

MINNESOTA

Regional Air Service Study

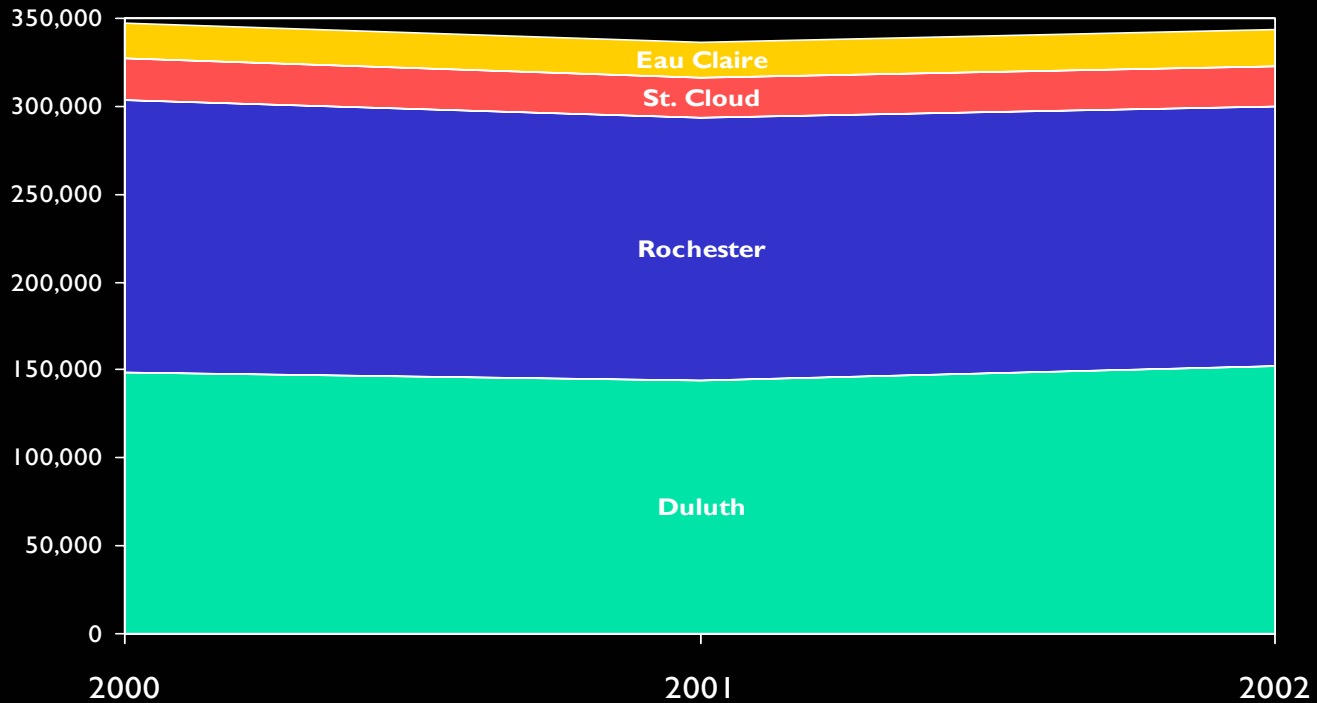
The KRAMER Team



Today's Topics

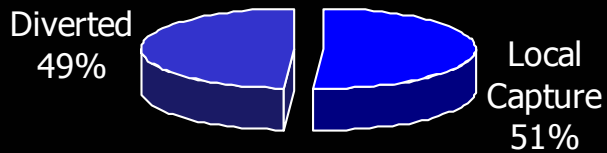
- Tier 2 Demand Profile
- Context for Possibilities (The Industry)
- Air Service Options
- Likely Build-out
- Facility Implications
- Strategies to Recruit Air Carriers
- Strategies to Lower Air Fares
- Next Steps
- Project Wrap-up

