

HOUSE OF REPRESENTATIVES
COMMONWEALTH OF PENNSYLVANIA

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Airline Ticket Pricing

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House Transportation Committee
Subcommittee on Aviation

Room 60, East Wing
Main Capitol Building
Harrisburg, Pennsylvania

Tuesday, February 27, 2001 - 9:11 a.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 Gene McGill
Honorable Katharine Watson
Honorable Stephen Stetler, Minority Secretary
Honorable Joseph Petrarca, Minority Subcommittee Chairman
on Aviation

T2001-008

BEFORE (cont'd.):

**Honorable Dante Santoni, Jr., Minority Subcommittee
Chairman on Transportation Safety**

**Honorable Anthony Melio, Minority Subcommittee Chairman on
Highways**

**Honorable LeAnna Washington, Minority Subcommittee Chairman
on Public Transportation**

**Honorable David Levdansky, Minority Subcommittee Chairman
on Railroads**

Honorable Frank Dermody

Honorable Susan Laughlin

Honorable Joseph Markosek

Honorable Lawrence Roberts

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ALSO PRESENT:

Eric Bugaile
Majority Executive Director
House Transportation Committee

Dana J. Alwine
Majority Counsel

Paul Parsells
Minority Executive Director
House Transportation Committee

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1 CHAIRPERSON FAIRCHILD: Good morning everyone.
2 If everyone could find their seats, please. Just some
3 miscellany. If anyone would like any juice or coffee,
4 please feel free to help yourself. At this point, I would
5 like to call the second hearing concerning rate schedules
6 and aviation rates in Pennsylvania to order.

7 And we're going to start off immediately with
8 our first testifier, who is Mr. Eric Clancy. And Eric is
9 Executive Vice President, Delta Development Group and a
10 member of SARAA Board, which is the Harrisburg, basically
11 the Harrisburg vicinity Airport Authority Board. Eric,
12 when you're ready, you may begin.

13 MR. CLANCY: Good morning. It is a privilege
14 for me to be with you this morning and speak a little bit
15 about the impact of aviation on Central Pennsylvania
16 business. I am, as was stated, Eric Clancy. I'm Executive
17 Vice President with the Delta Development Group. The Delta
18 Development Group is a 24-person firm. It's now in its
19 14th year of existence. Our offices are in Mechanicsburg,
20 Pennsylvania.

21 It is also a privilege to serve at the
22 pleasure of Cumberland County on the Regional Airport
23 Authority. The Regional Airport Authority, as I'm sure you
24 know, deals with the Capital City Airport General Aviation
25 Facility and the Harrisburg International Airport.

1 At Delta Development, about 60 percent of our
2 total business is done in a triangular corridor that runs
3 from Johnstown down to Greene County and up to Butler
4 County and all the area in between. And our company makes
5 between 5- and 10-person trips a week out to that area,
6 mostly into the greater Pittsburgh area.

7 Just by way of example, if I needed to have
8 two of my development team people or planning team people
9 in Pittsburgh, say, yesterday afternoon, they could have
10 taken a 3:51 flight out of Harrisburg. They could have
11 been in Pittsburgh at 4:47.

12 They could have been downtown for a 6 o'clock
13 evening meeting. If they were going to return this evening
14 after a dinner meeting, for example, they could have gotten
15 the 8:44 flight out of Pittsburgh, which arrives back in
16 Harrisburg at 9:47. So going each way, it's nominally an
17 hour airtime.

18 That would have cost each of those individuals
19 \$570.50. That would have been yesterday. That meant that
20 our company would have been saddled with a \$1,141 airfare
21 bill for a meeting yesterday. That's a current fare. In a
22 consulting business like ours, many of those costs are
23 passed on to a client, as is the case in most service
24 businesses.

25 But that is still a significant disadvantage

1 for certainly the Central Pennsylvania business and
2 certainly for using air transportation in the Commonwealth.
3 If we could only get frequent driver miles on the Turnpike,
4 we'd be doing very, very well. We spend a great deal of
5 time on the Turnpike going back and forth.

6 Intrastate travel is always a fly or drive
7 proposition. We never evaluate other airports for fares.
8 It just doesn't really make sense. And we seldom fly doing
9 business within the state at this point. In a recent
10 interstate travel example, one of our management team had
11 to visit a Fortune 50 Company in Connecticut.

12 The flight from Philadelphia to Connecticut
13 was about \$575 round trip. If he had flown from
14 Harrisburg, the cost would have been twice that much. And
15 that adds about 110 miles each way onto that flight. It
16 doubles the cost of the flight.

17 Many companies in our area have specific rules
18 about using -- and just by the way, that flight to
19 Connecticut was taken on about January 28th or somewhere
20 around there, the last week of the month. So that's
21 current as well.

22 Many companies in our area have specific rules
23 about using airports based on cost differential for
24 flights. My brother is an engineer at one of Central
25 Pennsylvania's largest manufacturers. He is on the road

1 five to ten days each month across the country.

2 He lives less than 30 minutes from
3 Harrisburg's airport. But the company policy is that if
4 the fare, if the fares are \$150 or more higher at
5 Harrisburg, he must fly out of BWI, Baltimore's airport.

6 A client of ours from Nevada has found that
7 flying into Baltimore, based on cost and connections, has
8 allowed him to evaluate facilities and locations in
9 Maryland on his way up to see us. That's a significant
10 counterproductive activity for one of our clients coming
11 into Pennsylvania. That does not help Pennsylvania
12 business.

13 A Commonwealth official found himself in a
14 position of comparing fares for a January 2001 trip to the
15 West Coast. The trip included one of my project managers.
16 Both were going to look and evaluate, to look at a system
17 for possible use in the Commonwealth.

18 They looked very carefully for a competitive
19 fare from Harrisburg. They were confronted with a \$238
20 fare from BWI or a \$1,250 fare out of Harrisburg. He
21 selected BWI and rightfully mentioned that he could not
22 rationalize a \$1,000 premium to his agency or the taxpayer.

23 As our development team works on technology
24 facilities for Central Pennsylvania, one of the prospect's
25 first question is, How do we get our people to Charlotte,

1 Atlanta, Austin, and Northern California? These are always
2 compared to cost of operation in other cities for very
3 competitive economic development prices. This has become
4 very, very critical.

5 We are losing significant economic resources
6 to Maryland each year by pushing our residents and families
7 away from our local airport facility. The key is fares and
8 connections to most ticket buyers. In an INC. magazine
9 article in December of 2000 -- it's attached there -- the
10 article is called "City Pickers: How to judge whether a
11 city fits your business."

12 The author, Rosenwein, details nine issues in
13 choosing a place to put your company. So one of the
14 ingredients that they focus on here -- in fact, item number
15 4 -- is transportation. This is a very, very important
16 link. And they write in the article, "Air service is
17 particularly important in today's economy."

18 She poses two questions: How many flights go
19 into or out of the nearest airport? Is there a hub nearby
20 making it easy for your customers to get to you?
21 Harrisburg International Airport is a vital link for
22 Pennsylvania business and maybe more so for national and
23 international business that have found favor with
24 Pennsylvania as a place to live and work.

25 We must make it easy for these people to get

1 here. As is the case in most states, regions are not
2 evenly accommodated with air service. We have reasonable
3 levels of service in the eastern and western parts of the
4 state. BWI is, however, a significant competitor for the
5 entire south central region of the state and all of the
6 eastern region of the Commonwealth.

7 In Pittsburgh, competition from Cleveland is
8 becoming a more relevant issue. Beyond the business
9 community, the same issues impact leisure travelers; but
10 many have more options due to 21-day fare breaks. In
11 Central Pennsylvania, our catchment area, the area from
12 which we would expect to collect our, the flying, the folks
13 that fly on planes in and out of here, is about 1.6 million
14 people.

15 That covers eight counties. And that's based
16 on travel time to and from the, to and from the airport
17 based on the road network in and around these eight
18 counties. They are not, however, using Harrisburg
19 International Airport. And that is a significant hardship
20 to Pennsylvania business.

21 At the Airport Authority, we believe that we
22 are losing over 50 percent of the enplanements in our
23 catchment area, most to BWI. The key draw to BWI, the key
24 draw of BWI to our catchment area is the fare oriented
25 followed by connections, the connection options that they

1 get there. The key to BWI's fare structure is the
2 Southwest Effect on all of the carriers.

3 I hope that we're able to attract and retain
4 service from existing and new carriers to serve Central
5 Pennsylvania residents and business people. We have a
6 great opportunity to continue economic development growth
7 here. Transportation and access will continue to be vital.

8 CHAIRPERSON FAIRCHILD: Thank you. Questions
9 from members?

10 REPRESENTATIVE LAUGHLIN: Yeah, I have one
11 question. Do you book these fares way in advance or --

12 MR. CLANCY: In most cases, when we're booking
13 business, business fares, we may get a 3- to 5-day lead
14 time.

15 REPRESENTATIVE LAUGHLIN: So you need what,
16 about 21 days to get a lower fare?

17 MR. CLANCY: The key fare breaks come at 21
18 days. That's right.

19 REPRESENTATIVE LAUGHLIN: Well, okay. Thank
20 you.

21 CHAIRPERSON FAIRCHILD: Representative Melio.

22 REPRESENTATIVE MELIO: Yeah. You know, I hope
23 we can help you because we have the same problem. I mean,
24 we have meetings and hearings in Pittsburgh. And it costs
25 more to go from Philadelphia to Pittsburgh than go to a

1 foreign country. And it doesn't make sense.

2 And one time I was told, Did you ask for the
3 government rate? Well, I asked for the government rate.
4 They had one from Harrisburg to Pittsburgh but not Philly
5 to Pittsburgh. And I said, Isn't this the same state? And
6 it's, it's only a 45-minute flight.

7 MR. CLANCY: It is a -- well, and in the
8 Connecticut example, adding the 110 miles from Philadelphia
9 to Harrisburg going each way added another 500-plus dollars
10 to the flight. So that's --

11 REPRESENTATIVE MELIO: It certainly seems to
12 me that it would discourage any business from locating in
13 Pennsylvania. We have, you know, one of the greatest
14 airports in Philadelphia and Pittsburgh. And they can't
15 accommodate the business community. It doesn't make sense.

16 MR. CLANCY: It is a significant issue. And
17 that is a growing relevance. Yeah.

18 REPRESENTATIVE MELIO: Because I talked to the
19 Mayor of Pittsburgh, and he told me that his business
20 people are going bananas because they just can't afford it.

21 CHAIRPERSON FAIRCHILD: Thank you. On the
22 cost for your flight to Pittsburgh, was that regular class?

23 MR. CLANCY: Yeah. All of the fares noted
24 were economy seats, yes.

25 CHAIRPERSON FAIRCHILD: I see that the

1 Authority is estimating we're losing about 50 percent of
2 enplanements. Just for the benefit of the members, in
3 yesterday's hearings -- and Tony, you're exactly
4 right -- we heard over and over again that it usually reins
5 between 40 and 60 percent of leakage to other airports.

6 And I think what we saw yesterday in testimony
7 was similar to this in that we're not only losing leakage
8 but, sadly, we're losing that leakage out of state. And
9 that I think sends up a very serious red flag for
10 Pennsylvania.

11 In your closing paragraph, you state that you
12 hope that we are able to attract and retain service by
13 existing new carriers. How would you propose that the
14 state would play a role in assisting to do that, assisting
15 authorities to do that?

16 MR. CLANCY: There are a couple of significant
17 issues there. One of the -- in terms of how airports are
18 funded, there are some fairly significant hurdles. And I
19 think somebody like Bill Shaffer may be able to speak to
20 some more details here.

21 But there's an interesting issue when you deal
22 with FAA funding for airport facilities. While they want
23 you to consider economic impact of improvements to
24 airports, FAA money is not permitted for an economic
25 development benefit to the community. So that creates kind

1 of a difficult balancing act.

2 I would say that any way that we can encourage
3 additional carriers into our Pennsylvania airports is
4 probably a benefit. Now, when I say that, I also realize
5 that there are some that, some folks that are starting in
6 business and they may not solve the broad problem.

7 For example, we had a shuttle service that we
8 were trying to work between Harrisburg and Pittsburgh under
9 a Pan Am flag. It was probably not a good fit. It was a
10 great strategy. It was a good thought. But they just
11 weren't ready yet to take that on.

12 So I think that we need to be careful about
13 that. But I think additional carriers across the
14 Commonwealth is likely to be a benefit.

15 CHAIRPERSON FAIRCHILD: Thank you. The last
16 question I have is one relating to rates themselves.
17 Yesterday, we had quite a, an interesting dialogue on what
18 I will call special rates or those rates that are
19 advertised in the media.

20 Oftentimes, a consumer will see a rate such as
21 a \$99 special from some airport to California. They get
22 excited. They call the airlines or their travel agent.
23 And they find out that no, that rate's no longer available.
24 And part of the dialogue obviously based, is based on how
25 many seats are actually available and do the consumers know

1 what the parameters are.

2 But has your company or you personally ever
3 tried to lock in any of those types of rates; and if you
4 have, what kind of experience have you had?

5 MR. CLANCY: We have not. I will add, though,
6 that there was an article last week, I believe it was, in
7 the Wall Street Journal about Saber using a new model, an
8 artificial intelligence and modeling profiling system to
9 fill airline seats and make sure that they are balancing
10 the discount seats with the full fare seats and not
11 prebooking too many discount seats so that there are, there
12 is space in the planes for the full fare seats.

13 And that was an article within the past 10
14 days in the Wall Street Journal. So this is, this is
15 becoming a fairly significant issue. I mean, we -- our, as
16 I pointed out, our needs, we rarely know them more than a
17 week in advance in terms of the specific details or meeting
18 schedules and the like. So we're next-day or 2-day buyers.

19 REPRESENTATIVE MELIO: Mr. Chairman.

20 CHAIRPERSON FAIRCHILD: Yes. A follow-up
21 question.

22 REPRESENTATIVE MELIO: It probably was about
23 ten years ago, it probably was about ten years ago; but
24 there was an advertisement in the newspaper of a company
25 that wanted to fly from Northeast Philadelphia to Allegheny

1 County Airport for \$69.

2 And I don't know what happened that
3 discouraged that. I don't know whether the Allegheny
4 County officials or the Northeast Airport, something didn't
5 work. But maybe our committee, our staff should look into
6 encouraging other airlines to take advantage of those
7 facilities so that we can have a good price, something that
8 the business people can live with.

9 MR. CLANCY: In some areas, that's an issue of
10 capacities or had been previously an issue of capacities at
11 the typical airport. In other words, typically flying into
12 Philadelphia, you wouldn't fly into Northeast. In
13 Harrisburg, one of the -- here in our system, one of the
14 issues for discussion was, Do you try to pull a scheduled
15 charter or something like that and work it out of Capital
16 City Airport?

17 The dilemma there is there's not a capacity
18 problem now at HIA. So it wasn't really a, an issue that
19 got legs, so to speak. It was -- it kind of -- we've got a
20 place to put additional carriers at HIA. I think if there
21 is a capacity issue at the traditional airports, then that
22 probably opens up a lot of options in using the other
23 facilities in the area if they're capable of handling the
24 aircraft.

25 REPRESENTATIVE MELIO: Even if they can go to

1 a place likely Allegheny Airport, the county airport rather
2 than international airport, maybe something can be worked
3 out.

4 CHAIRPERSON FAIRCHILD: Thank you very much.
5 The next testifier will be Wendell LaPrairie. I hope I
6 pronounced that right. And he is with the AAA Travel of
7 Southern Pennsylvania. Wendell, when you're ready, you may
8 begin.

