HAZEL: The rate won't necessarily change every day. But the number of seats available may shrink or grow, depending on what the demand is in the other category. If we're advertising a flight that's going to leave Saturday and we're advertising it two weeks in advance, okay, our goal is to, is to leave enough seats for that last-minute business traveler.

Well, what happens if there are more business travelers who sign up before the flight leaves? There has to be an adjustment in the other categories. It really is, it really is a situation that changes.

MR. HARIG: But if I might --

CHAIRPERSON FAIRCHILD: Well, go ahead.

MR. HARIG: To address your point, one of the things that our reservation agents have, tools that they have is to be able to go through and do fare searches; that if you're looking for the $150 fare, they should be able to very quickly be able to go in and tell you which flights that fare is available on when they go through the search.

When you call up US Airways reservations, I'm looking for a $150 fare --

CHAIRPERSON FAIRCHILD: What if I just called and said -- because, you know, I don't fly that often. I don't know what a -- I say I'm looking for the lowest fare and I want to leave in two weeks. Can I do that? And is it their responsibility to point out the lowest fare?

MR. HARIG: If you give them that itinerary, it's their responsibility to go through and find out the lowest fare that would be available.

CHAIRPERSON FAIRCHILD: And that kind of --

MR. HARIG: When you say give me the lowest fare for this, you're specifying that, right, I want the lowest fare on this itinerary?

CHAIRPERSON FAIRCHILD: I want the lowest fare, and I don't want to go to six cities to go from here to Cleveland.

MR. HAZEL: We are required to give you the lowest fare, absolutely.

CHAIRPERSON FAIRCHILD: And for the flying public, what's the best way to find out? I mean, is it to call the -- do you recommend calling the airlines directly or your travel agent? How am I, how am I kept abreast of these fares?

Sometimes I think some travel agents just do a wonderful job. And others, I'm not sure they're quite up to what's really going on. And then I've heard rumors that others are connected through different promotions with different, be it cruise ships, airlines, et cetera, that sometimes they're more than likely to guide you one way or the other. Any thoughts or suggestions?

MR. HARIG: Well, you should be able to go to either, you know, a well-trained travel agent or US Airways reservations. You can also look through some of the electronic media, something like Travelosity or Expedia.

And if you were looking for the very, very best ways, you would probably subscribe to what we call our E-savers, which are, you know, the last-minute fares. You go out on a Saturday, come back on a Sunday, Monday, or Tuesday.

So there are Internet specials that run from time to time, too. So there's a number of avenues in going between either reservations, a good travel agent, Internet.

CHAIRPERSON FAIRCHILD: We can really go into that Internet. I understand there's some problems there that -- well, some of the problems, if I remember correctly, is that you can get the best price; but they didn't tell you that it takes three stops to get there and change planes and that type of thing. Let's let that one go in the interest of time.

On the issue of the merger, from a purely consumer perspective, will the cost of flying, in your opinion, whether it be intrastate or interstate, go up or down for the flying Pennsylvania public if the merger takes place?

MR. HARIG: That's pretty difficult to answer. I think the way I can answer that best is that what the merger would do would ensure service throughout the Commonwealth because the commitment has been made that United will retain all the service to all the communities or continue serving all the communities.

As far as commenting on the future, that would be very difficult for me to do.

MR. HAZEL: There is, as you know, a guarantee by United that fares will not increase for a two-year period of the CPI. So there is that commitment going in. And there's also a commitment to retain service in all existing markets.

As Gary said, there's another issue, which is that with United's acquisition of US Airways, there's a long-term viable carrier in these markets. And while I would think the same factors would affect fares as affect fares today, you have the confidence that there's a, you know, a world-class large mega carrier now serving these markets.

CHAIRPERSON FAIRCHILD: When you say the guarantee that the rates will not increase within two years, is that based on the advertised fares at what particular point in time? And can the consumer get a copy of that, or can this committee get a copy of that?

MR. HAZEL: That's based on what United calls structured fares, which Gary can explain to you. And as of a certain date -- I believe it's as of the date that the merger closes -- and that those fares are all publicly available. And there would be I don't know how many thousands of them; but there are many, many thousands of them.

But that is certainly something that can be verified and tracked. It's not --

CHAIRPERSON FAIRCHILD: Quickly, what is the structured fare as compared to an actual fare that I --

MR. HARIG: The structured fare would be your basic 7-, 14-, or 21-day excursion fares as an example, a Saturday night stay. Now, in addition to those, which are guaranteed not to rise, you still can have sales coming in below that. So there is that element.

It's just that those fares are locked in and you're not going to go above those. And the same way as to the business fares, the Y fare and the B fare. Those are structured fares, and they're locked in.

CHAIRPERSON FAIRCHILD: So a structured fare is a fare that normally I would pay given a 7-, 14-, or 21-day --

MR. HARIG: Those are the fares that are there all the time. They don't go in and out like sale fares do. So those are the ones that are in the market all the time.

CHAIRPERSON FAIRCHILD: Okay. Let me ask it this way: What percent of flying customers pay the structured fare?

MR. HARIG: I don't know. I'd have to get back to you. It would just be speculating. Probably 35 to

40 percent. Somewhere in that range, I believe.

MR. HAZEL: As a percentage of revenue?

MR. HARIG: As a percentage of revenue, it would probably be higher. It would probably be in the 50 percent range.

CHAIRPERSON FAIRCHILD: No. I was just looking at the percentage of flyers, not percentage of revenue.

MR. HARIG: Right. That's an estimate.

CHAIRPERSON FAIRCHILD: And what was the final answer?

MR. HARIG: I think in terms of passengers, about 35 percent, somewhere in that area. In terms of revenue, then it would be more.

CHAIRPERSON FAIRCHILD: Thank you. Representative Levdansky.

REPRESENTATIVE LEVDANSKY: Thank you. Thank you, Mr. Chairman. I just want to make sure. Just kind of a long-term historical view of the industry. Airline deregulation happened in 1978, I believe. Before that, how many major air carriers did we have in the United States?

MR. HARIG: About eight or ten probably.

REPRESENTATIVE LEVDANSKY: About eight or ten? And today --

MR. HARIG: And today?

REPRESENTATIVE LEVDANSKY: And today, we have what, United, American, Delta, Northwest, Continental, US Air, Southwest, TWA? So we have eight now. So --

MR. HARIG: America West in Alaska.

REPRESENTATIVE LEVDANSKY: Pardon me?

MR. HARIG: America West in Alaska.

REPRESENTATIVE LEVDANSKY: Okay. So we have nine or ten major airlines today. We had nine or ten major airlines before we passed deregulation, which was designed to spur competition in the industry. And I think most people would say that for at least a period of a decade, it certainly did that.

I mean, there was a growth in airlines, passenger miles, everything. But I'm just wondering now, I mean, if these two mergers go through, we're going to end up with six major airlines in this country, six. Now, it just seems to me -- I'm not an expert on this. You all are -- we're going from a period of maybe, you know, pre-'78 where we had, you know, about ten major airlines.

And after these two mergers, we're going to have six major airlines with fewer airlines servicing basically the same country. I mean, if one's really pro competition, it doesn't really seem like there's a whole lot of competition. Or is the result of all this deregulation simply to reconsolidate the industry? Is that what's happened?

MR. HARIG: Well, I think it's a number of things. I think when you, when you look at the industry, we are a young industry. As you pointed out, since deregulation, we're about 20 years old. And as most industries do, you go through a period of consolidation.

And I don't think the airlines are any different than that. And whether it's this year or five years from now, I think that's going to happen one way or another. We think that one of the benefits of having it happen now is the orderliness of the process; that you have United taking over US Airways in a very strong position, kind of like letting things deteriorate till you get to a point that perhaps you have another TWA situation where they're at a precarious point.

US Airways finds itself in a somewhat unique position. You know, we're certainly not the low fare carriers that you saw; and we're not the major global airline. We're basically, like, the last. There have been six midsize carriers.

And we're about the last of the six that hasn't either disappeared -- Braniff, Pan Am, and Eastern have gone through bankruptcy multiple times, Continental and TWA. So we're the last ones in that grouping. And when you say mergers, mergers, I think it's pretty obvious that they are going to happen.

And this is probably the orderly process. But I think that what you have to look at as well when you talk about reducing the number of carriers, that communities may actually have more service by more carriers than they do today. For example, if you had Burlington, Vermont with one carrier serving it, you may have two or three.

Instead of in addition to United, you may have American and somebody else coming in. So you're building stronger network carriers. So communities may actually have more service than they do today.