Tier 2 Enplanement Activity

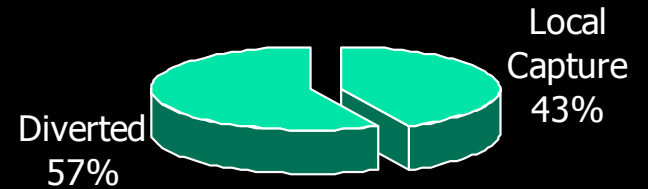


Capture Rates

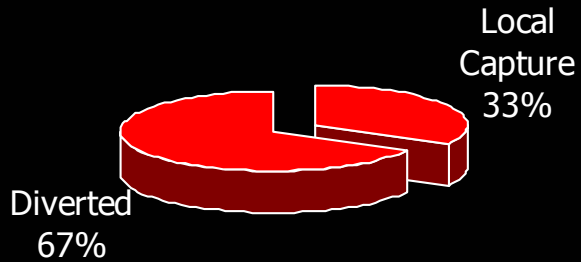
Duluth



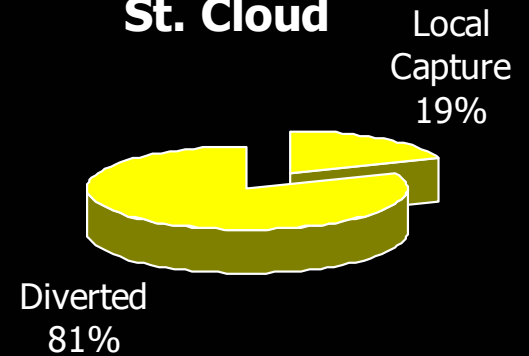
Rochester