9 MR. LAPRAIRIE: Good morning, Chairman
10 Fairchild, Honorable members, distinguished guests. Thank
11 you for the opportunity to speak to you today. My name is
12 Wendell LaPrairie. I'm here today representing AAA of
13 Southern Pennsylvania with over 217,000 members,
14 approximately 200 employees, 9 offices covering 8 counties
15 in the Commonwealth: York, Fulton, Franklin, Bedford,
16 Clearfield, Cambria, Clinton, and Centre Counties, and also
17 parts of Somerset and Cumberland Counties.

18 I'm delighted to be here today to address the
19 concerns and issues regarding air flights via Harrisburg
20 International Airport. Among several core services that we
21 have is a travel agency with annual sales of over \$18
22 million. Of this 18 million, 39 percent of that represents
23 airline sales.

24 We have developed a strong group travel
25 department. And generally, these groups unfortunately are

1 departing from BWI instead of MDT due to pricing and lift
2 availability even though logistically MDT would be more
3 convenient. Convenient because from York, as we know, MDT
4 is approximately 29 miles, while BWI is 65 miles.

5 For comparison purposes, I have enclosed as
6 part of my testimony here today a comparison of several
7 major cities via BWI and MDT. I might just say that from
8 personal experience, we have our corporate office in
9 Orlando, Florida, which I fly there quite frequently.

10 I cannot tell you the last time that I've been
11 able to fly out of Harrisburg only because of the pricing.
12 If you notice on my comparison sheet, the very first one
13 there, Harrisburg and Orlando, as much as \$800 difference
14 between the two of them. And I'm talking basically the
15 same, same time departure, same, same days and so forth.

16 Recently, three of my colleagues went with me
17 to Orlando. And again, we had to fly out of BWI because of
18 price difference. It would have been approximately \$1,300
19 difference for each one of us to fly. Reasonable airfares
20 and lift availability would enhance growth and
21 profitability for Harrisburg Airport and provide the
22 citizens in the southeastern region of the Commonwealth of
23 Pennsylvania a more reasonable, convenient means of air
24 transportation.

25 I thank you for this time allowing me to

1 testify on behalf of AAA of Southern Pennsylvania about
2 these issues. While I am Vice President of the Corporate
3 Affairs and not directly involved with our travel agency, I
4 have agreed to testify before you this morning.

5 Unfortunately, at the last minute, our Vice
6 President of Travel was called out of town. But I'll
7 certainly be happy to try to address any concerns and
8 questions you might have.

9 CHAIRPERSON FAIRCHILD: Thank you very much.
10 I have some, I guess I have some concerns which were
11 heightened yesterday during the hearings and haven't really
12 been comforted much today. And perhaps your industry could
13 shed some light onto how discount airfares are marketed to
14 the, to the flying public.

15 Could you explain that situation a little bit?
16 Please explain from a consumer's view that I would be
17 calling one of your travel agencies and asking for a, the
18 lowest fare I could get for a flight from point A to point
19 B. How would you take it from there as far as determining
20 if there are, if these discounts are available?

21 And let me preface it. Say I saw it in the
22 paper that I can fly from Pennsylvania to California for
23 \$99.

24 MR. LaPRAIRIE: Unfortunately, in many of
25 those cases -- in fact, I think it would be fair to say in

1 most of those cases, it's very limited seats availability
2 for that special airfare. Secondly, there's some
3 restrictions on those airfares.

4 It's very difficult, for example, for
5 businesses to take such use of those airfares because many
6 times it's a Saturday night stay, overnight stay, which
7 many of us many times don't need to get to our destination
8 till Monday sometimes. We leave on a Sunday.

9 Which if we would have to go down on a
10 Saturday to get that discount, then of course you have
11 extra expenses such as meals, lodging, and so forth. I
12 think the major thing is limitation of those airfares.
13 Many times, a customer will call us seeing those advertised
14 specials.

15 They're already sold out till we, you
16 know -- it could be the same morning, the same day. And
17 the fares are gone.

18 CHAIRPERSON FAIRCHILD: Do you get
19 information -- do you know -- when an airline offers these
20 specials, do they state that we have 28 seats on such and
21 such a flight available at that particular time; or would
22 they just say available?

23 MR. LAPRAIRIE: We would only know
24 availability if availability existed at the time we would
25 call. We would have no advance notice of that.

1 CHAIRPERSON FAIRCHILD: How does the flying
2 public know that this is not a come-on?

3 MR. LaPRAIRIE: I'm not sure they don't know
4 that. I know as a consumer myself, I see special airfares.
5 I personally go into our travel agency and say, Tell me
6 about this. What is this exactly? When they go into the
7 computer system, they're not available. They're sold.

8 CHAIRPERSON FAIRCHILD: Does anyone that you
9 know of, federal government or state government or the
10 industry itself, really monitor to determine that yes, this
11 is a bona fide offer and there are, there were or there are
12 26 seats available for that \$99 flight that they're
13 advertising in --

14 MR. LaPRAIRIE: Unfortunately, Mr. Chairman, I
15 can't answer that question. I don't know that.

16 CHAIRPERSON FAIRCHILD: You said in your last,
17 in your recent answers that, something on the order of
18 those rates aren't available down there or when they get
19 there. I assume you're referring to BWI for the most part.
20 But I guess my specific question is, Do the smaller
21 airports, including the Wilkes-Barre/Scranton, the
22 Harrisburg, the Williamsport, the Erie, are these specials
23 available for those connector flights or those types of
24 flights out of the smaller schedule airline airports?

25 MR. LaPRAIRIE: You're referring to the

1 special flights?

2 CHAIRPERSON FAIRCHILD: Yes. The special
3 rates.

4 MR. LaPRAIRIE: The special rates? It all
5 depends. Sometimes you will see in the, in the
6 advertisement certain destinations. And they many times
7 will not apply to the smaller airports. In fact, I have
8 noticed in some ads where Harrisburg's not even included in
9 those special rates.

10 CHAIRPERSON FAIRCHILD: Why do you think
11 they -- any reason why they do that?

12 MR. LaPRAIRIE: I think some of it could be
13 based on volume. I don't know that for a fact. Also
14 competition. I think in the previous testimony, it was
15 mentioned some additional airline carriers be added. I
16 think competition would certainly help that situation.

17 CHAIRPERSON FAIRCHILD: I mean, to me it seems
18 ironic that we're having all this leakage to out-of-state
19 airports. And yet it seems the citizens of Pennsylvania
20 are not being offered these discount rates. If we really
21 wanted to be smart about the transportation system, it
22 seems to me that those rates should be offered at the, at
23 the airport of origination in that person's geographical
24 distance so that someone doesn't drive an hour and a half.

25 Or we've heard instances of a 3-hour drive

1 time back, you know, one way, three hours back when they
2 return.

3 MR. LaPRAIRIE: I agree.

4 CHAIRPERSON FAIRCHILD: Questions?
5 Representative Leh.

6 REPRESENTATIVE LEH: Thank you, Mr. Chairman.
7 Just one, Wendell. And maybe you're not the person to
8 answer this, but you're the person sitting behind the mike
9 right now. We're talking about carriers. We're talking
10 about market forces. And I guess my question is -- and we
11 discussed yesterday the Southwest Effect.

12 How do we get Southwest into Harrisburg?
13 That's not the real -- I'm not really asking you that. I
14 guess my point is, is that Southwest flies out of BWI
15 simply because people are coming there to fly out. Which
16 came first, the chicken or the egg, really doesn't concern
17 us right now. We've got a situation here to try to
18 correct.

19 But since you have people that can't get a
20 decent fare out of Harrisburg, they simply go to Baltimore.
21 So if I'm Southwest, why would I want to come to Harrisburg
22 if my market is there? How do we move that market?

23 MR. LaPRAIRIE: First of all, I can't answer
24 your question directly. I can tell you that our national
25 office where a lot of, a lot of the lobbying and

1 legislation is going on to try to produce these things to
2 happen, they, they make an attempt to have these things
3 happen.

4 I can tell you I know from attending some of
5 their hearings and so forth, it's not an easy process. I
6 think obviously a lot of it has to do with volume. As you
7 said, which came first, the chicken or the egg? They're
8 looking at Harrisburg International Airport.

9 And they look at the volume going out of that
10 airport and coming into that airport. Why would that
11 airline want at that point to put a hub there? It's a
12 difficult --

13 REPRESENTATIVE LEH: I agree. How do we
14 provide the incentive to get Southwest there? And there's
15 no really incentive for them to be there.

16 MR. LaPRAIRIE: No, there isn't.

17 REPRESENTATIVE LEH: As far as they're
18 concerned, their customers are going to come to Baltimore.

19 MR. LaPRAIRIE: Absolutely.

20 REPRESENTATIVE LEH: Mr. Chairman, thank you.

21 CHAIRPERSON FAIRCHILD: Representative Melio.

22 REPRESENTATIVE MELIO: Yeah. But if the price
23 was right, you could probably do a lot of business in the
24 Harrisburg Airport. If they gave the right fares, if there
25 were cheaper fares, I'm sure some airline would probably do

1 a booming business because there's a lot of business going
2 from this area, from Pittsburgh to Philadelphia to
3 Harrisburg. And -- but what can we do to help you?

4 MR. LaPRAIRIE: Possibly what we need to do is
5 if I would have some of our contract people at our national
6 office which sets up the regular meetings with our vendors,
7 the airlines, the Deltas, the Southwests and so forth,
8 maybe that's a start somewhere as far as trying to begin
9 lobbying to get some of these larger airports.

10 And I know there's a lot of logistics and
11 things that I don't personally understand because I'm not
12 on that level working with these particular vendors and so
13 forth. But maybe that would be the start.

14 REPRESENTATIVE MELIO: I hope so. Thank you,
15 Mr. Chairman.

16 CHAIRPERSON FAIRCHILD: Representative
17 Laughlin.

18 REPRESENTATIVE LAUGHLIN: Do you offer or do
19 the airlines offer discounts for senior citizens?

20 MR. LaPRAIRIE: In most cases, they do not.
21 Sometimes there will be a special offer, just as there's
22 special offers on certain destinations. But in most cases,
23 they do not offer that. I will say this: It's
24 amazing -- and I never realized this until I got a little
25 bit more involved in the travel agency.

1 And I'm sure I'm not telling any of you folks
2 anything that you don't know. But any flight that you're
3 on, it would be interesting to take a survey and just to
4 find out how many different airfares. I mean, it's
5 incredible. I'm sure if, you know, there's six people
6 around you, there's six different airfares.

7 REPRESENTATIVE LAUGHLIN: Well, I know the
8 flight from Pittsburgh to Harrisburg and back is \$570. But
9 if you tell them that you're a senior citizen, then it's
10 \$518. So you're saving almost \$50 there.

11 MR. LaPRAIRIE: One of the things that -- I
12 think it was US Air. I think they will offer some type of
13 discount. However, they don't ask you. If you ask, you
14 know --

15 REPRESENTATIVE LAUGHLIN: That's right.

16 MR. LaPRAIRIE: That's another point.

17 REPRESENTATIVE ROBERTS: Thank you, Mr.
18 Chairman. I just have one question. I understand the
19 advance notice on, on a reservation, you know, how many
20 people are going to be on the plane. But I really don't
21 understand the Saturday stay. Everyone seems to have this
22 stay on Saturday. Why is that necessary to get a reduced
23 rate?

24 MR. LaPRAIRIE: Unfortunately, I can't answer
25 that. We've been asking that in the industry for some time

1 to the airlines. We've never really gotten a firm answer
2 on that. It's obviously -- I mean, obviously for business
3 travelers, it's very inconvenient, very costly, and
4 certainly in most cases does not apply to business travel.

5 But we have asked that question time and time
6 again to the airlines.

7 CHAIRPERSON FAIRCHILD: Thank you,
8 Representative Roberts. Representative Melio.

9 REPRESENTATIVE MELIO: Yeah. I know my office
10 tries to get airfares when we go to different places.
11 Sometimes you call -- you get on the computer and you get a
12 different price an hour later than you got. Or sometimes
13 you call on the phone and you get a different price. And
14 it doesn't make sense.

15 MR. LaPRAIRIE: Absolutely. And it does not
16 make sense. But I can tell you that happens constantly.
17 We have people that, we have customers that will tell us in
18 advance that they might be flying to LA in three months,
19 would we watch those airfares?

20 And it's incredible to go in every day just on
21 a daily basis and see that change. And you're absolutely
22 right. They do change from hour to hour. Someone just
23 had -- recently, there was an experience with one of our
24 clients. They called for rates for Bahamas. I think it
25 was Nassau.

1 They were quoted the rate. They were asked if
2 they wanted to put that on a credit card to hold it. No.
3 They were told that the price could change. They said, No,
4 it's no problem. We'll be there within an hour. An hour
5 later, that price changed to \$200 more per person within
6 one hour.

7 CHAIRPERSON FAIRCHILD: Thank you. Thank you
8 very much. If you could, if you would perhaps go back to
9 your organization and see if there is additional
10 information concerning rates. I think you know where we're
11 coming from. And I think you can see that we all have
12 concerns about what is going on.

13 But if you can forward those to this
14 committee, I would appreciate it very much.

15 MR. LaPRAIRIE: I'd be happy to do that, Mr.
16 Chairman.

17 CHAIRPERSON FAIRCHILD: Thank you for being
18 here.

19 MR. LaPRAIRIE: Thank you.

20 CHAIRPERSON FAIRCHILD: The next testifiers
21 are Paul Stifflemire, Senior Policy Fellow, Allegheny
22 Institute for Public Policy; and C.J. Haulk, Ph.D.,
23 Managing Director, Allegheny Institute for Public Policy.
24 Gentlemen, when you are ready, you may begin.

25 MR. HAULK: Good morning, Mr. Chairman,

1 members of the committee. It's our pleasure to meet with
2 you today. We're going to divide our testimony up into two
3 quick segments and then allow time for questions if you'd
4 like.

5 There's a handout, just some tables and
6 numbers, airfares that I'd like to just walk you through,
7 if everyone has a copy of that. I think they're being
8 delivered now. By way of --

9 CHAIRPERSON FAIRCHILD: Excuse me. Can
10 everyone hear? There's kind of a background noise going
11 on. Can everyone hear all right? Could you sit up just a
12 little closer to the mike? Thank you.

13 MR. HAULK: Dana is handing out a table of
14 airfares that I took off of Expedia over the weekend
15 between Pennsylvania cities and some pretty important
16 destinations. Page 2 is a comparison of Williamsport based
17 on booking short term and a little bit longer term.

18 And then the back page of this 3-page handout
19 is a table showing airfares from smaller cities around the
20 country to major destinations. It comes as no surprise, if
21 you look at Wilkes-Barre, the airfares are not very cheap.
22 If you want to book on a short-term basis, you can fly to
23 Los Angeles for \$2,000; you can fly to Pittsburgh for \$684;
24 and Cincinnati for 952; Chicago for \$1,000.

25 Now, notice that there are three major

1 airlines serving that airport. So there is potential for
2 competition. But the fact is, they typically don't fly
3 each other's route. So there's no head-to-head fare
4 competition. The same is true in Harrisburg. You can fly
5 direct to Chicago for 1,178 on American. And you can also
6 fly one stop on Continental.

7 Likewise, out of Allentown, the fares are
8 pretty high unless you want to go to Miami on a one stop.
9 In no case is there a discount airline present at either of
10 these three airports. And we'd like to talk about that
11 later because getting the discount airlines at small
12 airports is not something that's going to be easy to do.

13 If you look at Williamsport on the next page,
14 the best I can determine, there's only one major carrier
15 flying in and out of Williamsport. It's expensive if you
16 book short notice. Trip to Pittsburgh is \$567. Detroit,
17 anywhere you want to go, it's pretty expensive.