MR. HAZEL: I don't know if you're viewers of the auto industry. But clearly, there are far fewer auto companies today than there used to be. And I would tell you that auto executives believe they're a fiercely competitive industry.

We mentioned maybe eight major carriers. We all know there are not eight major carriers serving any one route anywhere. You know, you need two competitors going head to head to have real competition. And that's what we believe.

We still -- and in our markets, we see more competition all the time. We see, we see Southwest coming into the East Coast. We see Delta Express. We see AirTran coming back very strong. We see JetBlue. So if you look at the eastern part of the United States, we see increased competition all the time.

And that in fact is one reason why we are, as the last of the midsize carriers, under pressure. It's exactly for that reason.

REPRESENTATIVE LEVDANSKY: I'm just always, you know -- we policymakers, you know, engage in these discussions a lot about competition and whatnot. And we passed the laws to deregulate. But in the end, the consumer practically never -- I mean, long term -- I know there's some short-term benefits to consumers. But long term, consumer prices, you know, go back up.

I mean, look at it in telecommunications. Look at it in trucking, you know. Look at it in almost any industry. I mean, there's a lot of -- we talk of all the benefits of competition. But I just think long term, I don't know the cost to consumers are any less.

I appreciate what you said about the comparison with the auto industry. But I would submit to you that the auto industry acted like a monopoly for a lot of decades until the Japanese figured out how to send cars into our market. Then they had real competition.

The same thing with the steel industry. We have fewer steel companies today in our nation, but they're more subject and prone to competition from steel produced in other countries.

And, you know, I remember when deregulation started. I worked for the airline pilots. And US Air was one of the young upstart airlines. So was Continental and a couple of others. And you're right. You know, the Braniffs and the Easterns have gone, have gone away. But I just wanted -- we just don't change one company, you know, for another.

And I hear what you're saying in terms of it provides service. And certainly, that would be a benefit. That generally tends to be a benefit of having very strong large corporations. You do tend to get better service. But I just think that sometimes comes at the price of maybe lower, you know, more competition over pricing.

But that's just my general observation. But, you know, I'm not sure. I'm from the Pittsburgh area. I don't know whether this is going to work out, you know, to the benefit of the consumer. But certainly, you know, we're all looking to help US Air in Southwestern Pennsylvania because you do, you make substantial commitment and investment to that airport.

And that's not something we're going to walk away from or forget either.

MR. HARIG: Thank you.

REPRESENTATIVE LEVDANSKY: Thank you.

CHAIRPERSON FAIRCHILD: Representative Petrarca.

REPRESENTATIVE PETRARCA: Thank you, Chairman. A few quick questions. And I'm sorry I missed part of your testimony when I was out in the hall. You apparently mentioned Cleveland and said there's not a problem. Or what exactly was that?

MR. HARIG: No. I said we measure the amount of traffic that's going from Pittsburgh to Cleveland and from Cleveland to Pittsburgh, and we've measured it over a number of period of times. And each time, we find that Pittsburgh has a slight premium, that there is more people coming from Cleveland to Pittsburgh than there are from, going from Pittsburgh to Cleveland.

REPRESENTATIVE PETRARCA: And do you know how -- how do you, how do you measure that in terms of from Pittsburgh, the Pittsburgh area, Southwestern Pennsylvania --

MR. HARIG: We'll take the agencies that use the computer reservation systems in Pittsburgh, and we'll do the same for Cleveland. So we look at the agencies in Pittsburgh that are driving tickets for people going out of Cleveland. And then we'll do the same.

We'll look at those agencies that are based ~~in~~ Cleveland driving tickets for people originating out of

Pittsburgh. And when we look at that mix, it's, I think it was about 6 1/2 percent of the Cleveland passengers are going out of Pittsburgh and about 5 1/2 percent, or something like that, of the Pittsburgh passengers are going out, are going out of Cleveland.

So we tracked that over a period. We don't just do it at one point in time, but we watch the trend to see what's happening. And we've looked at it over a number of years. And each time, we have seen that because we see the newspaper clippings coming through. And it's been a concern in the Pittsburgh area for people driving out there. So we're concerned as well.

REPRESENTATIVE PETRARCA: I know there are substantial cost savings for folks that seem to go out of Cleveland. Whatever that percentage is, I must -- can you tell me regarding the Pittsburgh Airport -- I'm from Western Pennsylvania also -- can you tell me what, what the length of the lease is out there regarding the gates?

MR. HAZEL: The lease runs till 2018, and the bonds were sold in 1988. And in order to sell bonds, 30-year bonds for that airport, it was necessary to sign a 30-year lease. And as I've said before, there are ten empty gates waiting for an airline in Pittsburgh.

REPRESENTATIVE PETRARCA: The gates, the gates that US Air controls, are all those gates used, every one of those gates? Or are you in effect -- as was alluded to earlier, in some areas an airline will hold the gates and no one uses them and no one else can --

MR. HAZEL: All of our hubs are being used. Now, some of them are being used for regional jets as opposed to mainline jets or Dash 8's. But absolutely every one is being used.

REPRESENTATIVE PETRARCA: I have a couple other quick questions here. As we heard earlier, why does US Air have the poorest operating margin of the major airlines? Is there any quick answer to that?

MR. HARIG: I think the quick answer was what we touched on. We're neither the low cost nor the, you know, global route structure. And as Bob was referring to, we're seeing an increasing amount of competition coming into our traditional service area in the northeast, whether it be JetBlue or Southwestern, AirTran, much more and more competition from the, from the low fare carriers.

REPRESENTATIVE PETRARCA: Mr. Hazel, you said that, you referenced that there are ten open gates in Pittsburgh.

MR. HAZEL: Yes.

REPRESENTATIVE PETRARCA: Because there are ten open gates, does that mean that you guys would support and not oppose the shared gate access rules? If we in

Pennsylvania wanted to pass a law that wanted to open these gates, would you guys oppose that?

MR. HAZEL: Let me give you some background on this first. As new leases come up -- and Mr. Testa is more of an authority on this than I am. As new leases come up, there are very often, there is very often a conversion to what's called preferential use gates as opposed to exclusive use gates, which means my carrier gets to use them for a schedule.

But when we're not using them, someone else does. Or common use gates, in which case the airport just decides on its own who gets what gates when. And we routinely sign those new agreements. Now -- and --

REPRESENTATIVE PETRARCA: Nothing like that exists in Pittsburgh, though, at this point?

MR. HAZEL: No. That was not the agreement in 1988. And frankly -- although, I take that back. Fifteen percent of our gates in Pittsburgh are preferential use gates. The other 85 are exclusive use gates. So that in fact, if we are not using the 15 percent of our gates, which I believe is -- I'm sorry -- 7 I think, 7 or 8, another carrier is free to use those gates. There in fact is no reason for another carrier to use our gates because there's 10 available already.

I should also point out that the existing commuter terminal is a common use terminal. You know, if worse comes to worse, the airport can put carriers in there. It's just not an issue there. But in many airports, we have adopted this different form of agreement which goes with a new lease.

And as I pointed out in Philadelphia, as new gates are built, the agreement changes. And as the existing agreement expires in 2006, I'm sure they'll go with some different form. And frankly, it won't be a big deal. So -- and, you know, Dulles is an example. There are many, many examples of this type of agreement.

And it's really not an issue. But it's not an issue in Pittsburgh because there's no need for it.

REPRESENTATIVE PETRARCA: One last question, Mr. Chairman. When Mr. Hudson from the advocacy group stated that Pennsylvania is becoming an item in terms of high cost air transportation, is that true? I mean, do you guys see that as being true; or is he wrong? I mean, is Pennsylvania something different in the northeast or in the Mid-Atlantic area?

MR. HAZEL: Mr. Harig went through his presentation which showed and, you know, compared Pittsburgh fares to Cleveland fares to Cincinnati fares to Philadelphia fares to Newark fares. And what we found is that when the Pittsburgh Airport did its own independent study, they verified it.

Because we're from an airline, if we tell you our fares are competitive, you're going to say sure, sure, sure. But the independent experts will tell you the same thing. Pittsburgh is -- I mean, the Commonwealth of Pennsylvania is not an island by any means. It's subject to all the forces of competition that will affect the rest of the country. And the East Coast is particularly battle ground at the moment. And absolutely not.

REPRESENTATIVE PETRARCA: Okay. Thank you, Mr. Chairman.

CHAIRPERSON FAIRCHILD: Representative McGill.

