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Subject Initial FAA Comments on City of Chicago's Preliminary
Supplemental BCA

Hi Shawn -

Attached you will find initial FAA Comments on the City of Chicago's Preliminary Supplemental Benefit Cost Analysis submitted to the FAA on August 23, 2005. The FAA and the FAA's contractor continue to review the document and will provide additional comments either late Thursday or on Friday. However, we felt that it would benefit the process to submit these initial comments for your review today.

We are prepared to discuss these comments with you at your convenience. If you have any questions or the need for further clarification, please let us know.

Thank you.

Rich



Initial FAA Comments on Supplemental BCA 2005 08 24 DRAFT.doc

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**Initial FAA Comments on City of Chicago's Supplemental Benefit Cost Analysis
Prepared by FAA on August 24, 2005**

Page 2: "This methodology does not account for benefits attributable solely to delay reduction. As stated above, this supplemental method provides for the quantification of benefits attributable to additional traffic and passengers provided by the project. However, as the February 2005 BCA illustrates, there are substantial benefits without any growth in traffic at the airport."

Comment: The above statement appears misleading. The surplus approach does in fact take into account the benefits derived from delay reduction. The difference is the way benefits are measured. To suggest otherwise one would be double counting.

Page2: **Comment:** It appears that the analysis is still using the incorrect average travel times per operations. As noted in our prior discussion, the travel times should be the base case travel times and not the scenario travel times.

Page 4: "The FAA, for the purposes of this supplemental analysis, has determined that demand would be constrained following the implementation of Phase 1 if the modernization program were not completed, and the FAA has developed a constrained forecast activity for this situation.

Comment: [EDIT] For the purposes of this supplemental analysis, [it is assumed] that demand would be constrained following the implementation of Phase 1 if the modernization program were not completed, and the FAA has developed a constrained forecast activity for this situation.

Page 4: **Comment:** The methodology section does not provide a needed discussion of the methodology that is being employed to calculate benefits. It is not sufficient to simply note that it is a consumer surplus approach or that it appears consistent with FAA's BCA guidance. Because this is a new approach outside of the traditional methods used to measure benefits, how consumer surplus is being used should be discussed in detail.

Page 12 (Section IV): "The primary benefits obtained from the OMP will be in the form of lower total travel costs (travel time and money fare). An increase in capacity will reduce delays and therefore lower travel time costs, and an increase in demand will lower fares".

Comment: It is incorrect to suggest that an increase in demand will lower fares. An increase in demand is typically represented by a shift in the demand curve. In this particular case, there is only a movement along the demand curve, from one equilibrium point to another. The only way to reach the new equilibrium point is for the full cost of travel to fall. This can only be accomplished by a fall in the operating cost incurred by the air carriers. It would be helpful to document the operating cost improvements shared by airlines when other airport capacity projects have been undertaken. Let's discuss.

Page 12: **Comment:** There needs to be a discussion of the relationship between travel time savings and the construction phase of the project (i.e., why won't travel time savings

not be negatively impacted during construction). In addition, there needs to be a discussion on the relationship between passenger growth and any potential landside delay that would tend to offset the travel time savings associated with Phase 1.

Page 13 (Section IV.2): “The differences in average delay between (1) the Base Case and OMP-Phase 1 Projects are greater than the differences between the average travel times in any given year. This results because the proposed plan increases unimpeded travel times due in part to the increase in taxi distance associated with the new runways. Therefore, this BCA uses the differences in travel times to calculate benefits in order to ensure that these benefits are understated”.

Comment: Not sure of the relevance of this section for this particular BCA approach, especially the last sentence. Perhaps the more relevant discuss would be to discuss the travel times under the base case and the scenario case. [Let’s discuss]

Page 14: **Comment:** The value of time used continues to be wrong. The problem is that the analysis is using outdated reference (Report FAA-APO-98-8). The current reference since March 2003 (as was used in the original BCA) is APO Bulletin APO-03-1 (which transmitted updated OST guidance on the subject). The bottom line is this – the rate that should be applied is \$32.10 per hour rather than \$27.36 per hour. The fact that the analysis is applying 2001 base year dollar values in the study has no bearing on the value of time to be used here.

Page 18: **Comment:** Within the context of conducting sensitivity tests, the analysis must show that changes in money price under the scenario case are plausible. Within the sensitivity section, the analysis must establish what are plausible changes in the money price of travel over this time frame. For example, when looking at **higher** growth scenarios the analysis should consider what the implied change in money fare would be. This type of analysis provides an additional and important test as the reasonableness of not only the projected growth rates but also the price elasticity in combination with the various growth rates.

Note: It has been observed that on average, the real price of aviation travel falls approximately 1 percent per year (GRA). This historic fall in the price is a function of many factors including airline competition, etc. It would be extremely useful if the analysis could establish a “standard” by what to judge what a reasonable change in price would be. Establishing this standard could take into account anticipated airline competition, changes in operating costs, etc.

In addition to looking at changes in the money price of travel, the sensitivity analysis should be done on a multi-attribute basis to ensure that the BCA results are robust over a variety of circumstances. The sensitivity tests should also consider the possible failure of a hub carrier..

Page 19: **Comment:** Note this discussion is not addressing the plausibility of the money fares as we have discussed in prior meetings and noted above.

Page 21: **Comment:** Need a table illustrating how the benefits were calculated.

Note: All of these comments area intended to augment comments previously provided.