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ATTACHMENT E



Federal Aviation Administration

Memorandum

Date: October 25, 2005

From: Joseph M Hebert, Manager, *Joe Hebert* Financial Analysis and PFC Branch, APP-510

To: Mr. Bob Robeson, Manager, Systems and Policy Analysis Division, APO-200

Prepared by:

Subject: APO-500 Memorandum of October 5, 2005, Chicago O'Hare
Modernization Program (Phase 1), Benefit Cost Analysis Review

Thank you for your Memorandum of October 5, 2005, containing APO's review of the *Request for Letter of Intent to Provide a Multi-Year Commitment of Airport Improvement Grant-in-Aid Funding OMP Phase-1* dated February 2005 and the supplemental analysis dated September 27, 2005. We have carefully reviewed your Memorandum, and concur in its assessments. At the same time, we believe that because the City's application for a Letter of Intent has received such a high level of interest from the public, it would be advisable for the FAA to provide a greater measure of clarity regarding certain aspects of our review.

In particular, we would welcome your additional thoughts on the following issues:

- At page 2 of your Memorandum, APO states that Appendix C of the agency's BCA guidance would typically need to consider both changes in consumer and producer surplus to measure changes in social surplus from the proposed project. For OMP Phase 1, APO notes that measuring changes in social surplus solely on the basis of consumer surplus is a more conservative and appropriate approach. Additional clarification of why such an approach was used here would be helpful.
- At page 2 of your Memorandum, APO notes that GRA, in its September 1, 2005, memo "Economic Framework for Estimating Airport Project Benefits" describes a situation in which changes in consumer surplus measure the benefit to the consumer resulting from a capacity expansion project, despite the fact that delays at the airport return to current conditions during the period of the proposed project. We understand that time to be about 2016. We also understand that Phase 1 alone is expected to permit 11,557,673 additional enplanements and 176,000 additional operations.

As you know, OMP Phase 1 is "the project" under consideration for funding, rather than the complete OMP that was the subject of the FAA's EIS and ROD. Because the LOI is sought for only Phase 1, it is necessary to confine our analysis of the LOI application to Phase 1

only. At the same time, the FAA's ROD has found the full OMP to be both financially feasible and in the public interest. In conjunction with its LOI analysis, APP and its contractor John F. Brown, confirmed that OMP Phase 1, the full OMP, and ORD's full master plan were financially feasible. The EIS forecasts that by 2016, the complete OMP will have been fully constructed, and the airport will be able to handle 2,714,180 additional enplanements and 44,000 more operations (over Phase 1 levels) with a large reduction in delay from 15.9 minutes to 5.8 minutes. Accordingly, it would be helpful for APO to provide additional clarity regarding the City of Chicago's observation in its supplemental BCA document of average expected delay solely attributable to Phase 1 in 2016, in the context of the EIS forecasts of operations at O'Hare in 2016 with the full OMP.

- o We would also appreciate additional detail with respect to the recognition that application of Appendix C guidance and economic modeling provide that with the added supply produced by Phase 1 there will also be a decline in the real dollar value of average fares, along with greater choices by consumers.
- o We are grateful for your assessments in Attachment II of your October 5, 2005, Memorandum dealing with the various sensitivity analyses contained in the Supplemental BCA submission. For the benefit of those who may not be familiar with the fine details of such studies, we would welcome any additional textual guidance you could propose to aid the public in better comprehending the various scenarios contemplated by the City of Chicago and reviewed by the FAA in finding that Phase 1 is cost-beneficial.

Your assistance with these matters is greatly appreciated.