REPRESENTATIVE McGILL: Thank you very much. I bet you know where this is going to go. You had mentioned, Mr. Harig, that using the Cleveland-Pittsburgh, those leaving from Pittsburgh to go to Cleveland, those coming back, the percentage was higher.

Is that the same case for Philadelphia, those leaving Philadelphia to go to another airport and not coming back?

MR. HARIG: I would have to check. The amount of -- it depends how you measure Philadelphia. That's a little bit more difficult. If you look at the city area itself, there is very little diversion. When you start to look at the much larger area that we use as the sales district, you start to get into Central Jersey and through New Brunswick and Princeton, places like that, as well as down further towards Baltimore. Then there's a little bit more.

On the whole, Philadelphia balances out very well from what I remember. I would have to actually check that to make sure. But there was very little, especially when you looked at the city-type diversion.

REPRESENTATIVE McGILL: Yeah. But the city in the next census is going to be down at least one half congressman. So what's that, 8-, 900,000 people it's going to be down? So that the city's population is dwindling. And I guess I pose the question to you as I have everyone else.

How do we make Philadelphia an airport with more competitive prices when, when moving the airport's absolutely out of the question? Fifty miles in any direction is either in Harrisburg, Lehigh Valley, Baltimore, Washington. So that moving is out of the question.

It's a landlocked airport, and you're the primary tenants there. So obviously, you know, you got to look at this thing and say, to expand this airport, we got to be crazy because we can't get the flights off the runway when we can get them in.

And it still is a, it still is a major city. But our statistics show that it's 17th or 18th on the list of busiest airports, maybe 19th, 20th. Whatever that number is it is. And it's the 4th, soon to be 5th largest city in the nation. So something is obviously wrong.

And I think that equates directly into the rates that the people in Philadelphia and the five surrounding counties pay for airfare simply because, because of that. So, you know, if you can help me --

MR. HARIG: Certainly. Well, you saw the comparison when you look at how we stack up versus Newark and Continental up there. I would think -- and Mr. Hazel can probably testify to this much better than I can. But that part of the biggest problem with Philadelphia is not necessarily the fares. It's the access.

And it's just getting in and out. It's a congested airport. I mean, we'd love to put more there. It's a great airport for us. There's no question. But we're just, just filled up. And getting in, out, road access, everything else I think is probably a bigger problem than the airfares.

REPRESENTATIVE McGILL: By in and out, do you mean in and out of the runway or in and out of the surrounding areas?

MR. HARIG: In and out of the surrounding areas, the parking, parking situation, the access.

MR. HAZEL: Well, let's talk about Philadelphia. First of all, we have a number of issues there. But what's happening is we're adding terminal capacity. But now we want to have airflow capacity that matches that. So we have an unbalanced situation.

If you don't have enough runway capacity, you have a problem. We don't have enough airflow capacity. It doesn't matter whose fault it is. We just don't have it. In my view, the biggest problem with Philadelphia is nothing with the airlines.

It has to do with the airport and the infrastructure. And, you know, if I can do anything, I would. I would be devoted resources of fixing that problem. There are people who spend time studying ways to significantly increase airflow capacity.

To do that requires enormous political and other investments, but there are ways to do that. There really are ways to do that substantially. And it's, to me, it's hard to imagine a bigger economic payoff than dramatically increasing the efficiency, the attractiveness, and the capacity of Philadelphia Airport.

But it's not something an airline can do. A lot of the terminal growth in Philadelphia has come at the airlines' request. But we can't -- there's only so much we can do. But my only answer is I wouldn't give up on Philadelphia.

Sure, as you go down the East Coast, many of the airports are very, very small. And some of them you can't do anything with. Philadelphia is not quite in that situation. There are some things you can do.

REPRESENTATIVE McGILL: Well, I appreciate your comments. And I asked them for a specific reason. I mean, we need, I believe, a relatively large effort by both political side, the business side, City of Philadelphia, who owns that airport, to recognize what an asset that airport is and what needs to be done to make changes to it.

And I know we're here, you know, looking at pricing. But I can't, I can't come to a conclusion in my mind how you could possibly drive down prices when you can't get more aircraft in and out of that airport in its current condition.

And that simply comes down to the number of runways that are there, the direction that those runways are facing, and the problems that we consistently have with getting airplanes across the runway. So, you know, these kind of hearings are important because we need to hear from you that you're excited about a Philadelphia International Airport.

But there are some inherent problems that, you know, if we can eventually all get around a table, we can address and hopefully, hopefully correct the situation. The length of time it seems for us to get anything done, there seems to be years and years and years and years. And by that time, we seem to miss the boat.

So I wanted to get your response. I appreciate that. And even if you change hats, we might lean on you to be a part of that effort to make some changes down there. So thank you very much.

MR. HARIG: Thank you.

CHAIRPERSON FAIRCHILD: Thank you, gentlemen.

MR. HARIG: Thank you.

MR. HAZEL: Thank you.

CHAIRPERSON FAIRCHILD: The next testifier is David McIntosh. We're going to, we're going to try to get back on schedule a little bit if we can.

MR. McINTOSH: Mr. Chairman, I thank you for inviting the Susquehanna Area Regional Airport Authority to testify. This authority is your creation that occurred three years ago. If you'll bear with me, I would like to set the stage for our current situation.

First of all, I'd like to point out that listening to all this discussion, number one, we do not have a shortage of gates. Number one, we do not have exclusive gates rights; and we do not have a majority in interest clause in our contract. We are free to service airlines, and we welcome all with open arms.

HIA is fortunate to be served by the majority of the major airlines: American, United, Delta, US Airways, Continental, and Northwest. It is our misfortune that we are not served by what is commonly called a low cost airline. US Airways, as you might expect, dominates the market with a 44 percent share; and United is second with a 13 percent share.

What we haven't been, really been discussing today is a second situation which enters into the equation SARAA must solve in order to bring good reliable competitive air service to South Central Pennsylvania. By referring to the chart that you will note, you will note that 1.2 million people live within a 45-minute drive time of HIA.

And I'd like to point that out very strongly because our, the gentlemen from US Air said that the population served here was less than 500,000. You have to look at it from the standpoint of the drive time, which 45 minutes, due to our excellent interstate network, is a real advantage.

When you compare this 45-minute drive time, 1.2 million people, when you compare this to similarly situated airports like Madison, Wisconsin, you'll find that

1.8 enplanements, people getting on planes, occur for every person residing within that area. HIA has .6 enplanements, one third.

The reason is obviously BWI and, to a lesser extent, Philadelphia International. We estimate that over one half million people within South Central Pennsylvania fly out of BWI. The reason obvious, Southwest. This extreme leakage from Pennsylvania to Maryland seriously impacts a critical regional asset, which is HIA.

Obviously, we have a chicken and egg situation. To obtain lower fares and better service, we need more passengers. To gain more passengers, we need lower fares and better service. Let's take a close look at the fares of HIA versus BWI.

First let us define what we say is noncompetitive. Any fare is noncompetitive if the round-trip fare differential is greater than $100. We compared the fares in our top 25 O and D cities with those offered at BWI and found that 20 of the 25 cities had noncompetitive fares, representing 85 percent of our total traffic. The average BWI price advantage is $174.

Now let's look at closer what the airlines describe as yield. You've gone through that with Mr. Testa and the US Air people. Generally, Southwest is at 8 cents or less. US Air I just said was 12, but now I guess it's

14. And airlines consider a profitable trip at 21 cents or better.

From the US Department of Transportation data, we've come up with some interesting statistics. Out of HIA into Chicago O'Hara, yield, 34 cents; Orlando, 10 cents, which US Air was quick to point out. And I understand that particularly if you look at Boston, HIA to Boston, 57 cents; Pittsburgh run, 91 cents.

As you are aware, in major airport hubs, airlines offer a series of advanced purchase fares generally broken down into 21-day, 14-day, 7-day, and walk-up. I guess the gentlemen from US Air are gone. But I would assume when they talk about a business fare, it's the walk-up fare.

When we analyzed the competitive fares, we found the following: 60 percent of HIA top 25 O and D markets have no restricted fare offerings within 14 days of a scheduled departure. Lack of a 7-day advanced purchase fare is a severe handicap to the business traveler since the fare differential between 7-day and walk-up can be in excess of $400.

Conversely, only 5 of the top 25 cities have the most restricted 21-day advanced purchase round-trip promotional fares, which you gentlemen were talking about earlier. Seventeen of HIA's top 25 O and D markets -- and you've got to appreciate they're all in the eastern half of the United States -- top 17 of the 25 charge in excess of $1,000 for a business walk-up fare.

