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Dennis Walsh/AWA/FAA
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bcc

Subject Re: Draft Supplemental BCA Document 

History

 This message has been forwarded.

Shawn

Attached are FAA's consolidated comments on the 8-29-05 supplemental BCA.

Look forward to discussing at 2:30 eastern



FAA Comments on Supplemental BCA 8-29-05.doc

Dennis Walsh
APP-510, Financial Analysis and PFC Branch
202-493-4890

#1. Page 1, third para, next to last sentence: Change the wording at the end of the sentence from "their benefit streams are identical" to "their benefit streams in this analysis are identical". We don't want any reader to get the sense that they're really identical.

#2. Page 2: "It does not, however, provide a mechanism for measuring the benefits of a project that reduces delay but does not increase capacity; the February 2005 BCA does measure such a situation."

Comment: Remove this statement. It is factually incorrect. The OMP phase-1 does in fact increase capacity. The benefits estimated under the previous approach are artificial and would never have been realized. The rectangle portion of the consumer surplus is the total benefit that the incumbent passengers receive. Included in that calculation is the benefit derived from a reduction in travel time. [Discuss if necessary]

#3. Page 2, table: In the row "Phase 1 – Master Plan" under "Money Fare" under the column "Net Present Value", change the \$6.3 to \$6.2 to be consistent with Table A-12.

#4. Page 4: **Comment:** This section is perhaps the most critical section of the new analysis. Therefore, it is essential that the supplemental BCA Methodology section describe the methodology employed to calculate benefits. As noted in the GRA comments, it should include a discussion of how the demand curve was derived and how it is used in the analysis to calculate changes in consumer surplus. This section should walk the reader through how benefits were calculated. Here could be the logical place to put the populated C-1 table found in your appendix. With respect to the benefit calculations here we would need a "detailed" discussion of the assumptions. Inclusion of some of the GRA text in the main section of the BCA would be appropriate. As the document stands, it falls short of what is required when an applicant adopts a new approach to calculate benefits. Please note GRA only provided an outline of the methodology. It is up to the sponsor to show its relevance in the calculation of benefits. [Note: the comment on page 2 is in direct conflict with this need].

#5. Page 4, first para.: The reference is incorrect. Change it to: APO Bulletin APO-03-1, Treatment of Values of Passenger Time in Economic Analysis, March 2003, as it is correctly cited on page 15.

#6. Page 12-16: **Comment:** Page 16, second para.: Is this just conjecture or is it based on "professional judgment"? There needs to be more than assurances that the construction phase will not produce significant delays that would offset the proposed benefits. It would be helpful if the Sponsor would include reference to documentation discussing the phasing of the construction program and its impact on airport congestion. Furthermore, there should be some discussion on why the sponsor believes that with the

existing facilities the additional passenger loads will not create passenger delay. Note that there is a distinction between the fact that a facility may be able to handle additional traffic and the possibility of increased passenger delay.

#7. Page 12: **Comment:** Under Section IV Project Benefits, it would be appropriate to include a populated table of the benefit calculation (under one set of assumptions). Here one should also illustrate the changes in travel times between the base case and the scenario case. Without having these travel time differences, one cannot determine what the change in money fare would be necessary to move from one equilibrium point to another.

It should be noted that even if delay levels in the two cases are different, this would not affect the calculation of the full price of travel or the overall benefit-cost ratios. However, because the full price of travel is composed of travel time plus the money fare, any change in delay/travel times will have implications for the money fare; and it is important to assess whether implied changes in the money fare are reasonable. This assessment has not yet been made based on the information we have received.

#8. Page 14: *“Average Travel Time.* The average travel time per operation was obtained from TAAM simulations performed for the OMP. The travel time considered for this BCA is the Base Case scenario. It is an average of the arrival and departure travel times and includes minutes of travel delay.”

Comment: What about the travel times for the scenario case? This section is confusing.

#9. Page 14, Bullet titled “Passenger Value of Time”: The reference is incorrect. Change it to: APO Bulletin APO-03-1, Treatment of Values of Passenger Time in Economic Analysis, March 2003, as it is correctly cited on page 15.

#10. p.14, Average Segment Money Fare

We still think the \$220 figure (based on 2004 data) is suspect. The fact that the value used for the sensitivity (based on 2005Q1) is so much different lends credence to this suspicion. Comparison of average fares from Table D-1 and D-2 (ignoring foreign carrier corrections in D-2):

	CY2004	2005Q1
Originating Domestic	\$138	\$125
Originating Intl	\$481	\$326
Connecting Domestic	\$166	\$80
Connecting Intl	\$589	\$256

Although the first quarter in general and in 2005 in particular may show weak yields in many ORD markets, we would be surprised if the differences shown are accurate. It looks like maybe the connecting data for 2004 was inadvertently doubled. Also, there should be some discussion about why it's reasonable to assume that real money fares under the base case would stay constant. There should also be an explanation of the idea that, as long as FAA puts a cap on operations such that delays are the same under both cases, then it must be the case that money fares will fall as the full price of travel falls. And then a follow-on discussion of why falling money fares in the OMP case are reasonable.