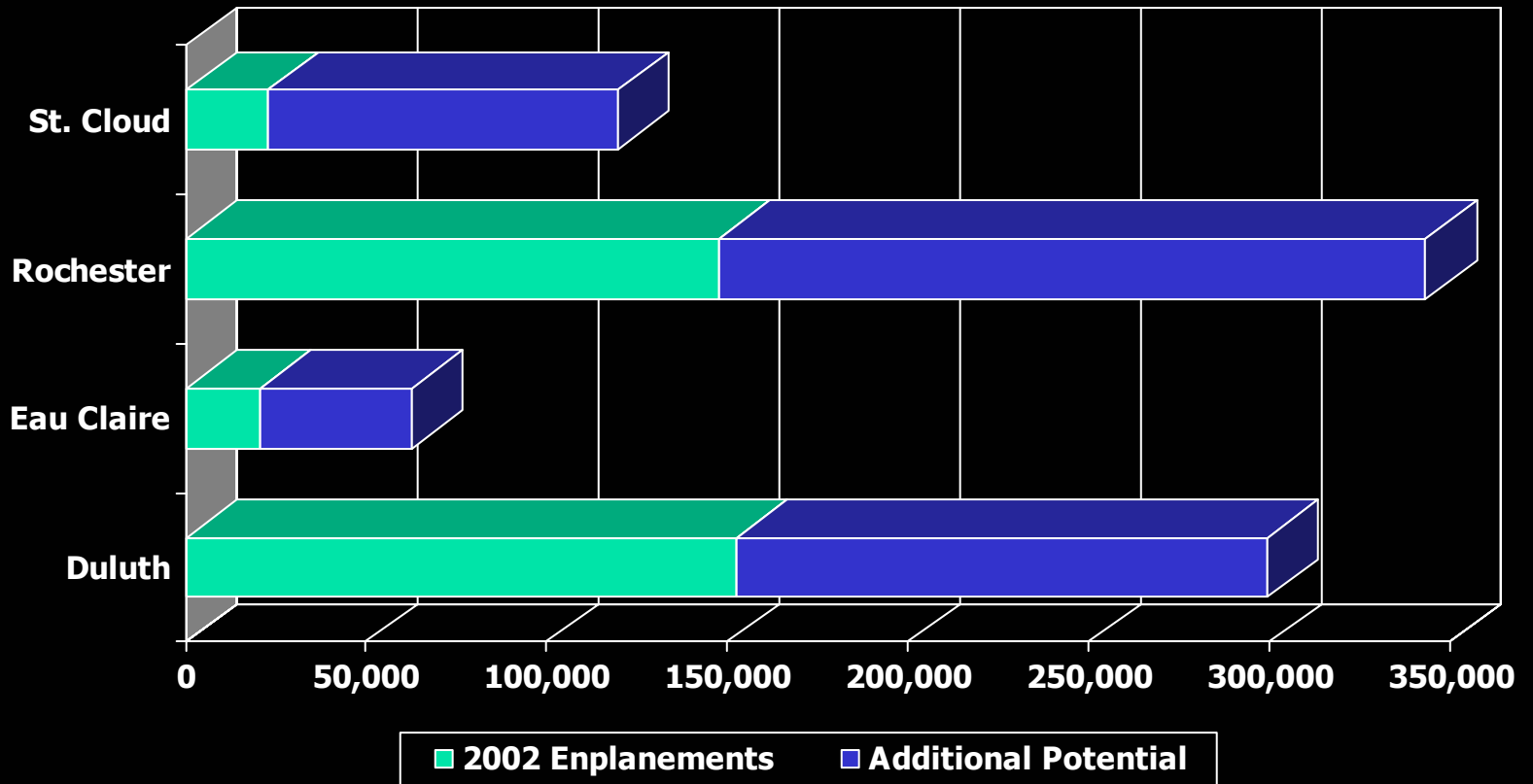
Eau Claire



St. Cloud



Total Market





Near Term Potential

- Rochester: 65% = 198,962
- Duluth: 58% = 197,359
- St. Cloud: 51% = 61,036
- Eau Claire: 65% = 40,756