Keep in mind that not all fares at HIA are noncompetitive with BWI, just the majority. As we tell our potential passengers, always check HIA. What are we doing to make HIA truly a competitive center of air economic activity here in South Central Pennsylvania?

For the last 18 months, we have been attempting to lure a low cost carrier to provide service along the East Coast. And it goes far beyond Southwest. We haven't heard much mentioned. We've heard AirTran but haven't heard Midway mentioned and I think only once Delta Express. These are all candidates that we have been talking to.

For the last nine months, we've talked with the major carriers trying to open new service to another hub. For example, Northwest has five flights a day out of HIA; but they all go to Detroit. They run you through that hub. We see that there is loading, particularly with regional jets, where they could run to Minneapolis or Memphis, their southern hub.

For the last six months, we have been talking with the major carriers about their fare structures at HIA pointing out what has been mentioned earlier, what I had mentioned earlier. We have undertaken extensive marketing studies which will support a developing intensive three-year marketing action plan.

What are the results? The first two efforts; namely, talking about new hubs and getting a low cost carrier, they're an ongoing process of selling the potential profitability of opening a new service from HIA. About the last effort for fare adjustments, we have had no reaction from those airlines we have contacted who are not involved currently in a proposed merger.

We have been promised some action by an airline currently involved in a potential merger. Whether this cooperation will continue if the merger is completed is certainly subject to conjecture.

Sixty-seven percent of HIA's travel is business, and this has been true for the last seven years. During this period, HIA's departing passenger yearly count has decreased by over 1,000 -- excuse me -- 100,000 or 13 percent. It is obvious that the fares are forcing business as well as the leisure traveler to move to, to use BWI.

Considering the time and cost spent in travel as well as the airport costs at BWI, the competitiveness of our industry in South Central Pennsylvania has been and is negatively affected. Will mergers help our constituency? It's hard to answer yes to the United/US Air merger since the result will be one airline with 67 percent of the traffic out of HIA. Will it hurt? It will depend on fare and service cooperation. And your guess is as good as mine.

I'd like to add a couple of comments. I was listening to the testimony here today. One is regional jets. Regional jets are coming on board. We're pretty low down in the pecking order to get them coming in here. Although, we do now. COMAIR flies them in on the runs into Cincinnati.

Regional jets can be a big boost for us. And we are working with the airlines so that as they have equipment come on line, hopefully they will allocate some of it to HIA. The other thing that I think you have to understand about an airport of HIA's size is the fact that we're competing with other airports for assets.

What I mean by that is, for instance, Delta Express, who are locked in a heavy competitive situation coming out of the greater New York market -- La Guardia primarily but also Newark on the southern routes where they get locked in and fighting their competitors -- what happens is that they may have an 8 o'clock flight; and the competitor will come in and put a 7 o'clock flight plus a 9 o'clock flight in.

All of a sudden, they have to react to this.

And therefore, the assets, the equipment comes committed to those major markets. So all I'm trying to do is summarize here some of the things that we're doing. And the situation as far as we're concerned, to say that BWI is the biggest problem is an understatement. Thank you, Mr. Chairman.

CHAIRPERSON FAIRCHILD: Thank you for your excellent testimony. Just a couple quick questions. On the -- you say in your testimony, "Any fare is noncompetitive if the round-trip fare differential is greater than $100." Is that an industry standard that they use, or is it that your --

MR. McINTOSH: No. What we've done, we say that's a reasonable thing because if you, if you take somebody that's going to drive from Harrisburg down to Baltimore, you consider the drive time, considering the traffic, and then consider the parking fees. That is definitely about a $100 bracket in there.

CHAIRPERSON FAIRCHILD: Also, you said, "Conversely, only 5 of the top 25 cities have the most restricted 21-day advanced purchase round-trip promotional fares."

MR. McINTOSH: Yeah.

CHAIRPERSON FAIRCHILD: I kind of thought that when I was asking some questions to the prior two gentlemen, they were not ignoring the questions but kind of giving me a little runaround. What you're saying is that those fares are not available obviously?

MR. McINTOSH: They're not available at all. What the prior gentlemen should have laid out to you is that the famous computer program that was generated originally by American Airlines, all they do is they see the demand as the load starts to come up.

If they're seeing that the full fare load is coming on more rapidly than they anticipated, then they cut back on the number of seats that are on the low fare. It's an intelligent way to run it. There's no question about that. But boy, it sure does give problems.

CHAIRPERSON FAIRCHILD: Well, I would think so. In fact, I would think that it's -- and that was part of my questioning to them. It almost becomes a little bit deceptive when you're putting the advertising out there that the low fare is available; but as those seats fill up, then you get down to a very narrow number.

MR. McINTOSH: As they fill up and also as they reduce them, the total. They may start out with, say, in a 100-seat plane, with 20 low cost fares. But -- and they may only sell about 5 of them to start within the first few days. But for some reason, all of a sudden, the other fares start to load up. Then that 20 may be cut back to 15. That's just the way the program works.

CHAIRPERSON FAIRCHILD: No wonder people are confused. Thank you. Representative -- excuse me, Mr. McIntosh. Representative Marsico.

MR. McINTOSH: Oh, I'm sorry.

REPRESENTATIVE MARSICO: One quick question, Mr. Chairman. Since the authority took over the airport from the state a few years ago, are the enplanements, are they higher or lower?

MR. McINTOSH: Well, as I've said, they've dropped. We've had it three years. And when we took over, it was about 740,000. Now it's about 650,000 we're projecting for this year.

REPRESENTATIVE MARSICO: Okay. I'm sorry. I missed that. You say they're lower then?

MR. McINTOSH: Yes, sir. And you can, you can lay it right out. It's the Baltimore effect.

REPRESENTATIVE MARSICO: What are the --

MR. McINTOSH: And this is what we have to deal with, and we will.

REPRESENTATIVE MARSICO: Well, the Baltimore effect was there three years ago, four years ago, five years ago. I mean, it's nothing new.

MR. McINTOSH: No. I beg to differ. It was not there to the degree that it is now. We had a meeting -- I'll tell you this: We had a meeting with United Airlines and talking to them. And by the time the meeting came to a close, the most senior person in there said, you know, we're losing so much money out of Baltimore, we're considering we might pull out after the merger's done.

Interesting comment. But that has grown over the years, you know. Southwest now is planning to add 200 more flights.

MR. TESTA: Thirty-one new gates. They're going to build a whole brand new complex, 10 flights a day, 310 flights.

MR. McINTOSH: So you say Baltimore was there before. Yes, but a far lesser degree. And it's just grown tremendously.

MR. TESTA: They started with 17 flights.

MR. McINTOSH: The other aspect of the thing is, too, is that -- and it's something that we have to fight and something that we've got to overcome. And that is the mentality of the average passenger in this area and the mentality of the travel agent who, when you call, will say, Well, you can fly out of Baltimore for $100.

Well, what is it out of Harrisburg? Well, it's always more expensive. You can go out of Baltimore for $100. But that's part of our selling and marketing problem.

REPRESENTATIVE MARSICO: Okay. Thank you.

CHAIRPERSON FAIRCHILD: One -- well, I assume -- well, I guess you shouldn't assume anything. But it was brought up as one of the recommendations that perhaps we look at some enhancements in funding somehow for promotion which would -- it was meant to be that these types of issues should be looked at or can be looked at by smaller size airports; but oftentimes they lack the funds to do it. Does that make sense to you?

MR. McINTOSH: It may be smaller. But frankly, with Harrisburg, the answer is no. This year, our marketing budget is $630,000. And beyond that, we reserved another $500,000 for incentives if we get new service in. In other words, this would be advertising support for getting, say, a low cost and/or getting new service that appreciably would affect us.

So that aspect of the thing for Harrisburg, the answer is no. We are undertaking right now -- and we'll see it probably go out in September for bid -- we're putting about 30 million into the terminal parking and et cetera area to materially improve the ambiance and the ease of using the airport.

CHAIRPERSON FAIRCHILD: Thank you.

MR. McINTOSH: Yes, sir.

CHAIRPERSON FAIRCHILD: The next testifiers are Kelly Fredericks, Professional Engineer, Executive Director of the Erie Municipal Airport Authority. And he will be joined by Gregory Orlando, Senior Vice President of Investments and Branch Manager, First Union Securities in Erie and President of the Erie Municipal Airport Authority. Gentlemen, when you're ready.