18 However, if you booked those same fares March
19 16th returning March 20, which is an over-the-weekend trip,
20 the fares, except for Pittsburgh, go way down. There
21 are -- now, availability may be a question. But at least
22 if you're on Expedia, you can find these cheaper fares if
23 you're willing to book for an over-the-weekend flight on
24 March 16th, which I guess at the time I did this was 21
25 days advance notice.

1 So it is possible to get cheap fares if you're
2 willing to stay over a weekend. And in answer to the
3 gentleman's question earlier why is that so, it's a simple
4 question of elasticity of demand. Business travelers have
5 a much lower elasticity and are willing to pay the higher
6 fares.

7 Leisure travelers who can stay over a weekend
8 can be seduced by the lower fares because it's, they have a
9 much higher elasticity.

10 CHAIRPERSON FAIRCHILD: Just before you hop
11 off the chart, I just want to clarify this. On the 21 days
12 advance notice, that last portion of that chart, these
13 would be locked-in fares, guaranteed that I can --

14 MR. HAULK: If you book them at that time. I
15 don't know what happens if you wait. That's what was
16 available at that moment. You have to get on and get them
17 booked. You have to give them your credit card. And
18 they're probably not refundable.

19 CHAIRPERSON FAIRCHILD: Do you know, are the
20 airlines assuming that on that 21 days, that there are no
21 discounts or anything else that --

22 MR. HAULK: That's the best fare you can find
23 on Expedia.

24 CHAIRPERSON FAIRCHILD: How many, how many
25 seats does that entail? Is that the whole airplane or --

1 MR. HAULK: There's no way of knowing that.

2 MR. STIFFLEMIRE: When those fares run out,
3 Expedia won't show those fares. They'll show you the next
4 best fare available.

5 MR. HAULK: So if you book it right then, you
6 can get it.

7 CHAIRPERSON FAIRCHILD: So we're assuming
8 that -- and we'll talk regular flying class -- we're
9 assuming that every plane is available, or every seat is
10 available up for that 21-day notice?

11 MR. HAULK: I don't know that you can assume
12 that. It's just they're showing you the best fare
13 available at that time if you book it right then. If you
14 wait, you may not get it.

15 CHAIRPERSON FAIRCHILD: Well, that's part and
16 parcel of the problem here is that -- and I haven't been
17 able to get a straight answer from anybody. But are all
18 those seats available; or do they hold some of those
19 knowing darn well that there's going to be a lot of people
20 that are going to, through happenstance or anything else,
21 that are going to need to get on in a 21-day or less and
22 then pay a lot more money?

23 MR. HAULK: Well, I'm sure the airline has a
24 strategy to try to maximize their revenue on these, on
25 these trips. And the closer you get to the date, the

1 higher the fare's going to be because they can charge
2 higher because people need to travel.

3 They're playing off the difference in the
4 elasticity of the buyer and trying to maximize their
5 revenue.

6 CHAIRPERSON FAIRCHILD: All we're trying to
7 find out is going into this, into the pricing policy, does
8 the consumer know that when he or she books 21 days or
9 longer in advance that, that all those seats are available
10 for booking? That was my question. If you don't know,
11 that's fine.

12 MR. STIFFLEMIRE: Well, let me answer your
13 question. I think if you're asking is every seat on the
14 airplane at that price at that time, the answer is no.

15 CHAIRPERSON FAIRCHILD: No. I'm excluding
16 first class, business, et cetera.

17 MR. STIFFLEMIRE: Even coach, all the coach
18 seats are not available at that price. There are certain
19 numbers that are. What the airlines have done is segmented
20 their market. They know there is a certain segment that is
21 going to go on the basis of price.

22 Other segments are going to go on the basis of
23 other criteria. Either they have to travel over certain
24 dates and be back or convenience or luxury or extra leg
25 room. I saw an advertisement by American Airlines on TV.

1 All they were advertising was more leg room.

2 How many people are going to run down and book
3 tickets on American because of more leg room? But those
4 prices at Expedia, there's a certain number of seats that
5 are available at that best price. Now, after that, there
6 is a certain number of seats that are available at another
7 price.

8 Once all of those best price seats are booked,
9 those will not show up. I think I'm answering your
10 question. There's only a few --

11 CHAIRPERSON FAIRCHILD: Yeah. And I know you
12 don't know some specifics. But --

13 MR. HAULK: Yeah. Even Southwest, which
14 basically books all the seats at the same price on the same
15 legs, do have promotional fares. And if you book those
16 early enough, you can get even steeper discounts from their
17 regular low prices.

18 So even the discount airline like Southwest
19 will have the same kind of strategy if you want to book in
20 advance with a nonrefundable fare. I mean, that's just the
21 way they do the business.

22 CHAIRPERSON FAIRCHILD: I realize that.
23 But here's the problem: There's a lot of people that try
24 to get that 21-day fare. And they say, Sorry. It's
25 already booked. My question is, how many -- or if it's

1 booked -- let's say it's booked 45 days in advance. I call
2 my travel agent. And they tell me, Sorry, Mr. Fairchild.
3 But that flight is booked.

4 My question is, How many other seats are not
5 booked that they're holding off until the 21-day kicks in
6 or less and the fares double or triple as we've seen in
7 prior testimony?

8 MR. STIFFLEMIRE: That's an interesting
9 question because what's implied is that they've got some
10 seats that they're sort of holding at a price that they're
11 not going to show to the market yet. And I don't think
12 that that's the case. And I could be wrong.

13 But what I was told by a pricing expert -- and
14 there is a fellow who is an expert on how airlines
15 price -- is that they basically know how many seats they
16 should be selling today on a given flight at a certain
17 point in time.

18 And they watch that as they get closer to that
19 particular date. If -- it's like retailing. If in fact
20 the sales aren't going the way they expected, they will
21 start adjusting prices in order to fill the plane. Then it
22 becomes a marginal decision at some point. How many empty
23 seats are we going to have? Is it better to give those
24 seats away at very low prices than to let them fly empty?

25 So he says they're very sophisticated in terms

1 of how they do it. And I think it's not, as we might
2 suspect, that they've got these seats at very low fares
3 that they're just not letting us see until a certain point
4 in time. They can't afford to do that because they could
5 be wrong on that bet, too.

6 CHAIRPERSON FAIRCHILD: Well, there's two
7 things that are happening here. Number one, it appears in
8 the testimony that a lot of the discounted fare rates are
9 not available to Pennsylvania smaller airports.

10 MR. STIFFLEMIRE: That's correct.

11 CHAIRPERSON FAIRCHILD: And number two, where
12 there is a, a, a competitive atmosphere at airports, that
13 seems to be where the discounts are happening, which kind
14 of makes it worse for Pennsylvania consumers because they
15 end up driving to these to take advantage of some of these
16 things.

17 The third thing is I think consumers, there
18 has to be some way that consumers are assured that indeed
19 when these discounts are available, that there are X amount
20 of seats available. And I think the consumers have a right
21 to know.

22 MR. HAULK: Well, I think they would get into
23 maybe more regulation than you could really effectively
24 write up. But I don't think, I don't think the DOT would
25 allow deception. If you go to Expedia and it says that

1 price is available and you book it, you have a contract.

2 If they break it at that point, I think then
3 you'd have grounds for some kind of legal action. But let
4 me, let me just go ahead and make my last point on these
5 airfares. Pennsylvania's not alone with high airfares from
6 its smaller cities.

7 I went and looked at Cedar Rapids, Iowa,
8 likely places you'd want to go to from there and Lincoln,
9 Nebraska. And guess what? It's the same story. If you
10 want to get out of Cedar Rapids, Iowa to go to Chicago,
11 it's \$804 either United or American.

12 If you want to go to St. Louis, it's \$963.
13 And St. Louis is not that far from Cedar Rapids.
14 Minneapolis, \$659 on Northwest. Same story out of Lincoln.
15 The only good fare there is Lincoln to St. Louis. And that
16 was, I think, a special rate that I just happened to catch.

17 But if you want to go to La Guardia or San
18 Francisco, you can get a reasonably good price to San
19 Francisco through Denver. But if you want to go out of
20 other small cities like Boise, Idaho or Odessa, Midland
21 where you have -- I mean, these are not small cities; but
22 they're not, they're not Pittsburgh's either -- you can get
23 some reasonably good airfares when there is a discount
24 carrier, like to Phoenix out of Boise, Los Angeles on
25 Alaska Air.

1 And Southwest, of course, flies a number of
2 flights out of Odessa, Texas. And you can get some pretty
3 good fares if you want to go to Dallas or St. Louis. But
4 if you want to go to Denver where there's no discount
5 available, you pay a pretty steep price.

6 So my point is that these airfares between
7 cities, small cities and major hubs typically don't matter
8 very much what part of the country you're in. I mean,
9 Pennsylvania's smaller cities are getting hit. Smaller
10 cities in Iowa, Nebraska, and Kansas are getting hit.
11 That's just the way the airline industry is set up right
12 now.

13 So unless we just don't want to feel too put
14 upon here, it's not unique to Pennsylvania. And with that,
15 I'll let my colleague take over.

16 MR. STIFFLEMIRE: I'm looking at the other
17 side of this coin. And that's the major airport situation,
18 particularly Pittsburgh International Airport which, as has
19 been correctly pointed out, I think, in previous testimony,
20 has airfares that are above average almost no matter how
21 you measure them, possibly with the exception of advanced
22 airfares.

23 And what I did in this particular review is to
24 look at next-day airfares as close as I could get to that,
25 leaving, I guess today is the date of the departure and

1 coming back on Thursday from various destinations. We've
2 done this several times over the past couple of years.

3 As it says, we've been looking at this since
4 roughly November of 1999 we did our first study and found
5 that prices, as has been indicated, were about 33 percent
6 above the average. And then the market basket that we
7 looked at to explain this thing, we picked eight
8 destinations that we thought were representative, looked at
9 ten airports that we thought were roughly comparable to
10 Pittsburgh and tried to see what the average cost or the
11 market basket of airfares were at those airports to see how
12 Pittsburgh compared. And Pittsburgh was more expensive.

13 But in November of '99, the average cost from
14 the other airports was 3,371. At Pittsburgh, it was 5,772.
15 So 71 percent above the average. This week the average
16 cost is \$5,350, and Pittsburgh is 6,494. So the difference
17 from average is now reduced to 21 percent.

18 Costs at the other airports on average have
19 gone up 59 percent. Costs at Pitt. have only gone up 12.
20 And then looking at the difference between Cleveland and
21 Pittsburgh in November of 1999, Pittsburgh, I mean
22 Cleveland had 143 percent advantage.

23 This week the advantage is slightly in
24 Pittsburgh favor. Now, there's an important note that
25 needs to be made here; and I think it's made a little later

1 on in the report. These fares are drawn from Expedia.com,
2 which is the web site that my colleague talked about.

3 They don't include Southwest's airfares. But
4 we've heard about the Southwest Effect. And the
5 presumption is that when Southwest comes into an airport,
6 it forces all competitors to lower their fares; and the
7 airfares generally go down.

8 But it's a little more subtle than that.
9 Southwest has to fly the particular route that you're
10 looking at. If it doesn't, there's really no incentive for
11 the major airlines to compete. What we found is that the
12 major airlines, and as this report points out, you can have
13 all five or six major airlines at your airport.

14 You may not get low prices because they don't
15 tend to compete with each other. The way to get lower
16 airfares is to have a discount coming. And that's what's
17 been happening at Pittsburgh International Airport. That's
18 what we were here to report on today, or I was.

19 Basically, the advent of AirTran at Pitt. and
20 a couple of other discounters and the fact that Pitt. has
21 gone from 8 airlines serving it back in November of 1999 to
22 roughly 14 today -- maybe only 13 because I heard yesterday
23 that Pan Am may not be there any longer, but they are still
24 at the web site -- is those additional discount airlines
25 that have had a salutary effect on pricing at Pittsburgh

1 International Airport.

2 And it's interesting. We've been talking
3 about some other airports. I'm just going to kind of skip
4 ahead to the page -- and eliminate all the rapacity
5 there -- that basically shows those airports ranked in
6 order of costliness with Cleveland at the top,
7 interestingly.

8 Minneapolis should be added. There's an error
9 there in oversight. And I will send corrected copies of
10 this report. Minneapolis would go between Newark and
11 Baltimore and would be the third least expensive airport in
12 this week's snapshot survey.

13 And again, keep in mind that these are actual
14 real-time prices for flights that could have been booked
15 last week to depart today, return on Thursday. Minneapolis
16 has fares that are best fares that are represented by only
17 25 percent of the major airlines.

18 So the point we're trying to make is that
19 competition exists realistically only when you have a real
20 competitor in there, and we're talking about price
21 competition. And that's a discount airline. And then
22 there is even disparity among the discounters.

23 For example, AirTran, an airline called ATA,
24 and Southwest are the most dramatic discounters. And they
25 have the most dramatic effect on prices at the major

1 airport that they enter. An airline like America West
2 has -- it was mentioned yesterday -- become a major
3 airline.

4 And they are no longer competing solely on the
5 basis of price. So they don't have the significant effect.
6 And I guess the point I'm trying to make, as you read
7 through this study and take a look at these prices -- and
8 I'm sure there will be questions -- is that it's a very
9 complex formula.

10 There is no simple silver bullet to get low
11 prices at any airport. It depends on who you attract, how
12 many routes they're able to fly, how much they care to
13 compete with major airlines. We talked to Southwest
14 Airlines, for example.

15 And we asked them the \$64 question. Why
16 aren't you at Pittsburgh? And I'll give you the answer
17 they gave us. They said that they have better
18 opportunities right now than Pittsburgh to move into other
19 markets where they can become profitable much more rapidly.

20 So they're avoiding Pittsburgh temporarily.
21 They're waiting for the situation to change there. They
22 know that there is a significant monopolist in Pittsburgh,
23 which is US Airways. And they are not saying that US
24 Airways is not pricing rationally because they are.

25 But what they're saying is they have an

1 entrenched infrastructure there. Travel agents,
2 corporations, the community is conditioned to fly US
3 Airways. They take the path of least resistance. They
4 call their travel agents and say, Give me the best
5 available fare. And the travel agent says, Okay. That's
6 on US Airways, whatever.

7 They don't do the work that other consumers
8 who are more price-oriented do, go to the Internet, go to
9 Southwest's web site, which is the only place you can get a
10 Southwest price. You have to go right to Southwest. They
11 don't use travel agents. They don't use the Saber. They
12 don't use the other things. You go to them.

13 Therefore, Pittsburgh's prices are still
14 higher. But you'll note that Philadelphia's prices in this
15 particular study are very competitive even without
16 Southwest. And that's because they have several discount
17 airlines in there competing very aggressively on the
18 routes, most of the routes that we're looking at.

19 So as I would point out, it's complex. Is
20 there a simple solution? Sure. Get Southwest to fly to
21 your airport. But that's easier said than done, very
22 difficult to attract them to small markets. As has been
23 pointed out yesterday, they're in Baltimore.

24 It's a major airport. I think there are well
25 over 25 million passengers flying in and out of there

1 annually. That's where they want to be. That's a
2 significant market. They can compete there. Plus there
3 are significant historical causes of the situation we see
4 now.

5 Pennsylvania is dominated by US Airways for
6 historical reasons. Allegheny Airlines in combination with
7 Piedmont, you know, to be honest, you guys helped that
8 situation along. I mean, they were our airline. We did
9 everything we could to help them get entrenched. And why
10 give that up?