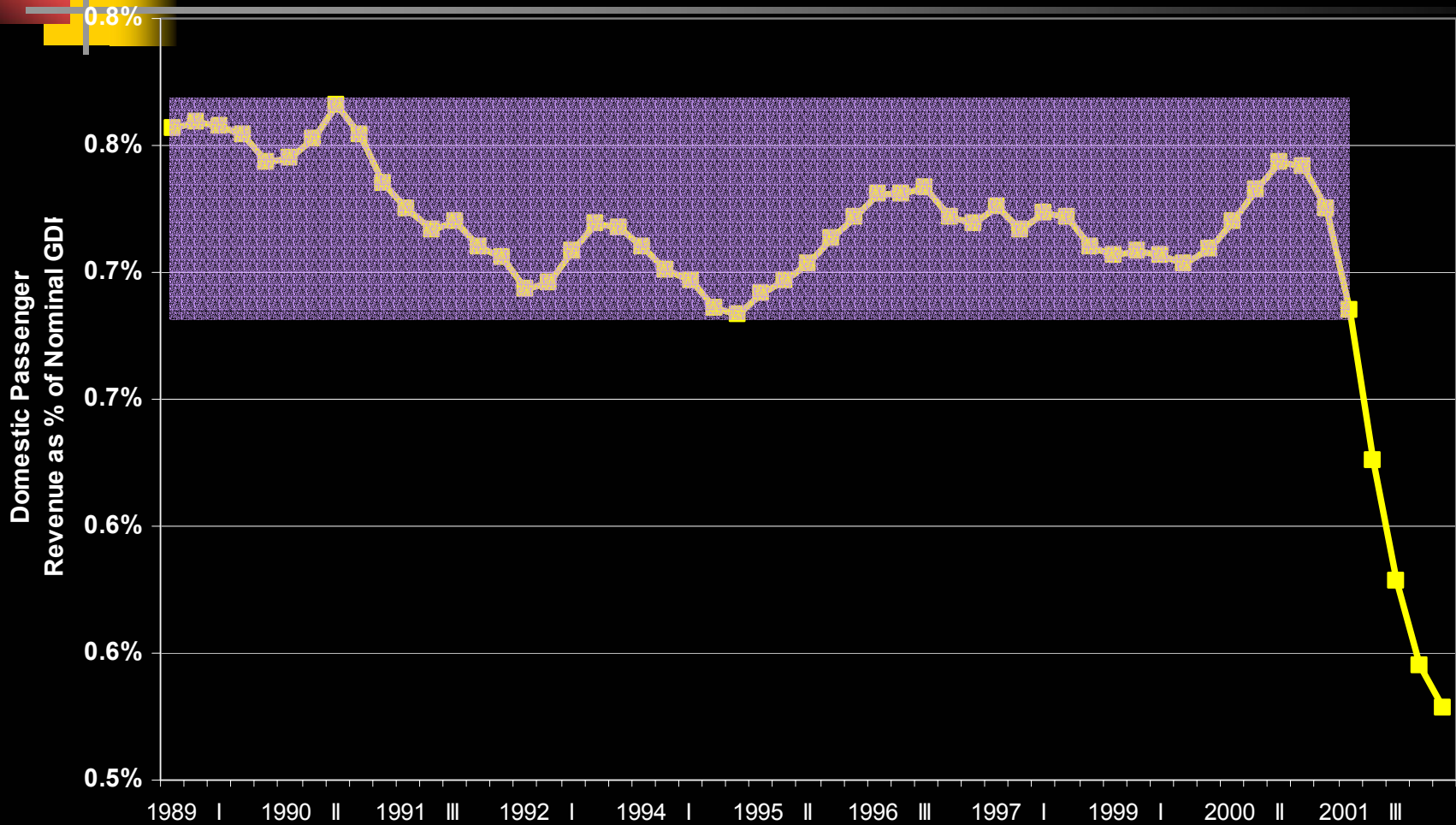
% = Capture Rate Goal

Context for Possibilities

- Industry Recovery
- Future of Hubs
- Low Cost Carriers
- Competition



The Bottom: Is it Here?





Market Still Has No Confidence

Network Carriers	Market Capitalization (\$ millions)	Available Seat Miles (000)	Low Cost/Niche Carriers	Market Capitalization (\$ millions)	Available Seat Miles (000)
America West	137	6,962,073	AirTran	534	2,152,809
American/TWA	992	32,933,032	Alaska	506	4,864,673
Continental	728	12,915,744	America Trans Air	54	3,683,876
Delta	1,648	25,656,828	Frontier	208	1,562,942
Northwest	767	14,916,855	JetBlue	2,165	2,229,727
United	142	25,625,719	Midwest Express	47	841,454
US Airways	48	12,008,746	Southwest	12,517	17,637,823
Total	\$4,461	131,018,997		\$16,030	32,973,304



Will the Network Hubs Remain?

- 30 hubs in the U.S.
- 30,000 city pair markets
- 5% of city pairs = 73% of all passengers
- Rest served by hub & spoke systems
- Why pressure is on smaller markets



Future of Tier 2 and Tier 3?

Extinction?