MR. ORLANDO: Thank you very much, Mr. Chairman. And I know we're testifying at the end of a very long day. But on behalf of the Erie Municipal Airport Authority, I'd like to thank the House of Representatives and in particular this Subcommittee for allowing us the opportunity to testify before you regarding commercial air service to Erie, Pennsylvania.

Today, our Executive Director and I will attempt to provide some insight from our experiences as it relates to the cost of flying from Erie as opposed to our competitor airports. We've heard about a few of them in the prior testimony: Cleveland, Buffalo, and Pittsburgh.

We will also speak to the issue of passenger leakage and how it affects the local economy. My comments will address a broader, more background information-related, community-based perspective. And Mr. Fredericks will follow with his testimony, and he will provide more specific airport perspective detail. Much of my discussion will be based on information derived from the airport's ongoing master plan update.

A little bit of background: Erie International Airport, Tom Ridge Field is a publicly owned, public use primary commercial service facility that serves the needs of Erie County, the western region of Pennsylvania, Western New York State, and Northeast Ohio as well.

Erie, Pennsylvania, with a population of over 110,000, ranks as the Commonwealth's third largest city. Erie County has a population of nearly 285,000 people. Erie International Airport, Tom Ridge Field is located in Erie County in Northwestern Pennsylvania near two major interstate routes, East/West I-90 and North/South I-79.

Cleveland Hopkins International Airport is approximately 110 miles to the west. Buffalo International Airport is approximately 105 miles to the northeast. And Pittsburgh International Airport is approximately 125 miles to the south. These airports are well within two hours driving distance from our market.

The airport service region was selected based upon a 30-mile drive from Erie International Airport. Its limits are defined by the range and character of airline service provided by other air carrier airports outside the airport service region.

The service area includes Crawford, Erie, Forest, Mercer, Venango, and Warren Counties in Pennsylvania; Ashtabula and Trumbull Counties in Ohio; and Chautauqua County in New York. The primary airport service region encompasses most of Erie County, which has almost 30 percent of the population in that region.

The airport service region has experienced a total population growth of about 1 1/2 tenths percent per year or about 1.5 percent over the last 10 years. Between 1990 and 2000, the national average was about 1 percent per year or about 10 percent over that same period.

Regarding industry and employment, the region has experienced significant growth in nonagricultural employment during the last 10 years, including managerial, sales and service sector jobs that have more than offset the employment decrease trend in labor, the second ranked industry in 1980.

Today, the airport is served by US Airways, US Airways Express, Continental Express, and by Northwest Airlink. Erie presently has 28 flights a day, 14 arrivals and 14 departures. Of these, 10 flights are mainline jets and 18 are with turbo props.

It should be noted that beginning March 13th of this year, US Airways Express will introduce regional jets into the Erie market and discontinue the use of turbo props. Additionally, in April, US Airways Express will add another regional jet flight.

Unfortunately, along with this good news came last week's announcement by Continental that effective June 13th of this year, it will discontinue service in the Erie market. Currently, Continental provides direct service to Cleveland. US Airways and US Airways Express provide direct service to Pittsburgh, and Northwest Airlink provides direct service to Detroit.

Over the past decade, passenger enplanements have remained relatively flat with the peak being in 1991 with 188,396 enplanements and the low point in 1994 with 132,651 enplanements. Enplanements for 1999 were approximately 167,000, and preliminary numbers for 2000 indicate about 156,000 enplaned passengers. US Airways presently enplanes approximately 65 percent of the passengers, Northwest approximately 21 percent, and Continental approximately 14 percent.

From an economic impact standpoint, the Commonwealth's Bureau of Aviation, through their consultants, has undertaken a study that has preliminarily indicated that the Erie International Airport, Tom Ridge Field generates nearly $104 million to the local economy on an annual basis.

Of this amount, over 88 million is directly related to commercial air service activity. While this is a very substantial amount, the Erie community and surrounding region feel strongly that this number can be increased dramatically through increased commercial service activity at the airport.

The airport remains the vital link to retaining existing business and also attracting new business activity. With that in mind, in 1998, the Erie Conference on Community Development and the Economic Development Corporation of Erie County commissioned Business Retention Technologies, Incorporated to address the key component of Team Pennsylvania, its business calling program.

Through CEO interviews conducted by outreach specialists, the business calling program identified business needs, created a system for quickly responding to those needs, and strengthened the partnership among job creators, the Commonwealth, and economic and community development professionals.

The extensive study concluded that business owners/manufacturers in Erie County identified inadequacies of air service provided by Erie International Airport, specifically limited choices in scheduling/destinations time consuming and -- limited choices in scheduling destinations, time consuming and rigid -- limited choices in scheduling; destinations time consuming and rigid; inordinately high fares. Got it right that time.

Those interviewed expressed a recurring theme of lost business opportunities, competitor's location was more accessible by air, and hinders overall economic growth in Erie County and the region. Based on the interviews with over 600 business owners and manufacturers in Erie County, it was determined improvement in air service was critically needed in the following areas:

More scheduling time of day options; more gateway and hub destinations; and more competitive fares. Finally, the report concluded that lack of adequate air service is the number one long-term issue facing Erie County businesses.

As I indicated earlier, Mr. Fredericks will discuss in more specific detail issues regarding airfares, available service, new markets, and how successful the airport is actually doing when it comes to providing optimum air service options for this region.

Again, we thank you very much for the opportunity to testify before you. And Mr. Fredericks has a prepared text at this time.

CHAIRPERSON FAIRCHILD: Thank you. Mr. Fredericks, you may want to -- and I'll leave the option up to you. But if you'd like, we can make sure that this is entered into the record verbatim off of the written testimony if you would like to summarize it.

MR. FREDERICKS: In the spirit of time, Mr. Chairman, I will certainly do what you prefer. I think I can get through this relatively quickly. It does hit specific fare details and points out -- I hate to say dire straights -- but the conditions.

We think we're almost a poster child in Erie for some of the effects of various airfares. If that's acceptable, I will go through this very quickly. Good afternoon. And thank you for allowing me to testify before you regarding commercial air service as it pertains to Erie International Airport, Tom Ridge Field.

As Mr. Orlando previously stated to you, Erie International Airport, Tom Ridge Field is uniquely and perhaps unfortunately located within two hours driving time of three much larger airports that collectively enplane over 19 million passengers on an annual basis.

Additionally, it should be noted that the Detroit International Airport is 260 miles from Erie and does have some impact on Erie's service region. Furthermore, there are three smaller commercial service reliever airports, Franklin, Pennsylvania; Jamestown, New York; and Youngstown, Ohio located within approximately one hour's drive that compete for some of Erie's market.

Recently, professional air service consultants indicated that Erie International Airport, Tom Ridge Field is literally located at ground zero when it comes to competing for commercial air service customers within this tri-state area.

Furthermore, it was indicated that in many aspects, Erie is between a rock and a hard place when it comes to enticing commercial service carriers to enhance or start up new services to this market. Previous studies validate that Erie's service market has an extremely high rate of passenger leakage to Cleveland, Buffalo, and Pittsburgh markets.

These studies also determined, interestingly enough, that the residents of the service area travel approximately 22.5 percent more than the national average. In fact, it was determined that 271,000-plus Erie region people traveled by air from the region in 1996.

The collective price of airfares for this was in excess of $76 million. Of these amounts, 131,000, nearly 132,000 passengers, representing nearly $37 million in airfares, departed from Erie. Nearly 77,000 passengers, representing approximately $21.5 million in airfares, departed from Cleveland.

57,500 passengers departed from Pittsburgh, and those airfares represented in excess of $16 million.

And 5,326 passengers, representing about $1.5 million in airfares, departed from Buffalo. What I really want to underscore in this particular fact is these figures indicate that for 1996 -- and they have subsequent years as well -- that over half or approximately 51 percent of Erie's passengers depart from other airports.

Air carrier operations are those used in revenue service by the major scheduled airlines operating aircraft with more than 60 passenger seats. Included are scheduled flights, charter flights, diverted flights, and ferry operations.

In 1998, nearly 3,000 air carrier operations were performed at Erie International Airport, Tom Ridge Field. The number of air carrier aircraft operations at the airport has generally decreased over the years but at varying rates since 1976 due to a combination of factors, including changes in levels of airline service, aircraft seating capacity, airline fares, aviation fuel costs, economic trends, airline strikes, and airline mergers.

It should be noted, as Mr. Orlando had indicated, that recently Connecticut Express announced last week that it will be discontinuing service to Erie International Airport, Tom Ridge Field on June 13th of this year. Continental previously departed the Erie market in the early 1990s, only to return a few years later.