11 Baltimore had the good fortune to have another
12 operator there that Southwest inherited, and that's why
13 they're there. It was an airport that most major airlines
14 really weren't interested in at the time. So it was
15 available. The economy there is quite substantial, and
16 that drives that to a great degree.

17 I'll stop there in the interest of time. And
18 we can open it up to questions for either myself or my
19 colleague.

20 REPRESENTATIVE MELIO: Mr. Chairman.

21 CHAIRPERSON FAIRCHILD: Representative Melio.

22 REPRESENTATIVE MELIO: Is ATA AirTran?

23 MR. STIFFLEMIRE: No. That is American
24 TransAir. And there's a code key --

25 REPRESENTATIVE MELIO: And AirTran is

1 different?

2 MR. STIFFLEMIRE: AirTran you'll see is a
3 different discount airline.

4 MR. HAULK: Yeah. The point I would make
5 about AirTran is when they came into Pittsburgh and offered
6 nonstop service to at Atlanta, the fares on Delta and US
7 Air moved quickly to match. Same way from Atlanta to
8 Dallas. American and Delta are both fare competing now.

9 So AirTran for Pittsburgh is doing the job.
10 We hope they'll be offering more flights to more places in
11 the absence of getting either ATA in a significant way or
12 Southwest. I might say that in thinking about this issue,
13 based on yesterday's testimony, what can Pennsylvania do to
14 get cheaper airfares?

15 It occurs to me that because most of the
16 flights from the feeder airports, Wilkes-Barre,
17 Williamsport, Du Bois, and so on, are going either to
18 Pittsburgh or Philadelphia and connect a plane to somewhere
19 else, the cheaper you can push the fares down in
20 Philadelphia and Pittsburgh, the better off the whole
21 system's going to be.

22 So we need a substantial amount of low fare
23 competition in both those airports. And I think that will
24 redound to the benefit of the entire state.

25 CHAIRPERSON FAIRCHILD: That seems to be a

1 question that which comes first, the chicken or the egg?
2 You know, you can lower airfares at the majors. But
3 unless -- if you're going to charge 5- or \$600 for someone
4 in Central Pennsylvania to get to either Pittsburgh or
5 Philadelphia, they're shot in the foot before they get
6 there.

7 They can drive to Baltimore, you know. They
8 can drive three hours to Baltimore and fly for the cost of
9 the flight from Central Pennsylvania to Pittsburgh or --

10 MR. HAULK: The only difference is if you have
11 a lot of low flight, or low cost seats going out of
12 Philadelphia or Harrisburg -- that would be great to have
13 them out of Harrisburg -- but Philadelphia, people can opt
14 to drive, say, from Johnstown to Pittsburgh to catch the
15 plane.

16 And eventually, the airline will either give
17 up the service or they'll have to offer lower fares to get
18 people to fly that leg. So I think the --

19 CHAIRPERSON FAIRCHILD: Well, if there's
20 competition. But I think we've heard over and over again
21 yesterday and today that with the leakage that's taking
22 place, there's a, there's a serious lack of competition in
23 Pennsylvania. I mean, how many people from Baltimore drive
24 to Pittsburgh or Philadelphia to fly?

25 MR. HAULK: I'd say very few.

1 CHAIRPERSON FAIRCHILD: I would say very few,
2 too. And I think that points out the problem at hand.
3 It's going, the leakage is going the other way.

4 MR. HAULK: Well, I don't think there's
5 anything in the short term that we can do really about
6 that. Going back to Representative Leh's point, those
7 passengers, many of them, if they didn't have the discount
8 service out of Baltimore, may not fly anywhere at all.

9 I mean, so they're essentially creating a
10 market there because they can attract people down to fly
11 that route. It's not necessarily leakage because it's
12 people that wouldn't be flying anyway. But to go to your
13 point, what I'm saying is we do need more competition on
14 low fares.

15 But I think it's more realistic to expect it's
16 going to happen at the large major hubs than it is at
17 Wilkes-Barre or Williamsport or State College because
18 there's just not enough service or not enough demand going
19 out of those small airports flying to a lot of different
20 destinations that you could afford to have air service
21 from, say, Wilkes-Barre to Schenectady, New York.

22 There's not enough people going there. They
23 got to go somewhere and connect a plane that's going to be
24 relatively full. So you can't solve the problem of all the
25 small airports all at the same time with discount carriers.

1 I think it would help to have major discount competition as
2 we're seeing happen at Philadelphia and Pittsburgh first
3 and then maybe coming to Harrisburg later on. Would you
4 agree with that, Paul?

5 CHAIRPERSON FAIRCHILD: Thank you. I'm just
6 going to make a comment. I think it would be interesting
7 to see these charts with Southwest rates thrown in. But be
8 that as it may, my last question has to do with the
9 proposed merger.

10 You heard me ask US Airways officials
11 yesterday. Given the, given the potential of the merger,
12 what would be your opinion as to what the consumer will pay
13 as far as the rates in the future, realizing that they have
14 offered to basically hold what they call the standard rates
15 for a two-year period?

16 But after that two-year period, what's your
17 vision of what rates will do for the flying public in
18 Pennsylvania?

19 MR. HAULK: Well, I think out of the major
20 airports that the new merged airline would serve, they
21 would be at least as, no higher than they are today and
22 probably lower because this trend toward more intense
23 competition from discount carriers is happening -- I mean,
24 this is something that the public hasn't even caught up
25 with.

1 It's been such a recent phenomenon, say, the
2 last three to five years. And I think that is going to
3 continue because it's obvious that carriers can fly major
4 hub to major hub and other destinations at much lower fares
5 and still make profit.

6 So I don't see the, the large airlines, except
7 where they have a total monopoly on the route, being able
8 to raise fares in the future. So whether United and US
9 Airways are merged or not, I think the trend toward
10 airfares to major destinations are going to continue to
11 trend down in inflation-adjusted terms and with the impact
12 of fuel costs taken out.

13 MR. STIFFLEMIRE: Let me just add a comment,
14 too. I think one has to understand the real motivation
15 for, at least a couple of the motivations for the merger
16 between United and US Airways, which was ostensibly
17 precipitated by UAL Corporation.

18 People have asked the question, you know, Why
19 would United want to buy US Airways if US Airways is
20 operating as horribly as we've indicated, we heard
21 indicated yesterday it is? I mean, it's the highest cost
22 major airline going.

23 We seen what happened to TWA. And as has been
24 pointed out by a number of individuals who testified before
25 Congress and elsewhere, US Airways has significant

1 problems. It basically is the synergy that would exist
2 when these two airlines are combined. Given their two
3 networks, they would form a truly national network
4 comparable to Southwest.

5 The biggest problems that United has are
6 tactical problems. The delays and horror stories you've
7 heard last year are due to concentrations at just a couple
8 of major hubs where basically every passenger that flies
9 United Airlines gets impacted one way or another.

10 If there are delays at Chicago, that backs up
11 throughout the entire system. Once they acquire access to
12 Pittsburgh, we believe that they will shift a substantial
13 amount of their traffic through the capacity of Pittsburgh,
14 which enables them to smooth out their systematic
15 operations.

16 The benefit for the combined airline is that
17 it gets to increase its economies of scale and drive its
18 cost per passenger seat mile down. They're doing it to
19 compete with the AirTrans and the Southwests, who are much
20 more efficient than they are.

21 The only way they can become as efficient is
22 either to shrink, jettison the parts that are not efficient
23 and cost effective and concentrate on those that are or
24 actually become larger, more efficient and be able to fly
25 you at a lower cost per mile. And that really is their

1 strategy.

2 So my opinion is that the effect of these
3 mergers on prices is a downward effect. Basically, they
4 operate quite rationally. They know that if they continue
5 to charge high prices at those airports where they have to
6 compete with Southwest and AirTran, they're going to lose
7 market share.

8 Then they either shrink or become competitive,
9 which they attempt to become competitive on their part.

10 MR. HAULK: Let me just follow up with one
11 thought. If we looked at -- and I'm developing a whole
12 series of major hub to major hub flights. If you look at
13 places like LAX and O'Hare and La Guardia and Miami, the
14 bigger airports, you have almost all of the airlines
15 operating between, out of those airports.

16 But they very rarely have more than two flying
17 back to any given destination. So if you go on United or
18 American between Denver and Chicago, for example, they're
19 likely to charge you exactly the same fare right down to
20 the penny. They're just simply not price competitive if
21 it's the big airlines.

22 So this notion that somehow if we have fewer
23 big airlines we're going to have less competition in price
24 flies in the face of reality. You don't have it now.

25 CHAIRPERSON FAIRCHILD: Representative Pippy.

1 REPRESENTATIVE PIPPY: Thank you, Mr.
2 Chairman. Two very quick questions. One, last year, the,
3 Chairman Fairchild took the committee to Pittsburgh to talk
4 about the US/United merger. Part of the discussion
5 centered around the fact that we have a significant, a
6 large number of small airports in Pennsylvania, more so
7 than other states.

8 What are your thoughts on that? Is one reason
9 we have trouble making competitive fares out of the small
10 airports because, at this time, that we developed more
11 small airports per capita than really what other states
12 have? And the second question will be on the merger
13 itself.

14 But have you looked at -- some had talked
15 about consolidating some of these airports. I know that's
16 not very popular. But does that put an undue influence on
17 the price that we talked about trying to get demand?

18 MR. HAULK: Let me take a crack at it. Paul
19 can follow up. If you look at Pennsylvania and the number
20 of airports served by major air carriers, I doubt if there
21 are very many states that have more of these airports. And
22 as the gentleman from US Air said yesterday, you have a
23 density issue.

24 How many people are flying out on any given
25 day, and how much service can you expect for that airport

1 to be able to support? We haven't given any thought to
2 consolidation. I did give some thought this morning
3 walking over here as to what the impact, say, Southwest in
4 Harrisburg would be.

5 And it may not be all that good for
6 Wilkes-Barre and State College and other airports because
7 if Southwest is flying out of Harrisburg, people will drive
8 to Harrisburg instead of BWI. So we have to be careful
9 what we wish for here in terms of serving the best
10 interests of all Pennsylvania's regional airports.

11 So that whatever the solution that you work
12 on, you have to be careful that you don't rob Peter to pay
13 Paul. Or you have to make a conscious decision that maybe
14 the best interest of all flyers and all business travelers
15 in the community, that you have to make some decisions
16 about whether we'll subsidize or not subsidize all the
17 airports.

18 We'll pick winners and losers. I'm not
19 advocating that position. I'm just saying at some point,
20 you may have to come to that realization.

21 MR. STIFFLEMIRE: I agree wholeheartedly with
22 my colleague. I think that we do have an abundance of air
23 service at Pennsylvania small airports, which is probably
24 unique. I don't know how unique it is because we, frankly,
25 have not studied that in terms of how many other states

1 have as many small airports served by, let's face it, US
2 Airways or something similar to that.

3 I guess the ultimate question is -- and I'll
4 just make this point: I think that the airline industry is
5 in a tremendous water shed right now. I think that it is
6 an industry that has reached the point that has been
7 paralleled by several other industries where consolidation
8 is probably inevitable.

9 It's not something that, you know, the
10 airlines just decided yesterday they want to do. I think
11 they realize they have to do it. But the issue is, How is
12 deregulation going to play out? I mean, we have not had
13 total absolute deregulation in the airline industry by any
14 stretch.

15 The question is, How is the airline industry
16 going to evolve? Who's going to guide that evolution? Are
17 we going to let the market guide the evolution and let the
18 actual economic agents in the industry make decisions that
19 they think are in their best interest and, let's face it,
20 in their customers' best interest?

21 Or are we going to ask the government, whether
22 it's the legislature or the State of Pennsylvania or the
23 federal government, to step in and adjust reality to a
24 future that would be more to our liking? There's
25 uncertainty with both approaches.

1 I guess if we look back in history, we can
2 find horror stories taking either approach. I think -- and
3 I'll be honest with you -- my advocacy point would be to
4 let the industry and the people who really understand our
5 own airlines run airlines.

6 REPRESENTATIVE PIPPY: Thank you. I want to
7 make a point that I'm not saying we should consolidate
8 any --

9 MR. HAULK: Nor am I.

10 REPRESENTATIVE PIPPY: I'm just saying that
11 that has been thrown out that we've heard that, and the
12 only way we can stop that is to get more competition. The
13 second point is with the merger. And I'm not -- I may have
14 missed this.

15 But you mentioned the fact that many airlines
16 such as an AirTran -- Mr. Healy maybe can talk on this
17 point even more -- may want the merger to go through
18 because when it goes through, there are going to have to be
19 requirements to open up certain markets that right now are
20 not opened up. And if you said that, I apologize.

21 MR. HAULK: We didn't.

22 REPRESENTATIVE PIPPY: But our understanding
23 in reading the papers, especially in Pittsburgh and
24 Philadelphia, is that if this merger does go through, the
25 only way it would be allowed to go through is if United/US

1 Airways is going to consolidate some of their gates, thus
2 opening up more gates in Philly and Pittsburgh for these
3 low or discount airlines to provide more competition.

4 MR. HAULK: Well, we've thought about that and
5 actually talked to key individuals about that. We have
6 given an estimate that at least 5 gates will become totally
7 freed up at Pittsburgh in addition to the 10 that are
8 already available. So you'll have, in effect, 15 gates.

9 Pittsburgh Airport, as you well know,
10 Representative Pippy, was built to handle 50 million
11 passengers a year without a lot of upgrades. It's now
12 running around 20. Pittsburgh is in a unique position that
13 it can greatly expand activity either with discounters or
14 with majors or whatever and still be able to accommodate it
15 fairly easily.

16 On the other end of the stake -- and we've
17 heard yesterday that the horror story's the other way.
18 Your gates are all used. The runways are basically tied
19 up. I don't know how you deal with a situation like that
20 unless you can build another airport somewhere in the
21 proximity to handle some of the overcapacity utilization
22 there.

23 But Pittsburgh is in a very good position. I
24 think some of the other things that are coming along in
25 the, in the merger like the divestiture of the shuttle, the

1 selling off of three of the commuter airlines, these are
2 things the Justice Department can insist on that are going
3 to make this much more palatable to the rest of the
4 industry and should help it go through.

5 REPRESENTATIVE PIPPY: Thank you. Thank you,
6 Mr. Chairman.

7 CHAIRPERSON FAIRCHILD: Thank you.
8 Representative Melio.

9 REPRESENTATIVE MELIO: Yeah. I just want to
10 share with you that my wife and I are going to Ft.
11 Lauderdale during the spring break. And we got on a
12 computer. And we found out that from Philadelphia to Ft.
13 Lauderdale, it was over \$2000. So we checked out Newark,
14 and it was \$300 less.

15 And we thought we wouldn't even be able to go
16 on this trip. And AirTran came through with less than
17 \$300. I mean, from 2000 to \$300 --

18 MR. HAULK: That's, that's the -- see, I think
19 what we're talking about here -- and Paul talked about a
20 water shed. But I think what we're seeing is a capitalism.
21 When you think about the last five or six years in the
22 airline industry, five years ago we weren't talking about
23 half the market from Harrisburg area driving to Baltimore
24 to catch a plane.

25 But because of this discount effect, we are,

1 we are now worried about that. And this is something that
2 has sort of caught us by surprise I think. And it's, it's
3 not an easy one to grapple with because -- to create a
4 demonstration effect, if I'm in Wilkes-Barre and I can't
5 get a good flight or a good rate but people in Baltimore
6 can, it looks like the world is somehow treating me
7 unfairly, when in point of fact, it's just that the
8 industry is taking advantage of a marketing opportunity
9 because there is enough service there that they can offer
10 the discount flight out of Baltimore and they can't out of
11 Wilkes-Barre.