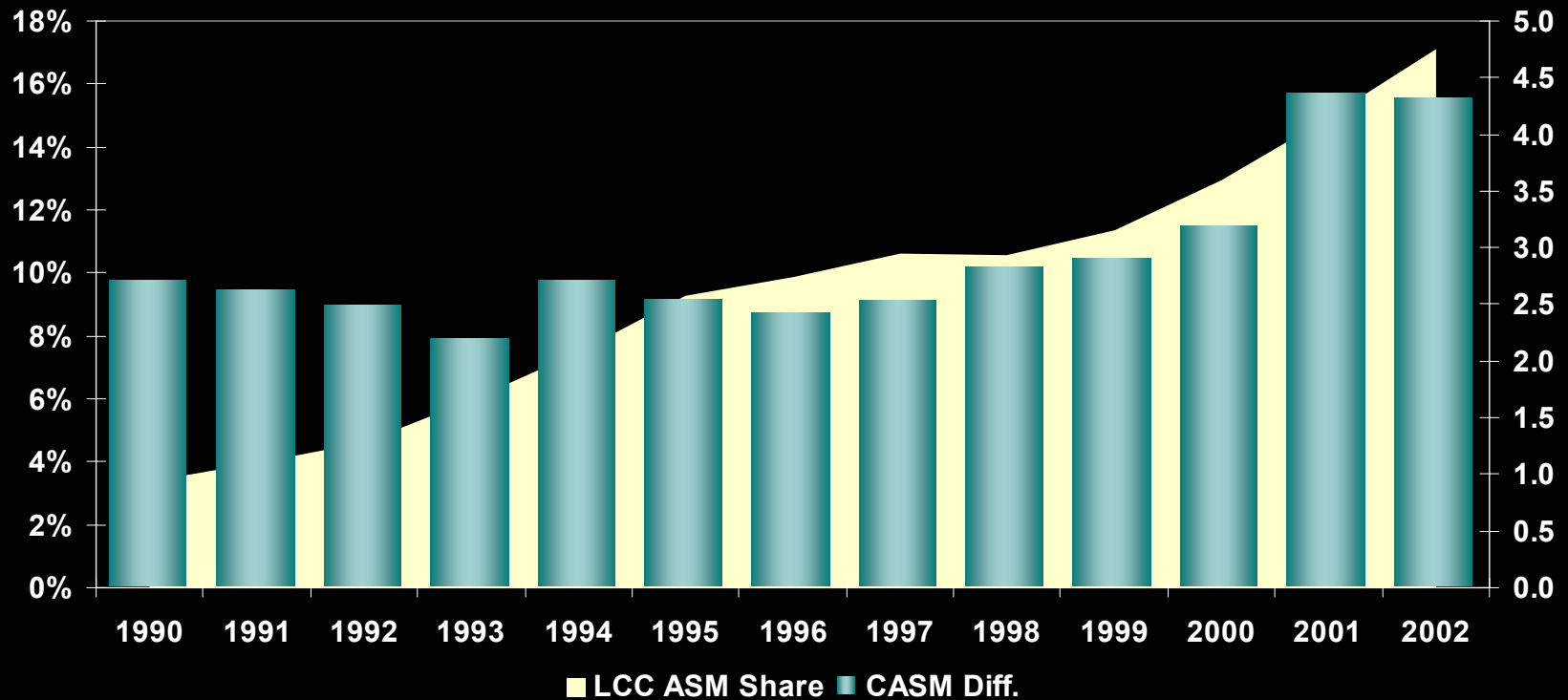
- A prolonged and difficult recovery for mainline network carriers (Northwest, American, United, Delta, Continental, US Airways).
- Continued retirement of turboprop aircraft and deployment of regional jets on mainline routes.
- A willingness of Minnesota and Wisconsin air passengers to drive to MSP.
- Absence of competition for incremental passengers at perimeter airports.

Bright Future?

- Premium prices at Tier 2 and Tier 3.
- Increased highway congestion lengthens travel time & hassle.
- Time savings to drive, park, and clear security at the local airport.
- Community interest in sharing the financial risk of added service.
- A Tier 2 strategy to serve as competitive gateways to the national network of air transportation.