This recent announcement comes after Continental had announced last fall that it would be introducing all regional jet service to Erie sometime in early 2001. While Continental continues to turn a profit in Erie with a 5.3 percent increase in its boarded passengers for 2000, it cited congestion problems due to runway construction at its Cleveland hub as the reason for stopping service.

However, after announcing plans to discontinue service from Erie for congestion reasons, Continental immediately announced that it would introduce two new markets into Cleveland. It is clear that in these days of competition, even successful growing markets such as Erie to Cleveland can be terminated when another market adds more to the airline's bottom line.

And attached as part of my testimony, Mr. Chairman, is a newspaper article from yesterday's business section of the Erie Times that goes into greater detail of some of the great concerns we have regarding customer leakage in the Erie market.

The most frequently operated aircraft has been the DC-9-30 utilized by US Airways. There was an average of 275 daily air carrier enplanements in 1998, representing an average load factor of approximately 64 percent. The volume of enplaned passengers at Erie International

Airport, Tom Ridge Field is forecast to increase to approximately 194,000 in 2005, then approximately 219,000 in the year 2010, and then hopefully to around 265,000 in the year 2020.

And just as a point of fact, the master plan consultants have developed these forecasts based on many factors. And most notably of those factors is the annual growth rate of 2.4 percent which was based on an examination of predicted population growth in the region as well as predicted employment growth.

Whether by perception or fact, Erie International Airport, Tom Ridge Field has been adversely affected by airfares that are higher than those achieved at Cleveland, Pittsburgh, and Buffalo. While the overall percentage of Erie service region passengers who fly out of other airports has remained relatively constant at about 51 percent, the introduction of low cost carriers at surrounding airports has shifted more leakage to Buffalo and decreased the amount of leakage to Pittsburgh.

Cleveland continues to be the largest recipient of Erie's leakage, due primarily to the presence of Southwest Airlines. Buffalo continues to grow its captured amount of Erie's passengers by recently introducing Southwest Airlines at its airport.

Another new addition to Buffalo's stable of low cost carriers is JetBlue. Additionally, they are served by AirTran and Vanguard Airlines. Pittsburgh is served by Vanguard and AirTran. It should be noted that only a few years back, Buffalo International Airport saw its passenger totals drop below 3 million.

Of even more significance was the recent announcement that for the year 2000, Buffalo International Airport exceeded 4.5 million passengers and saw an increase of nearly 700,000 passengers for the year. This has been clearly linked to the introduction of low cost carriers into the market.

Regarding Erie's top 25 markets and their associated fares, please refer to the table attached. And it's part of the testimony, Mr. Chairman. As you can see from the table, there are dramatic differences in the lowest airfares available in Erie's top 25 domestic markets compared to fares, using Erie as a benchmark, at Buffalo, Cleveland and Pittsburgh.

Of important note, of those 25 domestic markets, Erie has the highest fares in 21 of the 25 markets. So to boil it down for the Erie passenger, the 25 top destinations, we got the highest fares in 21 of them. And I want to also indicate that on average, our fares are approximately 34 percent higher.

The Airline Deregulation Act of 1978 was a major step toward the deregulation of highly regulated industry. The act liberalized the rules that governed airline operators. For some, deregulation has been viewed as a success because it brought consumers a greater selection of flights at more affordable prices.

For others -- perhaps Erie -- who continue to struggle with higher airfares and limited service options, the act has not been deemed so favorable. In a deregulated airline operating environment, it is a reality that airports both within the Commonwealth and beyond will continue to compete with each other often for the same passengers.

Each airport in the Commonwealth cannot expect to have major jet service from a national carrier. For some airports, supporting one regional commuter and doing it well represents a realistic air service plan. It is important that when evaluating its own service, each airport must recognize its assets and its limitations from a realistic point of view.

The ability of each Pennsylvania commercial service airport to improve its existing level of commercial air service varies dramatically among individual markets. And I think you certainly heard that today. While some airports appear to have the ability to attract and support service to new markets, others will need to focus their attention and efforts on sustaining their existing levels of commercial air service.

It is no secret that undoubtedly the future will bring air carrier mergers, creation of new start-up carriers, and technological improvements to the industry that will have dramatic impact on how the citizens of the Commonwealth are served.

Opinions vary as to this impact; however, it is clear that the value of aviation to the Commonwealth will continue to increase. Pennsylvania's ability to move people and goods by air will continue to serve as a vital link to our ability to compete in the global marketplace.

Deputy Secretary Voras and PennDOT's Bureau of Aviation are to be commended for their initiative of championing several studies, including a statewide systems plan, an economic impact study, and an assessment of Pennsylvania air services, that will afford airports and their communities with information and tools that can assist them in taking steps to sustain and improve scheduled commercial air service.

The Erie Municipal Airport Authority strongly believes that the only way to improving Pennsylvania's air service is through partnerships, partnerships between the airport and its business community; partnerships between the airport and its current carriers, our airlines;

partnerships between the airport and prospective carriers; and partnerships with our state-elected officials.

In no way, shape, or form are we at the Erie Municipal Airport Authority indicating that we should return to a regulated environment. But the Erie Municipal Airport Authority is here today to strongly and respectfully urge the Commonwealth's House and Senate to greatly elevate the importance of aviation as it relates to Pennsylvania's future transportation and economic development initiatives.

And as Mr. Orlando had indicated, I too am very appreciative of the opportunity to present some of this information before you. And I want to just emphasize that Erie Municipal Airport Authority sits before you today. We want to be a strong partner as we move forward in trying to do something to enhance, if you will, and preserve air service within the Commonwealth of Pennsylvania.

I'm available for any questions. And thank you.

CHAIRPERSON FAIRCHILD: Thank you, both of you. Mr. Fredericks, since you were last, 51 percent of leakage, that's an impressive figure. I expect that -- and perhaps I should have asked that of the last testifier. But where did you get that figure from?

MR. FREDERICKS: Well, actually, we did previous air service studies, elaborate studies --

CHAIRPERSON FAIRCHILD: A consultant?

MR. FREDERICKS: Yes, that is correct. And I will say, Mr. Chairman, that unfortunately -- and yes, that's an impressive figure. Probably I'm not impressing my boss when I say, Hey, look what we're losing. But frankly, at this point in time, that figure we don't feel takes into account the -- we haven't realized the negative impact that Southwest and JetBlue will truly have in our market as it relates to Buffalo. So that number potentially could climb in the months to come.

CHAIRPERSON FAIRCHILD: Absolutely. It puts you in a very interesting situation, to say the least. Mr. McIntosh made some interesting points. And we're having a travel, representative of the travel industry testify tomorrow. But do you feel the same, the same problem with your travel agents, that they might answer the phone and say, Oh, yeah. But go to Buffalo. It's cheaper?

MR. FREDERICKS: You're absolutely correct. And it's funny. I leaned over and said to Mr. Orlando when Mr. McIntosh was making his testimony that that is Erie exactly. But I'm also saying -- I'm not trying to -- I mentioned partnerships. I'm not trying to pick on the travel agents. I'm not trying to pick on the airlines.

It's incumbent upon us as we've, you know, put out the olive branch. We've got to do a better job of partnering with our travel agents to educate them on the benefits of flying out of Erie just as Mr. McIntosh is to the benefits of flying out of HIA. But yes, absolutely identical situation.

CHAIRPERSON FAIRCHILD: And again, it also seems to compound itself greatly because as I understand it, some of the programs that we talk about on the discounted airfares are just not offered at the smaller airports, which makes it worse. Travel agents, they're going to go where the, where those deals are.

MR. FREDERICKS: Yes.

CHAIRPERSON FAIRCHILD: Why don't they -- I'm just curious. I guess they would say, the airlines would probably say that the reason we're not offering these is because we don't have to fill seats. But I'm not hearing that, that you're flying out full enplanement, your enplanements are full.

MR. FREDERICKS: As I indicated in my testimony, our, roughly our load factor is about 65 percent. And arguably, I suppose that could be deemed on the bubble by some people. In all due respect, Mr. Chairman, I'm probably not intelligent enough. I don't understand it.

I mean, for Mr. Orlando and I, I don't understand why we had to pay $863 a piece to go from Erie to, or to Pittsburgh and then on to Harrisburg today. But it's the law of supply and demand. Both planes were packed. But I just, I feel that on some of our other flights, you know, I just feel that, you know, every empty seat is lost revenue.