12 I mean, that's an unfortunate reality that,
13 you know, five or six years ago I don't think we were even
14 contemplating.

15 CHAIRPERSON FAIRCHILD: I would -- also, don't
16 you think that when airport authorities negotiate with
17 airlines, that they should perhaps be at the table as far
18 as being able to negotiate that certain discounts are
19 available to people that would fly in and out of their
20 airport?

21 Or don't you think that's in the realm of what
22 airport authorities and airport owners should or should not
23 do?

24 MR. STIFFLEMIRE: Well, let me address both
25 issues and just go back a little bit here, and I'll get to

1 that. And then, Jake, I know you have some comments on
2 this question, too. You know, it does seem nutty that a
3 major airline's going to charge you \$2000 to fly to Ft.
4 Lauderdale and AirTran's going to charge you \$300.

5 And they're, you know, to a certain extent, it
6 does defy reason at its face. But keep in mind that the
7 new airlines have designed airlines the way they should be
8 designed. The old airlines are still suffering to a great
9 extent to the legacy of deregulation.

10 And a lot of strategies that made perfect
11 sense for those airlines back, you know, 10 or 15 years ago
12 are still with them, the way they felt with unions, the way
13 they basically consolidated all of the maintenance and
14 other operations into one big conglomerate operation,
15 whereas the discounters are operating just as efficiently
16 as they possibly can.

17 They know what business they're in. The
18 business they're in is they're not flying restaurants
19 through the air. It's not a hotel. It's basic
20 transportation. They want to get you from here to there.
21 And that's what you want now. You know, the American
22 Airlines ad that I mentioned with the leg room means to me
23 that they still haven't quite gotten it, you know.

24 They just don't understand what the issue is
25 from the flying public. So until those airlines, those old

1 airlines can basically streamline and get right sized and
2 really become efficient, they are going to be at a
3 tremendous disadvantage.

4 And keep in mind that probably the next issue
5 that's going to be coming before you is going to be some
6 screams from members -- and I won't single out any
7 groups -- of these old line airlines who are saying, Jeez,
8 you know, we're getting hammered by these discounters here.
9 We need some help.

10 And I'm just pointing out that the further you
11 go into, you know, this, this change in the airline
12 industry, the more interest groups are going to come before
13 you and say we need help. Right now it's airports who are
14 losing customers.

15 And to get back to the second question, What
16 should airport authorities, what powers do they have?
17 Again, there are unintended consequences. When you start
18 asking for quid pro quos from airlines who are coming into
19 your market, some of them will say, Sure, we'll do that.

20 We are having a problem now because we did
21 just that from one airline in particular. We're living
22 with the consequences of that. If we go down the path
23 again and say we know what's best for our constituents, we
24 know what airlines should be at this airport because we
25 know what's good for them, what's the problem going to be

1 ten years down the road?

2 I'm just warning that, as Jake said before,
3 you have to be careful what you wish for sometimes. And my
4 position always is let the chips kind of fall where they
5 may. That's kind of a draconian approach, but that's what
6 I think is best.

7 MR. HAULK: And just let me add one thing.

8 CHAIRPERSON FAIRCHILD: Well, okay. We're --

9 MR. HAULK: I know we're running out of -- let
10 me just say that in a de novo situation, given all that we
11 know now, I think airport authorities ought to be, maintain
12 as much flexibility in their scheduling and their leasing
13 of gates, et cetera, as they can.

14 It's just that every time you build a new
15 airport, it's hard for them to want to be flexible when
16 they need to line up a carrier who will guarantee flights
17 in there. So it's always easier after the fact to say I
18 wish we had done this when in point of fact, when you built
19 the airport, you only had one carrier interested. You say,
20 Okay. We'll line you up with a 30-year lease.

21 CHAIRPERSON FAIRCHILD: Representative Leh.

22 REPRESENTATIVE LEH: Yes. Thank you, Mr.
23 Chairman. Very briefly. Do you find similar leakage from
24 Wilkes-Barre to Newark because it's not really that far
25 away? It's just east off Route 80.

1 MR. STIFFLEMIRE: I think the fellow said
2 yesterday that they were, that that was one of the --

3 MR. HAULK: It's the second most heavily used
4 alternative.

5 REPRESENTATIVE LEH: I knew Newark was. I
6 just wasn't sure whether the leakage was from Philadelphia
7 or was from --

8 MR. HAULK: And Newark is not all that cheap
9 an airport to fly out of generally except with -- if you're
10 flying Continental, which is where the, is the hub air
11 carrier, to Houston or back to Cleveland or out to O'Hare,
12 you don't get any good fares on those runs either.

13 REPRESENTATIVE LEH: Okay. Thank you, Mr.
14 Chairman.

15 CHAIRPERSON FAIRCHILD: Thank you. I'm not
16 going to defend American Airline. But I think it's one of
17 the most successful programs and promotional programs. And
18 anybody that's flown that, that is, it's very nice.

19 REPRESENTATIVE MCGILL: I like the foot room.

20 CHAIRPERSON FAIRCHILD: Thank you very much
21 for being here.

22 MR. HAULK: Thank you. Appreciate it.

23 MR. STIFFLEMIRE: Thanks.

24 CHAIRPERSON FAIRCHILD: We're going to take a
25 couple minute break here. Feel free to get some coffee,

1 juice and water. And our next testifier will be Kevin
2 Healy, who's Vice President, Planning and Sales of AirTran
3 Airways. Many of you have heard AirTran mentioned in
4 yesterday and today's hearing. I think if you can, stick
5 around. Thank you.

6 (A brief recess was taken.)

7 CHAIRPERSON FAIRCHILD: Okay. The next
8 testifier is Kevin Healy, Vice President, Planning, AirTran
9 Airways, Incorporated. Kevin, when you are ready, you may
10 begin.

11 MR. HEALY: Thank you. I appreciate the
12 invitation to be here today. Mr. Chairman, members of the
13 Subcommittee, I appreciate the opportunity to address you
14 today on airline fares and competition. The airline
15 industry is in the midst of consolidation, the result of
16 which will greatly affect the State of Pennsylvania and the
17 country as a whole.

18 I should point out that we are currently the
19 13th largest airline in the United States. With the
20 current rate of consolidation, we will soon be 10th and not
21 too far off from 6th. The issue there is that we're only 6
22 tenths of one percent of industry capacity.

23 There are fewer airlines today than at any
24 point since deregulation. I think that underlines the
25 critical issues facing the departments. The manner in

1 which this consolidation is handled, both by the Department
2 of Justice and the Department of Transportation, will have
3 a significant impact on competition going forward.

4 And competition or the lack of competition is
5 the primary determinant of airfare affordability. Airline
6 fares are generally based on three factors: The cost of
7 providing service, the size and type of the markets served,
8 and competition.

9 With regard to costs, there can be dramatic
10 differences in the cost of flight operations, a difference
11 that is most pronounced in shorter distance markets. The
12 AirTran Airways business model is designed to maximize
13 efficiencies in operations through more favorable labor
14 contracts; reduced aircraft ownership costs; and the
15 introduction of brand new, more fuel efficient Boeing 717
16 aircraft.

17 Our focus is on keeping costs low without
18 compromising safety. Our business model also includes a
19 unique product offering. While we have low fares that
20 never require round-trip purchase or a Saturday night stay,
21 we also offer amenities such as advance seat assignments, a
22 frequent traveler program, and business class service.

23 This focus on costs on product quality allows
24 us to profitably offer low fare service in both large
25 business markets such as New York and Philadelphia as well

1 as to small and midsize communities throughout the Eastern
2 United States.

3 The second factor that is often cited in
4 determining airline pricing is the size of the markets
5 served. This is the tricky one. The argument states that
6 small, mostly business markets can't sustain vigorous
7 competition or low fares.

8 This argument is used to justify high business
9 fares and a relative lack of low leisure fares. The tricky
10 part is that if fares were lower, passenger demand would
11 likely be higher. But the risks of diluting high fare
12 revenue will offset the possible rewards of attempting to
13 stimulate demand with lower fares.

14 These small market arguments have been used in
15 a number of communities to justify not only higher fares
16 but also a reduction in service from jets to regional jets
17 or turbo props. The reality in many cases is simply the
18 fares are too high and suppress demand.

19 AirTran Airways has initiated service to many
20 communities that were labeled too small and had reduced air
21 service levels. In markets like Akron-Canton, Bloomington,
22 Moline and Flint, AirTran Airways reduced average fares by
23 40 to 52 percent. And passengers demand increased by 281
24 percent to 1,461 percent, which brings us to the third
25 element in the formula, competition.

1 The consumer benefits of low fare competition
2 have been well-documented by the Department of
3 Transportation and the US Government Accounting Office. In
4 1996, then Secretary of Transportation Pena estimated the
5 savings resulting from low fare competition at more than
6 6.3 billion for 1995 alone. That number has certainly
7 grown in the ensuing years.

8 The GAO study on airline deregulation updated
9 last March, in March of '99 indicated overall airfares have
10 declined by nearly 21 percent since 1990, largely as a
11 result of new low fare competition. Both the GAO study and
12 the DOT's recently revised white paper on airline
13 competition note that airfares in the markets with low fare
14 competition actually decreased by more than 36 percent.

15 In fact, in Atlanta, airfares declined by 38.7
16 percent between 1990 and 1998. Based on 1999 DOT
17 statistics, AirTran Airways saved consumers flying to and
18 from Atlanta nearly \$700 million. The impact on AirTran
19 Airways competition at Philadelphia saved consumers more
20 than \$75 million in 1999 based on these same statistics.

21 Last December, AirTran initiated service
22 between Pittsburgh and our Atlanta hub, as well as Chicago
23 and New York La Guardia Airports. Airfares in those three
24 markets were reduced by up to 74 percent upon our entry.
25 Competition by low fare carriers like AirTran is the only

1 reason that fares are reduced. But there are barriers to
2 entry in nearly every market.

3 In total, AirTran Airways offers 34 flights a
4 day to and from Pennsylvania. We would like to expand
5 service in the state but face significant barriers to
6 entry. There are no gates available at Philadelphia,
7 though we have been working closely with the airport to
8 acquire operating facilities.

9 That's a process that began when Fred Testa
10 became Airport Director in Philadelphia. While there are
11 gates in Pittsburgh, there is limited access in key markets
12 such as Boston, Newark, and Washington. These markets are
13 critical for building the network that would support our
14 competition there in Pittsburgh.

15 Overall, AirTran operates 314 daily flights,
16 mostly between our hub in Atlanta and cities throughout the
17 Eastern US. We operate a fleet of 57 aircraft including
18 the newest, quietest and most environmentally friendly
19 aircraft flying today, the brand new Boeing 717.

20 We were the launch carrier for the 717 and
21 will take delivery of one new aircraft per month for the
22 next three years. We have a successful business model and
23 are poised to grow by about 20 percent per year. We have
24 often stated our desire to build a focus city in the
25 northeast or midwest.

1 The only limitation is our ability to gain
2 access to key airports in order to build a successful
3 network and achieve the critical mass necessary to be
4 competitive in today's marketplace. We believe the current
5 mergers offer the opportunity to address and restore
6 competition in the industry.

7 The consolidation of the industry is
8 inevitable but should be conditioned on asset divestitures
9 that will enable new entrant low fare carriers to increase
10 competition. If the consolidation occurs without
11 accommodation for low fare competition, the concentration
12 of the major carriers will foreclose new entry throughout
13 the northeast.

14 United, American and Delta alone, even without
15 further consolidation, will control more than two-thirds of
16 flights within the Eastern US. United will operate 79
17 percent of flights to and from Pennsylvania and virtually
18 all of the flights within the state. This sort of market
19 dominance will surely reduce opportunities for low fare
20 competition and will effectively sustain the monopoly level
21 fares in the state.

22 Last week, AirTran Airways filed an
23 enforcement action with the US Department of Transportation
24 seeking to prevent the monopolization of northeast business
25 markets, specifically the agreements between United and

1 American to carve up key markets, with the remedy being a
2 withdrawal of slots at Washington Reagan National Airport
3 and a proceeding to redistribute those slots to new entrant
4 and limited incumbent carriers.

5 This complaint is consistent with the
6 authority outlined by former Secretary of Transportation
7 Rodney Slater in a report on competition, transportation
8 policy, and legal issues he released last month before
9 leaving office.

10 At that time, Secretary Slater abandoned a
11 two-year effort to establish competition guidelines stating
12 they would not be effective and instead confirmed the
13 Secretary has the statutory authority to act against
14 anti-competitive actions and prevent unreasonable
15 concentration that would be harmful to consumers.

16 The Senate Judiciary Committee recently wrote
17 Secretary Minetta to confirm the DOT's authority and to
18 encourage the Secretary to review the impacts these mergers
19 would have on low fare competition. Clearly, service by
20 low fare carriers like AirTran Airways is the only
21 effective means to lower airfares and create beneficial
22 competition.

23 Your hearing is timely. The DOJ and DOT must
24 act now to restore competitive balance in the airline
25 industry. I urge all concerned parties within the state to

1 contact the DOJ and DOT to express your concerns over
2 diminishing competition and to demand fair and equal access
3 to the public assets such as slots and airport facilities
4 that are necessary to create effective competition.

5 Thank you again for the opportunity to address
6 these important issues. I've also handed out some
7 information that just gives you background on AirTran
8 Airways.

9 CHAIRPERSON FAIRCHILD: Thank you. As I
10 understand your problem in Pennsylvania as it now stands
11 with two major airports, Pitt. and Philadelphia, even
12 though in Philadelphia slots are very hard to get, et
13 cetera, in Pittsburgh there's a lot of slots available.

14 But that's not -- the real problem for you, as
15 I understand it, is not those slots. It's getting into the
16 network. You can have all the slots in the world. But
17 unless the slots open up in the other major cities, you got
18 no place to go. Is that --

19 MR. HEALY: Yes.

20 CHAIRPERSON FAIRCHILD: -- what you're saying?

21 MR. HEALY: We are successful as -- I mean,
22 there's a handful of low fare carriers that are successful.
23 And they all have sort of a unique, have had a unique
24 occurrence that allowed them to get to the size that they
25 are today and sustain competition.

1 Southwest was protected by the right amendment
2 for about 25 years and built a network that is as large as
3 it is today; although, it is only about 6 1/2 percent at
4 capacity. Frontier inherited a network in Denver from a
5 failing Continental and was more efficient in operating
6 that profitably.

7 We actually -- our network is based out of the
8 Eastern Airlines bankruptcy. We were able to get 18 gates
9 in Atlanta that we have since built into 22 gates and have
10 grown to the size we are today. Our business model works
11 in that sort of network.

12 Our ability to serve the large cities and
13 small cities, our ability to serve the large cities,
14 rather, makes it possible to bring service to smaller and
15 midsize communities. That is as true wherever we build a
16 focus city in the northeast, whether it's Philadelphia or
17 Pittsburgh or someplace else.

18 It is critically important to have access to
19 the large markets. We were able to get four round trips
20 out of La Guardia through Air 21 legislation. And we chose
21 to fly those to Pittsburgh. We cannot get anymore flights
22 into La Guardia today really at any cost.

23 As a low fare carrier, we can't buy slots from
24 another carrier. They go for several million dollars. We
25 also chose at that point to initiate service to Atlanta,

1 which would then connect throughout the southeast, and also
2 used our last resources at Midway to fly Pittsburgh-Midway.

3 It gives us a foundation from which to grow if
4 we can gain access to build a network.

5 CHAIRPERSON FAIRCHILD: How do you market your
6 rates? How does the public know that AirTran has these
7 rates? Is it through the conventional means of travel
8 agents, advertising? You've heard the concerns expressed
9 by myself and others this morning concerning the consumers'
10 knowledge or right to knowledge of the programs. Would you
11 please comment on that?