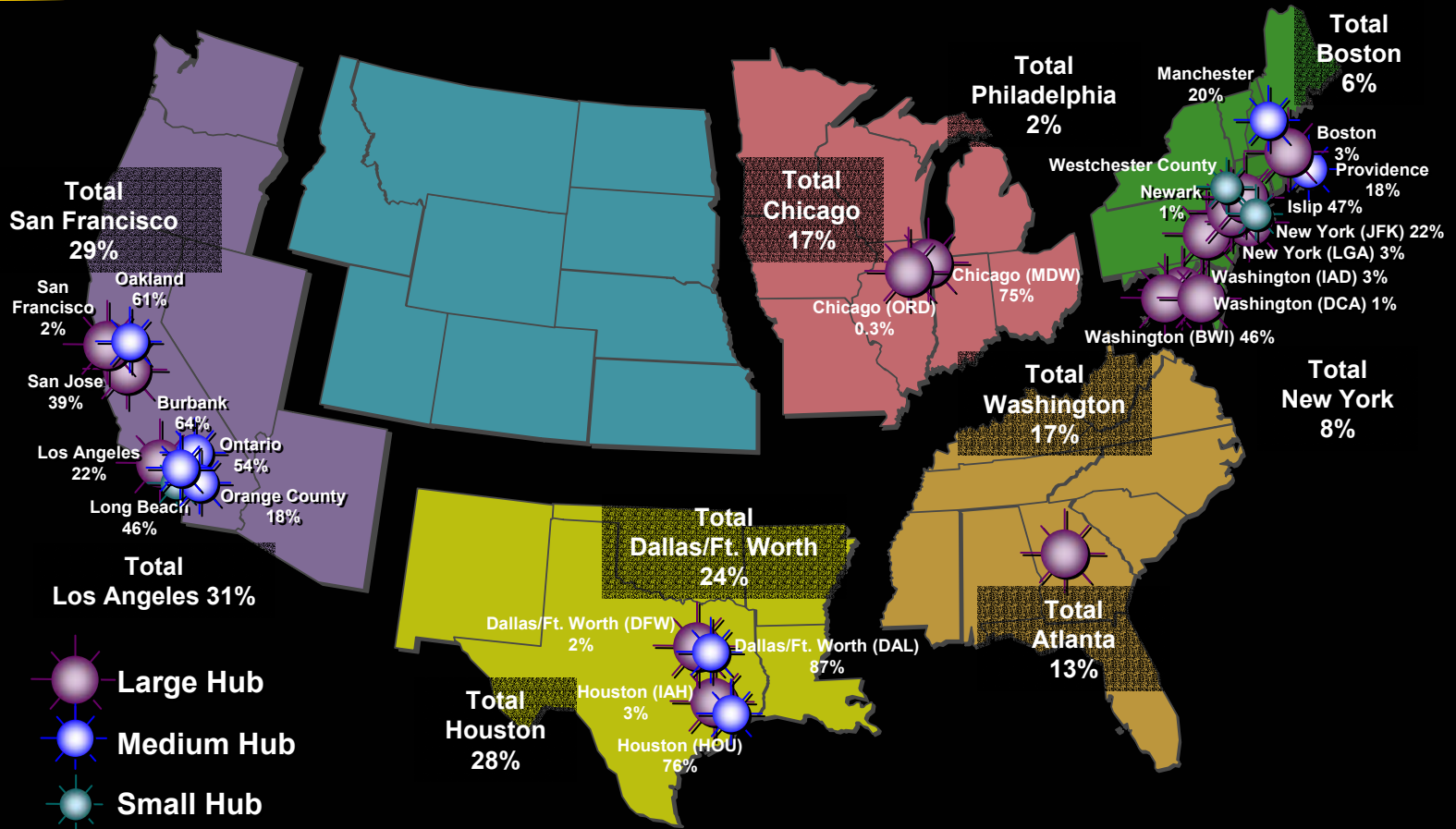
LCC's Exploit Mainline Troubles

Low Cost Carrier Growth vs Difference in Cost per ASM



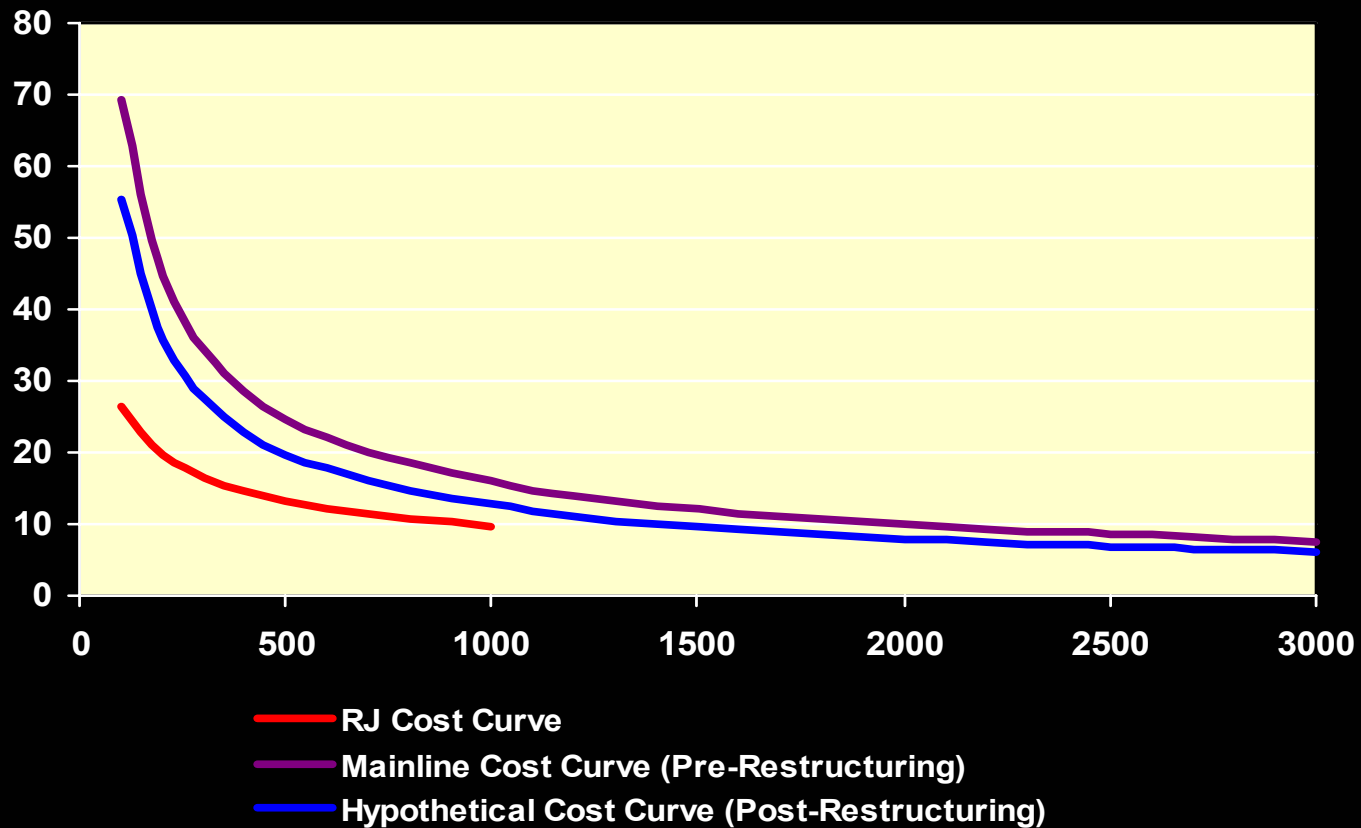
Top 10 CMSA Markets, March 2003

Low Cost Carrier Market Share

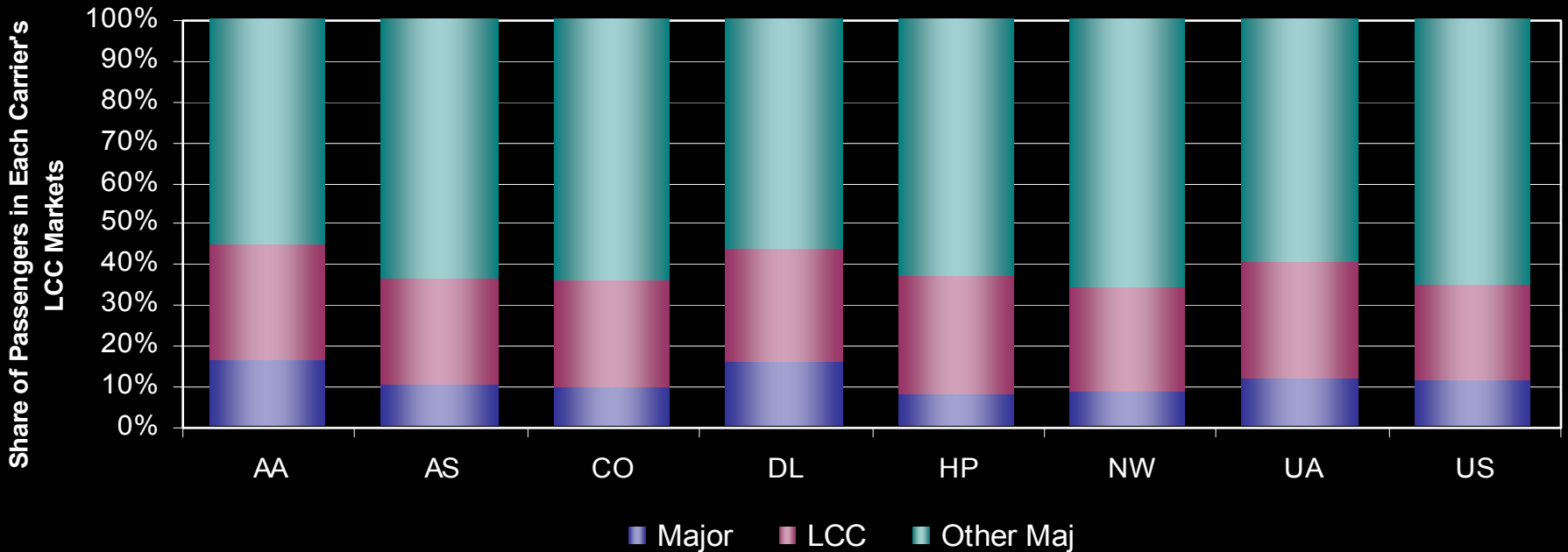


Mainline Carriers Fight Back with Regional Jets

Seat Mile Costs
Mainline and 50-Seat Regional Jet



Real Competition is Other Major Carriers



Air Service Options

- Planning Parameters
- Key Markets
- Service Build-up





Aircraft Planning Parameters

Aircraft	Seats	Trips/day	Trips/year	Seats/year	Enplaned Load Factor @ 70%
Saab 340	34	6	2,190	74,460	52,122
ERJ 135	37	3	1,095	40,515	28,361
ERJ 140	44	3	1,095	48,180	33,726
CRJ 200	50	3	1,095	54,750	38,325
CRJ 700	70	3	1,095	76,650	53,655
ERJ 190	100	3	1,095	109,500	76,650



Direct Operating Costs (DOC)