So it's a very complex issue. And it's certainly, I think it's something that perhaps if you asked the question to ten different people, a mix of travel agents, airline representatives, and perhaps airport executives, you may get seven or eight different answers because I don't think everybody completely reads off the same sheet of music.

CHAIRPERSON FAIRCHILD: That's becoming quite evident.

MR. FREDERICKS: It beats the heck out of me.

CHAIRPERSON FAIRCHILD: And perhaps one of the problems that we can look into to try to decipher this -- I can understand -- I think we're beginning to get a grasp of how the consumer is so confused out there. And then compounded with what he or she is reading in the newspaper, that you're frustrated because they can't find the deals and they can't find the deals on the network.

They call the travel agent. The travel agent says, Well, I don't know about that deal or the seats are all taken. But go here, and you can find that. And the consumer doesn't realize probably the deal was never offered back home in the first place.

MR. FREDERICKS: Uh-huh. That's correct.

CHAIRPERSON FAIRCHILD: Okay. We will look into that. Your recommendation -- and by the way, I, I do not -- well, I better ask you the question first before I say I agree with you. "Respectfully urges the Commonwealth's House and Senate to greatly elevate the importance of aviation as it relates to Pennsylvania's future transportation and economic development initiative."

I would first like to say I agree with you in your commending the Bureau of Aviation and Deputy Secretary Voras. My experience has been that they've just done an excellent job. And they've probably done more over the, the past number of years than they've done in a long time.

And of course, I should be careful since Brad Mallory is --

MR. FREDERICKS: Right.

CHAIRPERSON FAIRCHILD: But anyway, to greatly elevate the importance of aviation, how would you suggest we do that?

MR. FREDERICKS: Well, it starts with a partnership. And certainly knowing your involvement with the Governor's Aviation Advisory Committee and a partnership -- we've got to elevate -- we have Mr. Centini here today from the Pennsylvania Aviation Council serving Wilkes-Barre/Scranton.

But just getting the appropriate -- and I think there's a wonderful mix on the Governor's Aviation Advisory Committee. I think from our report's perspective, the amount of state dollars that are portioned to aviation via a transportation line item out of the state capital budget is $5 million annually. That needs to be elevated.

I think we need to take a hard look at -- and I used this reference -- something similar to, from a capital standpoint -- I want to say it was around 1990 -- but Act 117, somewhere in that vintage, which helped the noncommercial service airports make some dramatic improvements.

I think we need to invest in Pennsylvania's future by directing additional funds towards capital improvements. But also, it can't just stop with capital improvements. I really think that there has to be a strong initiative. And that's one of the nice things that the -- Bureau of Aviation is really handing us a dramatic, a significant amount of tools to use as we try to improve our air service.

But they're only as good as our ability to implement them. And I think that there needs to be -- I mean, they allow us to benchmark where we're at in aviation today. I think there needs to be a strong initiative to keep the momentum going to ensure that the 16 commercial air service airports within the Commonwealth implement those or try to and try to come up -- and I don't have specifics -- but some innovative funding strategies to, to allow some of those airports that don't have the funds to do a marketing program to do that but perhaps to assist some airports in other aspects of their operating budget.

But I truly believe, I mean for -- again, I will simply state from Erie, every empty seat that departs Erie International Airport is losing money. And there's got to be a way for us to better partner with our existing carriers and try to, you know, for the benefit of our travelers, fill those seats.

And I think we could all win. And, you know, I'm just finding more and more -- and again, citing the Bureau of Aviation's preliminary reports as Mr. Orlando cited it, the economic impact, I mean, the new video that the Commonwealth has come up with.

I mean, everybody I talked to from one side of the state to the other, it's just, aviation is becoming more and more vital. Again, it's the critical link to our -- if we're going to compete in the global marketplace, you know, we've got to invest more, I think, in the future.

CHAIRPERSON FAIRCHILD: Thanks for clarifying that for me. And I do agree with you. Finally, I would like to just address the comment of Mr. Orlando. I think he hit the nail on the head when your businesses back home said that aviation, lack of adequate air services is the number one long-term issue facing Erie County businesses.

And I think that says an awful lot. And probably it's going to affect just about every community in Pennsylvania. So it's just another reason why we need to do some enhancements to the system. And I think we need to really do some investigation on the consumers' end of it to try to get a handle on, on where rates are competitive and let's try to fill up the plane.

I mean, if we're, overall, if we're looking at a 50 percent leakage rate, it doesn't make any sense that these people are getting in their cars and driving someplace sometimes for a couple hours when perhaps given the right information, the right push and the right assistance, they can be flying from their home airport without using the roads, the roadways, which as we know are already congested. Thank you.

MR. PARSELLS: Real quick, Mr. Chairman. I should know this, but I don't. How big is the Buffalo market? We've heard testimony that the small, these low fare air carriers won't go into these smaller markets. Obviously, they found some magic bullet to attract them.

MR. FREDERICKS: Well, Paul, I don't know exactly the size of the market for Buffalo. I do know -- and it was interesting that -- I should have provided as part of my testimony recent articles from the newspapers. But they went through a dramatic downturn not that many years ago and literally on a much larger scale, I feel, were in the same situation that we in Erie are in right now.

We've seen a -- that's been elevated in the last few years, again, just in year 2000 by 700,000 up to over 4.5 million. I don't know. And I hate to defer to Mr. Testa, if he knows the size of the Buffalo market. But it is, I think it's safe to say that it's certainly a market that's in that million-plus range.

MR. TESTA: You mean the actual number of passengers that travel out of Buffalo?

MR. PARSELLS: Well, I guess the market.

MR. TESTA: The number of passengers right now are about 5, 5 1/2 million. Five million I guess. It had gone all the way down to about 3 million, 3 1/2 million. But since Southwest went into Buffalo really as a stopgap, hurry up and go because JetBlue was starting to hit all the upstate marketers.

MR. PARSELLS: I guess that's what I was looking for. Is there a magic bullet out there? How do we get these low cost carriers into these airports and obviously HIA?

MR. TESTA: They are markets under 200,000. I don't want to -- but Manchester, there's 105,000 people in the City of Manchester. Jackson, Mississippi has almost nobody. You know, there are some small markets they have going on. But they stimulate it. So what happens is the small market is no longer a small market.

It becomes a very big market because people are traveling from all the way around, and they stimulate the numbers of trips per person because they're so affordable now. Instead of a once-in-three-year trip to Orlando, they can go every year.

CHAIRPERSON FAIRCHILD: Thank you very much.

MR. FREDERICKS: Thank you very much.

CHAIRPERSON FAIRCHILD: And now last but not least, someone that I know personally, Mr. Barry Centini, who is the Airport Director of the Wilkes-Barre/Scranton International Airport. Barry, when you are ready, you may begin.

MR. CENTINI: Thank you very much. Thank you, Mr. Chairman. On behalf of my, my County Board of Commissioners, we really appreciate, I appreciate the opportunity to be here before you today to talk about pricing. The Wilkes-Barre/Scranton International Airport, along with other airports in the Commonwealth, has and continues to experience high airfares.

At the Wilkes-Barre/Scranton International Airport, the 5th largest air carrier scheduled service airport in the Commonwealth, which is presently being served by US Airways, United Express, COMAIR, the Delta Connection, and US Airways Express, high airfares drive approximately 40 percent, 120,000 of our market air travelers to other airports; notably, Philadelphia, Newark, Allentown, JFK, and in some cases to Baltimore, a 3-hour drive.

Every airport reasons the high ticket prices drive their market passengers away. A recent proposal we received to develop an airport marketing program from SH&E, a national airport consulting firm located in Massachusetts, revealed that the average airfare at Wilkes-Barre/Scranton increased 8 percent in the last year, nearly three times greater than the US average fare increase.

A review of selected airport enplanements in the Commonwealth, 2000 versus 1999, reveals Harrisburg was down 10.8 percent and 75,000 passengers; Erie was down, as we heard, about 8.2 percent; Williamsport down 9.9; Reading down 26 percent. Our enplanements at the Wilkes-Barre/Scranton International Airport fell approximately 7 percent. That equated to a little over 16,500 passengers.

An area I want to talk about with this loss of enplanements is that it affects our federal entitlement dollars an airport receives for capital improvements. The loss of 16,500 passengers at the Wilkes-Barre/Scranton International Airport equates to a loss of a little over $90,000 of federal dollars.

That's approximately 5 percent of our federal entitlement monies, monies that we can put forth to capital improvements at our facility. When you look at Pittsburgh International Airport's 1999 versus 1998 enplanements, you'll see a decrease of 881,000 passengers. And that equated to approximately $500,000 of federal entitlement funds.