12 MR. HEALY: Sure. We do sell through travel
13 agents. We sell about 40 percent of our tickets through
14 travel agencies. We generally use print and radio media to
15 advertise in markets. And many markets that we serve, we
16 work in conjunction with the airport authorities to promote
17 air travel from their airports.

18 One of our most effective means of
19 distribution is the Internet. We have a mailing list of
20 about 850,000 people. We also have an award winning web
21 site that is extremely successful. We sell about 33
22 percent of our tickets on our Internet site and I believe
23 for several reasons:

24 One, the system works very well; and two, our
25 fare structure is intentionally not convoluted. We do not

1 require Saturday night stay. We don't have time specific
2 or day or week specific pricing. We try to keep the rules
3 to a minimum so that people have a high competence level.

4 When they make a reservation with us, they are
5 getting the best available flight, or fare rather. And,
6 you know, that has proven to be very successful for us.

7 CHAIRPERSON FAIRCHILD: Thank you.

8 Representative Leh.

9 REPRESENTATIVE LEH: Yes. Thank you very
10 much. Just a quick one. Your 717s, how many seats are on
11 those?

12 MR. HEALY: We have them configured at 117
13 seats. It's 12 business class and 105 coach.

14 REPRESENTATIVE LEH: Okay. Thank you.

15 CHAIRPERSON FAIRCHILD: Representative Melio.

16 REPRESENTATIVE MELIO: Yeah. I just want you
17 to know that when I got booked on AirTran, I called the
18 airport to find out what kind of a company you were. And
19 they said, well, you were there for a couple of years.
20 They said, Why don't you call AirTran?

21 I said, Well, I'm going to call AirTran and
22 find out what kind of company they are? They're going to
23 tell me they're a good company. But I did talk to one of
24 the salesmen. And he told me, you know, what kind of
25 service you have. And I told him where I was going.

1 He gave me a number in La Guardia to contact
2 for any kind of information I might need. And I thought it
3 was really nice. Is there a problem with something like
4 the Allegheny National Airport, the Allegheny Airport in
5 Philly or Pittsburgh and the Northeast in Philly? Would
6 you be able to work something out with them?

7 MR. HEALY: I imagine you could get access to
8 that airport. I don't think it would be successful for any
9 carrier to try and reinvent an airport. It is
10 exceptionally expensive to change consumer behavior and
11 particularly in a city like Philadelphia where the
12 advertising costs are extremely high anyway for us to try
13 and operate out of two airports.

14 What we would -- we are working with the
15 airport and will continue to do so to try and get our own
16 facilities. We currently don't have a gate to ourselves.
17 We are forced to sublet a gate from United Airlines at,
18 which makes our cost of operation there exceptionally high.

19 We do believe, though, that there is
20 opportunity going forward that would enable us to expand
21 Philadelphia service, or we hope anyway to expand our
22 services at Philadelphia.

23 REPRESENTATIVE MELIO: I can only tell you if
24 it wasn't for AirTran, I might not be able to go on my
25 trip.

1 MR. HEALY: Well, I'm glad we can help.

2 CHAIRPERSON FAIRCHILD: And we hope you behave
3 yourself over spring break.

4 REPRESENTATIVE MELIO: It will never happen.

5 CHAIRPERSON FAIRCHILD: Representative McGill.

6 REPRESENTATIVE MCGILL: Thank you very much.
7 Yeah. Could you elaborate a little bit more? You're
8 obviously in Philadelphia. And you don't, you don't have
9 your own gate there. Could you tell us a little bit more
10 of the problems that you run into?

11 And I guess the second part of that question
12 would be, Did you have concerns when you looked at
13 Philadelphia as to the potential size of the market versus
14 how you keep an aircraft on schedule trying to get in and
15 out of that airport?

16 MR. HEALY: Okay. Let me first talk about
17 gaining access. I've been with AirTran Airways for two
18 years. And we've been focused in this, that time in first
19 stabilizing our balance sheets, getting our finances in
20 order, setting our operations straight.

21 And we have now reported eight consecutive
22 profitable quarters and are ready for our growth phase or
23 actually already begun it. Gaining access at Philadelphia
24 has been extremely difficult. Not only is it more
25 expensive but when you're handled by another carrier who is

1 also a competitor in many ways, the service that you get
2 isn't what we want to put forward to the public.

3 And that is a chief concern as well, not just
4 the cost. There are gates at Philadelphia that are
5 underutilized by other carriers but are on long-term leases
6 that were set many years ago that won't expire probably for
7 another five or six years.

8 You know, as new gates are being built, we are
9 working with the airport and trying to increase competition
10 there. And I think that that will improve our, our
11 operation from a customer service perspective and in many
12 ways on an on-time arrival perspective.

13 As it stands today, generally speaking, if we
14 could simply push from the gate, go to the end of the
15 runway and fly to our next airport without any traffic, we
16 could probably shave the time of flying by 20 percent or
17 more.

18 I know in Philadelphia, we probably take the
19 actual flight time and add about 30 minutes to the schedule
20 so that we can publish a schedule that's as realistic as we
21 possibly can and what we believe, based on our experience,
22 time of day and other factors, that will reflect what we
23 actually end up flying. But the congestion is clearly an
24 issue.

25 REPRESENTATIVE MCGILL: Do you think the, do

1 you think that the merger between UAL and US Airways is
2 going to open up some gates down there for you? Is that an
3 area that you're hoping for?

4 MR. HEALY: Hoping, yes. Do I think it's
5 going to happen? I've been given no indication that it
6 will. Initially, United and US Airways went to the Justice
7 Department. And the only divestiture that they presented
8 to the Justice to remedy competition was a fairly
9 transparent corporation of DC Air, which is the company
10 that is, you know, supposedly run by a former US Airways,
11 or current US Airways board member.

12 But would be -- all their services would be
13 subleased from United Airlines. And that proved to be too
14 transparent even, you know, at the initial look. When the
15 carriers came back, the divestitures that they proposed was
16 20 percent breakup of US Airways, including gates at
17 Philadelphia, La Guardia, Boston and DCA, to American
18 Airlines.

19 And then DC Air would then become a subsidiary
20 of American Airlines as well. There's aspects in that
21 agreement that are trouble, including an agreement between
22 American and United to set pricing on the shuttle and other
23 agreements to cochair markets like Philadelphia to Denver.

24 It is difficult to believe that these carriers
25 would sit down and form this sort of agreement with the

1 intention to compete vigorously on price. I am concerned
2 that this divestiture would go through. We meet with the
3 Department of Justice and Transportation whenever we can.

4 But at this point, there has not been any, any
5 divestiture that's going to create real price competition
6 or anything that's any way beneficial to consumers.

7 REPRESENTATIVE MCGILL: Would you -- would
8 your company consider moving to a place like
9 Allentown/Bethlehem/Easton International to look for gates
10 and the potential of running the market out of there rather
11 than out of Philadelphia market?

12 MR. HEALY: We've considered that. When I
13 joined the company, our services were in Philadelphia
14 already. The potential additional gates in Philadelphia is
15 a better opportunity, I believe. Again, it's very, very
16 expensive to try and change behavior.

17 Southwest -- to answer to a certain extent a
18 question that was asked earlier, would Southwest serve
19 Harrisburg, I think if you asked Southwest and they were
20 completely honest, they would tell you they already are.
21 Their market planning model looks at a very large catchment
22 area.

23 Their advertising is designed to create as
24 much drive demand as possible. We do that in some markets
25 as well. It's more effective to go to a larger population

1 in many cases than it would be to fly to a secondary
2 airport.

3 Southwest's advertising budget is -- I don't
4 remember the exact multiple over ours, but it's huge. They
5 advertise on a national basis. We advertise locally. We
6 can't afford the amount of money that they can spend in a
7 market to create new demand and change people's behavior to
8 fly to secondary airports.

9 We are trying to position ourselves so that we
10 have a very strong network in Atlanta and the southeast
11 that serves a lot of north/south routings. When you look
12 at the mid-Atlantic and even a market like Harrisburg, if
13 we had a focus city north, north or towards the midwest,
14 that gives us the ability to come into the city now and
15 offer services not only to Atlanta and the southeast but
16 also north through a focus city up into the northeast and
17 midwest more effectively, one, to compete with the
18 incumbent carriers.

19 I mean, we have a lot of things to overcome
20 when we come in. We fully expect the carriers will match
21 us. And our planning and our modeling of market demand
22 assumes the carriers will match. We even run assumptions
23 that those carriers are likely to add capacity in order to
24 try and prevent our success.

25 We have to overcome frequent traveler

1 programs. We have to overcome travel agency incentives and
2 overrides. We have to overcome corporate pricing deals and
3 other programs. Overcoming the franchise loyalty is one of
4 the biggest issues. The more service that we can provide
5 and the more places and destinations that we can offer --

6 CHAIRPERSON FAIRCHILD: Well, how do you -- I
7 have a question. How do you -- how can you justify that
8 when we have -- everyone that's testified here has
9 testified to the fact that we have probably a 40 to 60
10 percent leakage rate.

11 Just like Representative Melio, who I'm sure
12 has a history of flying out of Philadelphia, he will, I
13 mean, he will change if he has to to save \$1,500. And
14 every constituent of mine would love to fly out of our
15 regional airport, Williamsport.

16 But for various reasons, the competition's not
17 there. And what we're seeing is this is out-of-state
18 leakage. And I would say that it seems to me that if
19 somebody comes into Pennsylvania and offers a very
20 competitive price, that you're not going to see that, well,
21 I'm going to continue to fly out of Philadelphia if they
22 can drive a half an hour, fly out of a Pennsylvania Airport
23 and save that type of money.

24 I think the, some people are missing the boat.
25 We have basically 50 percent of the flying public leaving

1 the state to catch an airline somewhere.

2 MR. HEALY: I'm actually well aware of the
3 leakage from Harrisburg. I've looked at it really from
4 both sides of the table as, looking at it from a major
5 airline determining how to price the Harrisburg market
6 relative to Baltimore and Philadelphia but also looking at
7 it from a low cost airline perspective of can we succeed
8 there more so than we could flying to, you know, for that
9 matter, to Baltimore.

10 We talked to about 100 airports last year and,
11 you know, in various degrees of discussions, including
12 Harrisburg. And we evaluate the opportunities that give us
13 the most profit potential that fit with our long-term
14 growth strategy. And timing is one of the critical things.

15 Even in Harrisburg, it's expensive to change
16 behavior. There is more flights in Baltimore than we could
17 offer in Harrisburg. So people sometimes will also drive
18 because the level of frequency is higher. Entering into a
19 market -- one thing that low fare carriers, some low fare
20 carriers are those that have failed. And I think at last
21 count, there have been 140 bankruptcies since deregulation.

22 Being dependent entirely on the leisure market
23 is not a successful formula. You will not be able to
24 succeed over the long term. You will not be
25 well-positioned for any kind of economic downturn. And the

1 seasonality of it makes it difficult to maintain service on
2 a year-round basis.

3 We have focused both on adding enough
4 frequency that is going to meet the demands of the business
5 market but also having a price structure that will
6 stimulate demand and be attractive to leisure travelers as
7 well as business travelers.

8 I do believe that there is potential in
9 this market and other cities within the state. But I
10 also -- our model is to build a network that we can plug
11 into and go to as many destinations in the Eastern US as
12 possible at this point.

13 CHAIRPERSON FAIRCHILD: Representative Melio.

14 REPRESENTATIVE MELIO: Kevin, in -- you must
15 have statistics telling you how many people go from
16 Philadelphia to Pittsburgh. And because of the fact that
17 it is expensive, would you be able to know if you had a
18 better fare, that more people would do that traveling?

19 MR. HEALY: Yes. The advantage of once being
20 a regulated industry, there is a tremendous amount of
21 information that we can use for planning purposes so that
22 we can look at the history of what airlines have served
23 markets, what fares have been charged, and what happened to
24 demand in that corresponding period.

25 I know that several carriers have attempted to

1 compete between Pittsburgh and Philadelphia with US
2 Airways. And when the fares were lower, the size of the
3 market grew dramatically. And actually, it was probably
4 capped out in that there wasn't enough capacity there to
5 handle all of the demand.

6 So we have a very good sense of how big that
7 market could be if, if the fare structures changed. You
8 know, when we entered the Pittsburgh to Chicago market, the
9 walk-up fare to O'Hare was \$263. Our lowest walk-up fare
10 is \$119. If you buy it three days in advance, our fare is
11 \$94. Our lowest fare in that market is 59.

12 We would expect generally 200 to 400 percent
13 stimulation in a market like Pittsburgh, Philadelphia if
14 the pricing were more competitive.

15 REPRESENTATIVE MELIO: Thank you.

16 CHAIRPERSON FAIRCHILD: Thank you.

17 Representative Bard.

18 REPRESENTATIVE BARD: Thank you, Mr. Chairman.
19 I've had occasion over the past years to watch two
20 airports, Sarasota in Florida and Manchester in New
21 Hampshire. And I like to travel to both areas by air
22 frequently. But because of the history of the fare
23 structures, this has been kind of difficult.

24 But now, we've had testimony that Manchester
25 has succeeded dramatically in reducing its fare structure.

1 How has Sarasota been different? And which one might apply
2 to Harrisburg as we try to look forward?

3 MR. HEALY: With Fred Testa sitting behind me,
4 I should probably say it was all the efforts of the airport
5 director at the time. It certainly was Fred's efforts in
6 attracting Southwest to the market. It is somewhat
7 different in that it is a secondary market to Boston.

8 And Southwest Airlines, as I mentioned
9 earlier, has the highest advertising budget as a percentage
10 of revenues of any carrier in the industry. They spend a
11 tremendous amount of time, effort, and money creating
12 demand, both originating demand who would otherwise drive
13 to Boston and people flying to Boston using Manchester as
14 an alternative.

15 Sarasota doesn't have the same sort of
16 population base. They've offered some fairly significant
17 incentives to try and help the demand. But generally, it
18 is a harder effort there because it's more of a destination
19 market than an origin market so that you have to then go
20 out and advertise to a much broader base to get people to
21 fly to Sarasota as opposed to Tampa.

22 REPRESENTATIVE BARD: So you're attributing
23 the success in Manchester to merely the salesmanship of Mr.
24 Testa, I guess?

25 MR. HEALY: Yes.

1 REPRESENTATIVE BARD: Now, in terms of
2 Harrisburg's situation, which would you say is more
3 applicable? Are they more at the Sarasota end of the
4 spectrum or more of the Manchester end of the spectrum, or
5 is there really not any similarity?

6 MR. HEALY: I would say it's closer to
7 Manchester. But it's a larger city in and of itself. The
8 population is greater. The biggest issue really would be
9 changing consumer behavior to get people to fly out of the
10 local airport. The key there, too, with the community is
11 that the community support new entrant airlines.

12 One thing that has generally occurred, even in
13 Pitt. and Philadelphia, that when a new entrant came in, it
14 stimulated a tremendous amount of demand on US Airways.
15 And eventually, the low fare carrier fails and leaves the
16 market; and fares go right back up again.

17 So that is a pattern of competition that has
18 been repeated over and over again.

19 CHAIRPERSON FAIRCHILD: Thank you.
20 Representative McGill.

21 REPRESENTATIVE MCGILL: Again, thank you, Mr.
22 Chairman. Just a quick follow-up. I'm going to follow on
23 what Representative Melio said. Say you were to get more
24 gates in Philadelphia, which is the direction that you say
25 that you're looking to go.