#11. Page 15: **Comment:** address FAA comments/concerns regarding the treatment of the acquisition of land as a sunk cost. Typically, these costs should be included in the cost section of the document and not treated as sunk. At the very least, if it continues to erroneously be viewed as a sunk cost, then at least remove it from salvage value as discussed at the bottom of p. 14.

#12. Page 17/20: **Comment:** as noted in previous comments, the sensitivity section under this approach is a much more critical section than would be the case under the more traditional methodology for calculating delays. The reason for this is that the model used to derive benefits is based on a number of assumptions that need to be tested. The critical assumptions are the price elasticity, base case money fare, and estimated passengers. In order to provide for a comprehensive review of the interaction of assumptions, a multi-attribute sensitivity analysis should be conducted. We suggest that the sponsor display the information in a matrix format as illustrated below (**the ranges appearing below are for illustrative purposes only**). Partially populated matrices are also included as an attachment.

Base Case Average Money Fare

		<i>\$135</i>	<i>\$200</i>	<i>\$220</i>	<i>\$300</i>
Elasticity	-1.0				
	-1.18				
	-2.0				
	-3.0				
	-4.0				
	-5.0				

Passenger Levels

		<i>Low</i>	<i>Hi</i>
Elasticity	-1.0		
	-1.18		

-2.0	
-3.0	
-4.0	
-5.0	

Passenger Levels

	<i>Low</i>	<i>Hi</i>
Base Case		
Average		
Money		
Fare		
	\$135	
	\$200	
	\$220	
	\$300	

#13. Page 19, second full para.: It appears that the 11% reduction was applied only in 2018 and later years. The low range included in Appendix R begins in 2005 (at the time a forecast year). FAA will provide year by year low range enplanements developed in the EIS.

#14. p.19-20, Value of Time and Money Fare Plausibility

The sentence about the fare reduction being plausible "due to the infrastructure improvements and the projected increased passenger demand" is misleading. The year-by-year walk down the demand curve to a new lower FPT due to the OMP project doesn't represent increased demand; in any given year, the demand curve is (assumed to be) fixed. It is true that the demand curve shifts out a bit each year based on the projected base case demand forecast, but this is not what causes the money fare reductions.

#15. Page 21, Table VI-1: In the row "Phase 1 – Master Plan" under Money Fare under the column "Net Present Value", change the \$6.3 to \$6.2 to be consistent with Table A-12.

#16. Appendix Table A-1: The benefits (for Phase 1 Airfield) do not equal those in Appendix Table A-2 (for Master Plan Phase 1), contrary to the end of the 3rd para. on page 1 of the BCA's main text which states that the benefit streams are equal. The reason for it is that for supporting GRA template for Phase 1 Airfield uses a value of time of \$0.54/minute, whereas the template for Master Plan Phase 1 uses using \$0.535/minute. This causes a difference in benefits of over \$100 million.

#17. Appendix Table A-2: The Project Construction Costs" for the years 2006, 2007, and 2008 (for Master Plan Phase 1) aren't in sync with Appendix Table B-1. It appears that Appendix Table B-1 contains incorrect data for these years.

#18. Appendix Table A-4: Hide the "Downstream Passenger Delay Savings" column.

#19. Appendix Table A-7: This table isn't in sync with the spreadsheets that were sent on 8/29/05. The sheet named "NPV low growth sens" is close to Table A-7 but has slightly different numbers. Which is the correct table to have in the report?

#20. Appendix Table A-7: Hide the column titled "Passenger Travel Time Savings" to avoid confusion. These aren't the operative benefits in this sensitivity test.

#21. Appendix Table A-13: Hide the column titled "Passenger Travel Time Savings" to avoid confusion. These aren't the operative benefits in this sensitivity test.

#22. Appendix Table B-1: As stated above, the Project Construction Costs for the years 2006, 2007, and 2008 for Master Plan Phase 1 aren't in sync with Appendix Table A-2. It appears that Appendix Table B-1 is in error. The row doesn't add to the printed total in the right most column. The bottom line is that the costs for 2006, 2007, and 2008 look suspect. Wee note that this table is all values, versus formula-driven. Perhaps this is part of the problem.

#23. Appendix C, second page of the reproduced GRA memo: The table is overlaying part of the text.