This is not a loss to Pittsburgh or Wilkes-Barre/Scranton or just to us or Erie. It's a loss of federal dollars to the Commonwealth. Many of our lost passengers go to Newark. A majority of Harrisburg's, as we have heard, lost passengers go to Baltimore. Pittsburgh's lost passengers are going to Cleveland and Columbus, Ohio.

Reading, Erie and Lehigh Valley, many airports throughout the Commonwealth all lose passengers to other states' airports. This trend only strengthens the other airports with federal dollars that should be coming, if we had competitive airfares, to the Commonwealth's airports.

I'd like to read some of the quotes, a brief couple quotes from our local newspapers regarding airfares. We have a Talkback at our local newspaper, and anybody can call in. And Talkback says that the service is fine. It's just your prices that are outrageous. Let's be practical. The bottom line is money.

My wife and I just flew to San Francisco out of Allentown/Bethlehem/Easton for $100 less than we would have paid out of Avoca. We're leaving to go to Florida, but we're not leaving from Wilkes-Barre/Scranton. We're saving $180 on each ticket from Lehigh Valley.

The Great Valley Technology Alliance wants to persuade travelers to use the Wilkes-Barre/Scranton Airport more often. Just what is it about the word money that the alliance doesn't understand? A travel agent with AAA Travel in Wilkes-Barre said a round-trip ticket from Wilkes-Barre/Scranton to Washington would cost $1,080. The same ticket out of Lehigh Valley is $708.

The only reason people don't use the Wilkes-Barre/Scranton Airport is the high cost of the ticket. We flew out of Binghamton for $100 cheaper to Denver. A lady that lives just 5 minutes from the airport and 15 relatives recently attempted to book a flight from Wilkes-Barre/Scranton to Las Vegas for a wedding. They will leave from Philadelphia saving $4,352 or $272 a ticket.

Our own State Representative, Tom Tigue, said, "The biggest problem with the airport is the cost of flying out of there, not the condition of the facility. Cost is what determines where people fly, and I don't know the solution." It's a Catch-22.

We're told there are not enough passengers to warrant additional carriers, but passenger rates are down because there isn't airline competition to lower the rates. When we compare our ticket prices to other airports, as most airports do, we look very competitive.

But in all reality, those competitive priced seats are near impossible to get because there is a limited number, amount of those seats on each flight. Our market passengers complain because they cannot get the lower priced seats and usually are quoted a second, third, or fourth tiered price which is much higher, in some cases hundreds of dollars more.

A prime example of this was just this week, the chairman of our board wanted to fly to Tampa. I got him a price for a ticket leaving March 13th coming back on the 18th. I got him this price at 9:30 in the morning. It was $280.75. I met the chairman of our board because we were doing a commercial about the airport at 2 o'clock.

He asked me at that time, Do you think you could get another ticket? I have a friend that's going to accompany me. I said, I'll go right back to the airport, and I'll get a price for you and reserve another ticket. I got that price at 3:30.

Now, remember the first price was at 9:30 in the morning. I get a price at 3:30, $434. In a 6-hour period, the price went up. Same flight, same stops. In fact, this was a two-stopper on the way back. Had to go to Charlotte, Philadelphia and then to Wilkes-Barre. That's all that was available.

So I mean, people can sit here from US Air and say they can't really tell us how it happens. I don't think they even know how it happens. But somebody in that organization does.

CHAIRPERSON FAIRCHILD: Do you have knowledge or do you have access to data of how many flights were available at 6:30 or 9:30 in the morning?

MR. CENTINI: On that day?

CHAIRPERSON FAIRCHILD: Yes.

MR. CENTINI: No. I mean, I don't know what was coming back out of Tampa. If ticket price is our problem, which it is, we must be able to understand how the airline prices and how they allocate inventory/seats at airports. Another story: Just this morning, a travel agent called me, a well-respected travel agent.

And he said, I was waiting this morning at 8 o'clock. That's when the inventory opens up on US Air. And I usually call about three minutes to 8:00 so I'm the first one on the list. I dial in. I hold the guy on the phone. And then when inventory comes available, I try and jump on the seats.

Well, I wanted seats January 12th, year 2002, leave Wilkes-Barre/Scranton to one of the Florida markets, come back on the 22nd. Now, this is almost a year away. All seats are gone. Not only at Wilkes-Barre/Scranton. All those cheap seats are gone out of Philadelphia.

What is US Air doing? This travel agent tells me that they allocate those seats to the cruise lines; they allocate those seats to certain parties or individuals or corporations. And our local passengers are left with zero. So even though they may publish a fare of $198 to Orlando, you're not getting that fare.

You could call all day. Most of the time, it's rare that you get that fare. Airports the size of Wilkes-Barre/Scranton don't have the resources to learn about all the inventory and pricing. I believe it would be in the best interest of the Commonwealth to aid the primary air service airports which, when all on-airport business and visitor impacts are combined with the multiplier impact, pump more than $11.8 billion into Pennsylvania economy, by giving the Secretary of Transportation, the Bureau of Aviation the necessary resources to examine and investigate how the major airlines determine the price of tickets at Pennsylvania air carrier airports.

We must understand the problem before we can recommend or suggest improvements to it. If we don't, all we can do is individually request an audience with the airlines and beg for lower fares. And let me say that on February 1st of this year, my Board of Commissioners and I went down to US Airways' headquarters and begged for lower fares.

We were successful. On the 14th and 15th of the month, they lowered fares to seven, the leisure markets in Florida. Of course, it's very difficult to get those fares. And some of the fares in the long haul West Coast markets were lowered. Thank you very much, Mr. Chairman.

CHAIRPERSON FAIRCHILD: Thank you. Were you here during Mr. Hudson's testimony, the advocacy group, consumer advocacy?

MR. CENTINI: I think I was in right at the end of it.

CHAIRPERSON FAIRCHILD: Let me ask you this just for the record so when we put all this record together, we can figure, hopefully figure something out. Gate access, that's not an issue at your airport?

MR. CENTINI: No, it's not.

CHAIRPERSON FAIRCHILD: You don't have a problem with that. So sharing, there wouldn't necessarily be a problem sharing gates?

MR. CENTINI: We have no gate problems at Wilkes-Barre/Scranton.

CHAIRPERSON FAIRCHILD: Well, I think, I think you've summed it up extremely well. And I commend you for coming forward. And it appears that, at least to me, there's a very troubling scenario developing here. Perhaps it's consumer education.

But I think that you can only do so much for the consumer without -- it seems like we need to know the other side of the formula. And to my knowledge, the airport, the airlines are not really releasing that side of the formula.

In other words, I think it would be very interesting to know that if they are going to advertise a rate for a certain flight, that the consumer has every right to know how many seats are available for that given flight on a given day. Would you like to comment on that?

MR. CENTINI: I believe that they need enough seats. I'll tell you what. I'm sitting here, and I'm deathly afraid right now of Wednesday. We promised US Air that we're going to advertise some of the cheap fares that we got. And we have pulled our advertising together, and we're starting Wednesday with TV and radio.

And when we put 174 up there to Tampa and 198 to Orlando and our market people are going to call and they cannot get that fare, our phone's going to be ringing off the hook. Our commissioners, our board members are going to get bombarded by the constituency.

And we're going to be right back in the paper with the type of articles that you see before you.

CHAIRPERSON FAIRCHILD: When do those rates, when are they scheduled to start?

MR. CENTINI: They have already started last Friday.

CHAIRPERSON FAIRCHILD: Good. I'll be giving you a call. Paul or Eric? (No response.)

MR. CENTINI: Thank you.

CHAIRPERSON FAIRCHILD: Barry, thank you very much.

MR. CENTINI: Thank you.

CHAIRPERSON FAIRCHILD: For those of you in attendance, by the way, the two people that make the, the Transportation Committee work, you got the two Executive

Directors here, Paul Parsells and Eric. I think you'll probably run into most of them in your career if you're interested in transportation issues.

But gentlemen, thank you for being here. And of course, Dana, our Chief Counsel on the Transportation Committee. Thank you. And please feel free to submit any additional comments if you would like. And we will reconvene the hearings tomorrow morning. Thank you.

(Whereupon, at 4:41 p.m., the hearing adjourned.)

I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me during the hearing of the within cause and that this is a true and correct transcript of the same.

Jennifer P. McGrath

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Registered Professional Reporter

My Commission Expires:

April 30, 2001

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