1 If you get more gates, there's no guarantee
2 that part of your plan will be to go to Pittsburgh. You
3 could pick another city and utilize that gate out of
4 Philadelphia to create more business for you in and out of
5 Philadelphia in a market that you've already said you have
6 tremendous information from, from being a regulated
7 industry in the past that you might want to go to.

8 So I guess my point is, we tend to be homers
9 here that we think everybody wants to fly around
10 Pennsylvania and we can relieve some of our problems within
11 the state. And, you know, we really didn't look beyond
12 getting people out of Philadelphia and into Pittsburgh or
13 out of Philadelphia and into Harrisburg or Harrisburg, and
14 using the network of airports that we have.

15 So am I correct in that there is no guarantee
16 that just because you get one more gate, you're going to
17 think that one of the best places to fly to would be
18 Pittsburgh?

19 MR. HEALY: No, there is no guarantee. I
20 don't want to sit here and make some sort of guarantee or
21 advanced announcement. I would say, though, that we look
22 at the economics of the marketplace and we look for markets
23 where we can stimulate the most demand where there is very
24 high fares and relatively limited service.

25 If you look at Philadelphia or Pittsburgh, use

1 Pittsburgh as an example. We now serve three of the top
2 five destinations from Pittsburgh. Philadelphia falls into
3 the top five. If you look at Philadelphia and say what are
4 the number one traffic destinations of the largest markets
5 today, I don't remember the exact order; but again,
6 Pittsburgh falls into the top five and has very, very high
7 fares relative to distance.

8 Our business model works in relevant short
9 haul markets with reasonable density and very high fares.
10 So I'm not making any guarantees. But if I had another
11 gate in Philadelphia, that would certainly be one of the
12 first things that we would have to look at, if I had a gate
13 in Philadelphia.

14 CHAIRPERSON FAIRCHILD: Thank you.

15 REPRESENTATIVE WATSON: Yes. If you would go
16 back to something that you mentioned earlier. And you
17 talked about in Philadelphia there seemed to have been a
18 history where indeed someone offering low fares comes in
19 but for whatever reason, people still stay with the higher,
20 the way I'm paraphrasing it, higher priced airlines and
21 ultimately they fail.

22 And coming from Bucks County, I'm familiar
23 with, and living in that area all my life, I'm familiar and
24 could name you several airlines that went out there. Is
25 that due to -- you mentioned earlier in other testimony

1 about Southwest Airlines and an inordinate amount of money
2 they spend on advertising.

3 Do you then see that the problem for coming
4 into the Philadelphia market is related to advertising? I
5 guess I have trouble understanding, if I am a consumer
6 using Philadelphia, why I would not switch. As long as
7 your safety record was fine and I flew inside the plane, I
8 don't understand why I wouldn't switch and why you wouldn't
9 be successful offering lower fares.

10 MR. HEALY: Mainly because we won't -- we'll
11 be offering lower fares than are in the market today, but
12 we will be matched by the incumbent carriers. We expect
13 them to match whatever pricing that we put into the
14 marketplace. They also then will generally do frequent
15 traveler incentives or bonuses for flying that carrier and
16 those routes. They may add flights.

17 We have 57 aircraft. The new United will have
18 over 1,000. They'll be able to deploy additional capacity
19 using a number of gates that they have versus our
20 relatively limited number. We have to overcome travel
21 agency incentives.

22 Some travel agencies will be paid overrides
23 and additional commissions specifically designed in the
24 routes that we serve to keep the traffic on the incumbent
25 carrier. Many corporate programs are leveraged against

1 airlines that say if you fly the new entrant, then we're
2 going to take away your corporate deal and you won't get
3 any discounts to California or Europe.

4 We understand all of these hurdles that you
5 have to pass, and we have been very successful in doing
6 that. And part of the success is carefully selecting the
7 markets and offering a product that's competitive.
8 Carriers in the past that have failed either did not,
9 generally have a bad plan and a combination of other
10 things.

11 The incumbent carrier -- it's very easy to
12 pick off an airline that doesn't have a network. When we
13 entered Philadelphia, Atlanta -- or when we compete between
14 Philadelphia and Atlanta, we can carry passengers between
15 those two city pairs. But when our plane lands in Atlanta,
16 we can also connect to 20 other destinations so that we
17 offer low fares to Dallas and Houston and New Orleans and
18 throughout Florida.

19 We saw so much demand between Philadelphia and
20 Atlanta and Florida that we actually used our limited
21 resources and added nonstop service between Philadelphia
22 and Orlando, Ft. Lauderdale, and Tampa. So we have the
23 ability to draw on the 140 departures a day at Atlanta.

24 Building a similar network is what we are
25 attempting to do to give us the network strength to compete

1 with network carriers. The reason that the largest airline
2 in the world wants to purchase the 6th largest airline in
3 the world is to become an even larger carrier.

4 The bigger they are, the harder they are to
5 compete with, the more muscle that they have and the more
6 influence they can have in the marketplace, particularly in
7 pricing. And if you look at the American/United agreement,
8 they are actually divvying up the Eastern United States.

9 The two largest carriers in the world sat down
10 across the table from each other and agreed, among other
11 things, to transfer gates at New York where gates and slots
12 are extremely scarce, transfer gates at Boston and enter
13 into cochairing agreements, actually transferring gates at
14 Philadelphia, Atlanta, and others.

15 The net effect of the agreements, once they
16 went through all of them, including sharing shuttle
17 flights between New York and Washington and New York
18 and Boston where they have also apparently agreed to
19 fix prices -- which last time I checked was still
20 illegal -- and also fix capacity of the market, is that
21 they are now almost exactly the same size as each other
22 going forward.

23 They've also added into their agreement some
24 requirements that if either of them chooses, or bans either
25 of them from leasing line maintenance and other maintenance

1 facilities to any other airline for ten years. There's no
2 reason to have something like that in the marketing
3 agreement other than to make sure that nobody else can grow
4 either.

5 So there's many things like that that are
6 troubling right now as far as the airline consolidation.
7 We believe that with the opportunity, we have, we have
8 proven, in one of the most intensely competitive markets in
9 the country, that we can succeed and we can have tremendous
10 impact.

11 I think Delta Airlines is actually a better
12 airline because they compete with us. They are more
13 efficient than most other major airlines. They have a
14 lower cost than most major airlines because they recognized
15 five or six years ago -- or in Delta's case, four years
16 ago -- that they really needed to improve their
17 efficiencies and become smart.

18 Both of us have reported record profits as a
19 result. So, you know, the argument that you can't have a
20 low fare carrier and a hub flies out the window when you
21 look at the busiest airport in the world as a hub for both
22 a traditional major airline and a low fare carrier.

23 We believe that formula can be repeated if, if
24 the opportunities are there. And the mergers are the best
25 opportunity right now to create that. Our filing with DOT

1 will also, we hope, result in divestitures that increase
2 our ability to compete.

3 If, for example, we could offer, say, 60
4 flights a day at Reagan National, that would give us the
5 ability to grow simultaneous networks. That is an anchor
6 route. If you've ever flown between Pittsburgh and DCA, I
7 think it's \$1.70 a month or something now. It's absurd.

8 But that would be one more spoke in the
9 network in Pittsburgh that would allow us to continue to
10 grow. If we flew then from DCA to Hartford, it makes it
11 easier then to say, Okay. Now I can fly not only from
12 Hartford to Washington National, I can head to our network
13 in Atlanta and I can add it to a network in Pittsburgh
14 and/or Philadelphia. And that gives you the strength.

15 Now my overhead constant Hartforders spread on
16 three or four different destinations, and my efficiencies
17 go way up. And that's the sort of opportunity that's
18 there, and that's the sort of opportunity that the merger
19 partners recognize and want to prevent.

20 Not that we are specifically against the
21 merger. We just think it needs to be handled very
22 carefully.

23 CHAIRPERSON FAIRCHILD: Thank you,
24 Representative Watson. And thank you, Kevin, for your
25 testimony.

1 MR. HEALY: Thank you.

2 CHAIRPERSON FAIRCHILD: And please keep
3 Pennsylvania in mind as you --

4 MR. HEALY: I always do.

5 CHAIRPERSON FAIRCHILD: -- strive to expand.
6 The next testifier is Thomas Hart, Executive Director of
7 the Williamsport Municipal Airport Authority. Tom, when
8 you are ready, you may begin. I'm sorry. We're getting
9 towards the end here. There are some other activities
10 going on, especially in the appropriations room this
11 morning.

12 MR. HART: Well, good morning, Mr. Chairman.
13 Thank you for allowing me to come here and discuss with you
14 our concerns over the airfares. First, allow me to explain
15 our situation at Williamsport. US Airways Express
16 currently serves us with direct service to two major
17 international hubs, Pittsburgh and Philadelphia.

18 Contracted carriers provide these services for
19 US Airways. Our staff maintains an active vigil on
20 airfares. It is necessary for us to monitor fares on a
21 regular basis to remain competitive with surrounding
22 airports that have multiple airlines serving their market.

23 We have found that Williamsport is excluded
24 from many US Airways special or promotional airfare sales
25 due to the lack of competition at our airport. This has

1 caused many residents from our service area to drive to
2 other airports and in many cases to airports in other
3 states to take advantage of less expensive pricing.

4 Unfortunately, when Pennsylvania residents
5 originate their airfare, or air travel outside the
6 Commonwealth, it is a loss of revenue to Pennsylvania and
7 its 16 primary airports. Business travelers are a major
8 concern of ours because they are important to the economic
9 viability of our region.

10 One of our primary interests is that
11 competitive airfares will be available for business
12 travelers utilizing the Williamsport Regional Airport. It
13 is not only price but also the conditions of the airfare
14 that require our constant attention.

15 For example, as of last Thursday, a
16 businessman could receive a 7-day advance airfare to San
17 Francisco from a surrounding airport for \$398, whereas the
18 Williamsport Regional Airport was not offered that fare.
19 The 7-day advance airfare from Williamsport was \$1,958, a
20 difference of \$1,560 on the same airline.

21 It is these imbalances that we find
22 disturbing. We have since had that particular situation
23 corrected by US Airways. We make every attempt to
24 negotiate with US Airways to make corrections. However, it
25 is virtually impossible for us to monitor all fares or be

1 made aware of all inconsistencies by outside organizations
2 such as travel agencies and corporate travel departments.

3 An additional concern is the round-trip
4 pricing from Williamsport to Pittsburgh and Williamsport to
5 Philadelphia. From the information provided, you will note
6 one of the sources of complaints from our area of business
7 travelers. That is the high price of a round-trip ticket
8 between Williamsport and Pittsburgh.

9 And if I could just stop reading for a second
10 and have you go to the very next page, I'm going to point
11 out some of the pricing. You'll notice a number of prices
12 on that page. These are Williamsport to Pittsburgh fares.
13 For example, the highlighted number is a 21-day in advance
14 Saturday night stay fare for \$419 from Williamsport to
15 Pittsburgh round trip.

16 If one of our area businessmen gets called out
17 of town and needs to walk up and get a ticket to
18 Pittsburgh, if you go to the bottom of that column, round
19 trip, it's \$892 round trip from Williamsport to Pittsburgh.
20 We just feel that the business people in our area aren't
21 getting a fair deal from US Airways in regards to any type
22 of business rate. Without a business rate, the fares that
23 they are receiving put a definite financial strain on local
24 businesses.

25 Having started my career in aviation as a

1 station agent and then as a station manager with the
2 airlines, I understand and appreciate the many variables
3 that affect a profitable airline schedule. All we ask is
4 fare structures to and from the Williamsport Regional
5 Airport for both business and leisure travelers be
6 reasonable and competitive with surrounding airports.

7 Again, I'd like to take the opportunity to
8 thank you for allowing me to discuss airfare situations at
9 our airport. And if there's any questions, I'd be happy to
10 answer them at this time.

11 CHAIRPERSON FAIRCHILD: Thank you, Tom.

12 Again, it seems we're hearing the message over and over
13 again that people are just leaving their geographical area
14 and migrating someplace else to buy fares. You bring up an
15 interesting point that myself and others have kind of
16 hammered on during these past two days of the hearing.

17 And that is these special promotional airfare
18 sales. I notice that you say they don't offer them at
19 smaller airports or at your airport sometimes. And we've
20 heard that also testified to. When you confront them, why
21 do they say they don't offer them or --

22 MR. HART: The very first time that we
23 actually got into really comparing airfares with
24 surrounding airports and the first time we found a
25 discrepancy, in speaking with the pricing department, they

1 told me because, you're not included on these promotional
2 fares because you have no competition.

3 They don't have to do it. Unfortunately, you
4 know, they have a captive audience in the Williamsport
5 region. And they feel that if our passengers from our area
6 leak to another airport, chances are 80 percent of the
7 time, they're recapturing those passengers anyway outside.

8 Our major competitor, believe it or not, is
9 Harrisburg. I know Harrisburg feels, you know -- and it's
10 true. Baltimore is their major competitor. But
11 everyone -- most of the leakage out of our airport goes to
12 Harrisburg. And about 80 percent of the time, those people
13 are getting on US Airways anyway.

14 So it basically boils down to that we lack
15 competition. If it wasn't for the people I have in
16 marketing constantly contacting our travel agencies and
17 corporate travel departments and having them make us aware
18 of inconsistencies, you know, we wouldn't catch a lot of
19 these.

20 But as I said in the testimony, it's
21 impossible for us to figure them all out. We in fact even
22 hired a company that provides us with a weekly chart
23 showing our top ten destinations and comparing them to
24 Wilkes-Barre and Harrisburg.

25 And anything that we find that is really out

1 of line, then we call US Air. And on behalf of US Air, I
2 mean, 80 percent of the time, they usually get those prices
3 back in line for us. But we can't catch them all. It's
4 impossible.

5 CHAIRPERSON FAIRCHILD: I think it's just -- I
6 think it's significant that here's an airport that can't
7 really catch them all or control it. And my point
8 yesterday to US Air and others were that if the
9 professionals can't do it that manage airports, sales, the
10 travel agents, how in the world do we expect the consumer
11 to understand this rate schedule, advance rates, discounts,
12 et cetera?

13 It seems to me that the, that somehow we have
14 to do a lot more work on making sure that, number one, the
15 consumer is informed fairly; and number two, that these
16 programs are extended to our airports in Pennsylvania. I'm
17 not sure -- I know you lose a lot of leakage to, south of
18 us to Harrisburg.

19 But I think we lose an awful lot of leakage to
20 Baltimore, Newark, and those airports from Central
21 Pennsylvania.

22 MR. HART: Baltimore would probably be the
23 second major one and because of the, obviously, the
24 competition that they have with Southwest and other
25 airlines. There are some very attractive prices out of

1 Baltimore. We would love to have them in Williamsport.

2 CHAIRPERSON FAIRCHILD: So would every
3 airport. And I also think -- Representative Hess brought
4 it up during the last break. I think one arena we really
5 haven't looked at here is the amount of tax money that is
6 lost by this leakage in the form of sales tax, et cetera,
7 on tickets.

8 I think it may be -- and I'm going to ask our
9 consultant to follow up on it. But I think it would be a
10 significant amount of money that could be going back into
11 either aviation-related accounts or a general fund to be
12 dedicated to education.

13 But, you know, when we hear over and over and
14 over again that 40 to 60 percent of our flying consumers
15 are going outside the state to purchase their tickets,
16 that's a hell of a figure.

17 MR. HART: May I just further comment on that?

18 CHAIRPERSON FAIRCHILD: Sure.

19 MR. HART: And you're well aware of this, Mr.
20 Chairman. But the other part of losing the revenue also
21 involves the AIP funding that we get from the federal
22 government. For example, that is based on enplanements,
23 the number of people that board at a particular airport.
24 There is a scale to that.

25 But when we're losing, for example, hundreds

1 of thousands of passengers to a different state, that's
2 money from the federal government that is not coming into
3 Pennsylvania but going into that other state. And, you
4 know, that may not directly affect Williamsport per se
5 except towards the end of the financial year of the federal
6 government.

7 What happens is those funds that are not used
8 are then put back into a discretionary pot. And then, you
9 know, airports the size of Williamsport have an opportunity
10 to get additional funding at the end of the year to
11 complete important projects to keep the airport viable.

12 CHAIRPERSON FAIRCHILD: Good point. Tom,
13 thank you very much for being here. Oh, excuse me.
14 Representative McGill.

15 REPRESENTATIVE MCGILL: Thank you very much.
16 I would hope that we can look into one of the things that
17 you said. For the life of me -- if it is US Airways, it is
18 the major carrier out of, out of Williamsport.

19 MR. HART: It's our only carrier.

20 REPRESENTATIVE MCGILL: And they are, they are
21 allowing rates to be changed and not incorporate you, when
22 clearly if the cost that they put up on the board yesterday
23 of the, of the dollars per passenger mile that have to be
24 generated to keep a plane in the air, if 30 or 40 percent
25 of your people are going to move to another airport until

1 you get the prices corrected, I can't understand why they
2 wouldn't, wouldn't automatically offer that to you.

3 And I think that maybe that's an area that we
4 should look into to find out when it is offered to the
5 consumers of Pennsylvania at a given rate, why do we then
6 discriminate if it is a carrier who is a common carrier
7 with a route and a time table that's set up for that.

8 It just, you know, makes you wonder how they,
9 how they go about that other than what you said, there is
10 no competition. So why bother? But if they offer it to A,
11 they should offer it to B if we're in the same state and we
12 have the, and they do have a direct flight that they
13 follow.

14 The other side of it is we can change the
15 whole industry if we outlaw walk-up fares, or Saturday
16 night stays. I mean, Saturday night stays are what
17 separate the businesses from the people who are going on
18 vacation. And they know that, and they know where they
19 have us. And they're very pleased to keep us in that
20 position.

21 I don't believe we will ever change that
22 unless there is legislation that, federal legislation that
23 prohibits anyone from charging Saturday night stay. I
24 don't ever think that that will happen. I think that the
25 airlines would lobby tremendously to stop that from

1 happening because it is a tremendous source of revenue.

2 It's one seat worth \$400 more coming out of
3 your airport just because someone's stuck. So that side of
4 it I don't believe will ever help the business. The
5 business class is going to carry these airlines forever,
6 and maybe rightfully so. They are a business.

7 Other businesses are utilizing them, and we
8 should leave that alone. But the first part where -- it's,
9 in effect, not price fixing. I mean, it's offered and then
10 it's not offered. You can have it, but -- I think that's
11 an area that at least we can look into and maybe come back
12 and find out why the, why the airline does not give you the
13 heads-up every time they have a special offer and offer it
14 to you as part of someone that's on their system.

15 So hopefully maybe we can get an answer for
16 you on that side of it, see, see what they have to say.

17 MR. HART: We would appreciate that. Just one
18 comment to tag on to you. A lot of industries -- I know
19 the aviation industry has -- I go to a handful of
20 conferences a year. And where they used to be held, a
21 conference, Tuesday through a Friday are now beginning on
22 Sundays because of people having to do that, you know,
23 getting the cheaper airfares with the Saturday night stay.

24 And I'm finding a lot of conferences are
25 beginning on Sundays now and giving their people the

1 opportunity to come in a day early and then begin the
2 conference on a Sunday morning. So unfortunately, we're
3 adjusting. The airlines aren't adjusting.

4 REPRESENTATIVE MCGILL: Well, that's -- when I
5 was a lot younger, I had a series of trips that I had to
6 take to the same destination. And being business class and
7 in a small business, it was costing us a fortune. So I
8 bought two tickets.

9 And just -- and I'm told now that you're not
10 allowed to do that. Or I told them, You know what, you
11 figure out a way to stop me from doing it. I'm allowed to
12 buy tickets. And I would use the first half of the one
13 ticket the first time.

14 I was only allowed so many, so many dollars to
15 come back and see my wife. So in order to do that, you
16 have to be a little bit creative. So I was buying two
17 round-trip tickets 14 days in advance and flip-flopping
18 them at the end of -- so I was always -- you just had a
19 stack of tickets that you never knew when you were coming
20 or going with that.

21 MR. HART: Well, let me just tell you one
22 story. When I was with the airline starting out my
23 aviation career, I was in Williamsport with US Airways.
24 And they had a round-trip ticket from Williamsport to
25 Harrisburg at about \$80 for round trip. A round trip from

1 Williamsport to Philadelphia at the time was about 120 to
2 \$140.

3 But to get to Harrisburg, you had to go
4 through Philadelphia. So what we started doing as agents
5 was selling people round trips to Harrisburg for much
6 cheaper than the Philadelphia. They would get off at
7 Philadelphia and never get on the Harrisburg flight, do
8 their business and come back.

9 Of course, back then -- I'm going back a few
10 years -- it wasn't as computerized as it is now. Now you
11 couldn't get away with that but --

12 MR. TESTA: They wouldn't let you get back on
13 the plane now.

14 MR. HART: Right. Exactly.

15 CHAIRPERSON FAIRCHILD: Thank you, Tom.

16 MR. HART: Thank you very much.

17 CHAIRPERSON FAIRCHILD: Okay. For the -- I
18 know we're running a little late here. And Fred is just
19 going to give us about a 4-minute wrap-up.

20 MR. TESTA: From the hearings yesterday and
21 today and just for the record, we found several things:
22 Number one is the fact that Pennsylvania is a high priced
23 airfare state. There's no -- no matter what was testified
24 to here before by the dominant airline, it is a dominated
25 state overwhelming by a single airline.

1 Even though that single airline has a huge
2 economic impact on the state and employs a lot of people,
3 it is still making up the differences, as I showed you in
4 the beginning. On those markets that has matched fares out
5 of Providence, Manchester, Baltimore, it is actually losing
6 money but making it up in other places where they can
7 charge higher fares.

8 Getting low cost airlines can be done. As
9 Representative Bard so aptly put it -- and I was thankful
10 that she actually remembered -- it can be done, even in
11 small markets. But it all depends on the amount of
12 marketing you do and how you present your airports.

13 I just wanted to -- you heard from the Erie
14 people yesterday. They spent \$863 a piece to get here
15 yesterday round trip from Erie, flew in through Pittsburgh.
16 \$863 from Erie to get to Harrisburg. My own experience, I
17 have to be in San Francisco next week on a Thursday,
18 actually Thursday afternoon, Friday.

19 And last Thursday, I got on my Internet into
20 US Airways' site. And by manipulating the site and
21 manipulating the times, I was able to get a \$367 round trip
22 as long as I left on Thursday morning but I came back
23 Sunday night at 10:00 p.m. and slept on the plane, didn't
24 get back into Philly till 6:00 a.m. next morning.

25 I called my contact in San Francisco. I said,

1 I got the airfare. I'll confirm it tomorrow and get it and
2 then I'll be in San Francisco because I had to coordinate
3 with him to be there. Well, the next morning, we go
4 coordinate it. I got on -- this is 12 hours later. I
5 missed the 14-day cutoff because now it was 13 days. And
6 the fare for the same flight, midnight flight was now
7 \$2,270.

8 Now, if I went without the Saturday night
9 stay, it was \$3,100. And that's economy class, by the way.
10 It's not first class. So I missed it by 12 hours. And
11 that's my own personal -- and I can't go to San Francisco
12 because I can't afford 3,000 to go round trip for what I'm
13 going for.

14 You heard US Air yesterday talk about it. But
15 what they forgot to mention yesterday, especially when
16 they're talking about how competitive they are, no one
17 mentioned MetroJet. MetroJet is their low cost carrier,
18 which they operate at about 7 or 8 cents a mile; and they
19 match all the low fare carriers.

20 They don't fly in the state of Pennsylvania.
21 They fly everywhere else. They don't fly in the state of
22 Pennsylvania. They don't fly to Harrisburg, Pennsylvania,
23 Pittsburgh, Williamsport, anyplace. They fly to
24 Manchester. They fly to Providence. They fly Upstate New
25 York. They fly to Florida.

1 They fly everywhere else, Baltimore. They
2 don't fly to Pennsylvania. They can produce a product that
3 flies you inexpensively. They just won't introduce it into
4 Pennsylvania. If I were a businessman in front of you
5 today and I came before you, you're an economic development
6 committee, and I said to you I'm looking at Pennsylvania to
7 bring in an industry that employs directly 35- to 36,000
8 people with an actual payroll of \$1.3 billion, that because
9 of its ancillary buying and purchasing within the state
10 actually has about 290,000 employees dependent on it and
11 that payroll would be about \$5 1/2 billion with an economic
12 impact of 12 billion, what would the state do?

13 Would it give me incentive money, train my
14 workers, provide all sorts of marketing opportunities,
15 provide a fund of money? You know, to be honest, let's
16 face it, when Kvaerner was going to go into Philadelphia,
17 what did you guys do?

18 You put a \$400 million package for 800 jobs.
19 Of course, they had nowhere near 800 jobs. But you put
20 together a package that produced a lot of money for an
21 industry that produced 800 jobs in the state of
22 Pennsylvania. And yet the numbers I just gave you are what
23 aviation produces, the aviation industry only at the
24 commercial 16 airports.

25 I'm not talking about general aviation here.

1 These are numbers put out by the Department of
2 Transportation by a couple people I see sitting in the
3 audience right here who put these statistics together. So
4 my recommendations to you -- and you caught me by surprise
5 yesterday by asking me that -- my recommendations are FAA,
6 bless their hearts, and the Department of Transportation
7 provide money to the airports based upon their
8 enplanements.

9 Let's not forget PFCs. As your enplanements
10 drop, your income from the passenger facility charges also
11 drop. But they provide money to the airports, but that
12 money's for capital investment. I cannot use, as airport
13 director, any of that money for the soft costs, marketing,
14 economic development.

15 You heard a little bit from Barry yesterday
16 about that. So going back to my example on what would
17 you do for a business coming in with 36,000 employees, that
18 if for some reason all these airports lost this aviation
19 business -- by the way, I'm not -- this is total
20 dollars -- I have three, four suggestions.

21 Number one is the soft money grants. If
22 this -- I've never been known for subtlety. If this body
23 can suggest coming up with incentive programs for 800 jobs
24 at Kvaerner and other industry in Pennsylvania who have
25 done economic incentives, tax abatements and so forth, it

1 certainly can come up with a program of several million
2 dollars -- I'm not talking about \$400 million -- that
3 airports could draw from with a marketing plan because it's
4 very, very high.

5 I'm not talking about Philadelphia, Pittsburgh
6 here. They have enough money. They can go on massive.
7 When I was in Philadelphia alone, I put together a
8 marketing program that was several million dollars; and it
9 didn't dent that budget at all.

10 The budget was \$200 million. So several
11 million dollars means almost nothing. But for the smaller
12 airports, from the Harrisburgs on down, the Allentowns and
13 Wilkes-Barres and everybody else, that money is important.

14 Guaranteed income. Now, you heard me say
15 before subsidies are not allowed. They're not allowed by
16 airports. However, state governments can guarantee a
17 certain level of income to an AirTran to try a smaller
18 airport and say, Look, we guarantee you won't lose money
19 for a year, two years, whatever the case may be, as long as
20 the contractual basis, you are able to back that up.

21 The state can't do that. In fact, there are
22 several municipalities in the west -- Colorado ski areas
23 for one -- that even the local business group gets
24 together, raises funds and subsidizes American Airlines.
25 American loses money going in and out of these markets just

1 so they'll have jet service to these marketplaces so the
2 ski business can survive. Number 3 --

3 CHAIRPERSON FAIRCHILD: Are these to airports
4 or airlines?

5 MR. TESTA: Oh, yeah, airports.

6 CHAIRPERSON FAIRCHILD: Not airlines?

7 MR. TESTA: What? Oh, no. The subsidies are
8 to airlines. States can do it; localities can do it;
9 business groups can do it. And there's been several -- in
10 fact, even when -- well, the gambling industry in Las Vegas
11 subsidizes its own airline, National Airlines, which is
12 another discount carrier that runs very low fares.

13 I think it's 129 to Las Vegas out of
14 Philadelphia. For another \$20 bill, you can go to San
15 Diego, LA, and San Francisco. But you got to spend one
16 night in Las Vegas, which means you may lose more money
17 than you've got anyway. But that's the way they do that.

18 There's another one. Truth in advertising,
19 number of seats at a fare. I agree with the -- how do they
20 cut up an airplane? Well, I'm going to tell you how they
21 cut up an aircraft. On a 146-seat aircraft, there are
22 probably 24 first-class seats -- yeah, I'm sorry -- 12 or
23 16 first-class seats. So let's say 12.

24 And that means 122 economy class. Out of that
25 122 economy class, the yield model they use will leave 10

1 for a fare sale, 20 for that 21-day advance, 30 for the
2 14-day advance, and then the 7-day advance and so forth.
3 But they don't offer all three cases anywhere.

4 My own -- I don't have a 7-day break in
5 Philadelphia. There's a 14-day break in Philadelphia but
6 no 7-day break. Yet in other markets, there is a 7-day
7 break. Now, as the time comes, that model showing that
8 they haven't sold many seats, they will start offering
9 those lower fares and opening and closing the market.

10 So yes, they do have a specific set number of
11 seats in the beginning that they have set aside for each
12 class of fare. You can't find out and I can't find out
13 because that's not information that they will give us.
14 I've gotten into their system when I was director of
15 Manchester because I had -- and Kevin, forgive me because
16 Kevin was with US Air at the time.

17 But I used to get into their system all the
18 time with the help of a station manager and actually look
19 up their yield. We used to call inventory control. And
20 Kevin knows. I used to yell at them to open up some more
21 seats because I've got people out here.

22 You can't have five low fare seats. Sometimes
23 inventory control worked with us and did open up some seats
24 because I had some very irate people. But that's a very,
25 very tough nut to crack. It's not easy.

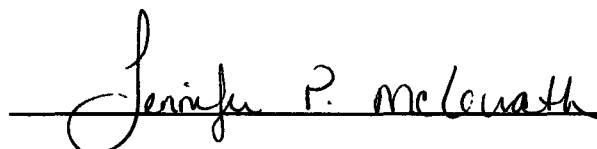
1 And the last one, intrastate offerings. And
2 those fares between airports in the state are a little bit
3 different in federal controls than the interstate
4 offerings. I don't think that this legislature can do
5 anything with fares because that's pretty well protected in
6 all the aviation acts.

7 But you can, by the bully pulpit, create
8 enough problems for a local airline that given a concerted
9 voice in Pennsylvania -- and the Aviation Council of
10 Pennsylvania does have that voice I think -- with the help
11 of Philadelphia and Pittsburgh, can make some improvements
12 I think in getting at least some of those lower bargain
13 fares to a Williamsport. And that's all I have.

14 CHAIRPERSON FAIRCHILD: Thank you very much.
15 And I would like to thank those that not only testified but
16 those that attended. I can assure you we will be following
17 up and doing some more studies on these issues. And
18 everyone, have a great day. Thank you very much.

19 (Whereupon, at 11:43 a.m., the hearing
20 adjourned.)
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25

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

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11 JENNIFER P. McGRATH

12 Registered Professional Reporter

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17 My Commission Expires:

18 April 30, 2001

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