Aircraft	Seats	Average DOC per ASM	Carrier
Saab 340	34	0.16	Northwest
ERJ 135	37	0.099	American Eagle
ERJ 140	44	0.079	American Eagle
CRJ 200	50	0.093	Air Wisconsin
CRJ 700	70	0.053	American Eagle
ERJ 190	100	new	Jet Blue

ASM = seats X trip miles



Estimating Direct Route Costs

Aircraft	Saab 340	ERJ 140	CRJ 200
Carrier	Northwest	American Eagle	Air Wisconsin
Seats	34	44	50
Route	STC-MSP	DLH-ORD	EAU-ORD
Stage Length	65	397	268
ASM's per Trip	2,210	17,468	13,400
Cost/ ASM	0.16	0.079	0.093
Direct Costs Per Segment	\$354	\$1,380	\$1,246
Six Segments per day (3 RJ's)	\$2,122	\$8,280	\$7,477
Annual Direct Operating Cost	\$774,384	\$3,022,139	\$2,729,178



Total Revenue Parameters

- Direct Operating Costs do not include company administration or the cost of operating the hub & spoke network.
- Carriers assign a fully allocated cost to each segment that includes DOC plus overhead.
- Every company has a different formula for fully allocated costs.
- Range is approximately 50% to 200% more than direct operating costs.

Profitable Route = Fully Allocated Costs



Top Markets for Tier 2 Airports

Rank	Market	CY 2002
1	O'Hare Intl, IL (ORD)	37,910
2	Sky Harbor Intl, AZ (PHX)	23,770
3	Denver Intl, CO (DEN)	18,590
4	Orlando Intl, FL (MCO)	17,620
5	McCarran Intl, NV (LAS)	15,830
6	Ronald Regan Natl, DC (DCA)	15,260
7	La Guardia, NY (LGA)	14,890
8	Dallas/Ft Wor Int, TX (DFW)	13,890
9	Los Angeles Intl, CA (LAX)	13,520
10	Seattle/Tacoma In, WA (SEA)	13,440
11	Wm B Hartsfield, GA (ATL)	13,420
12	San Francisco In, CA (SFO)	12,550
13	Logan Intl, MA (BOS)	12,470
14	Wayne County, MI (DTW)	11,210
15	Lindberg Field, CA (SAN)	9,850
	Subtotal	244,220
	Other	353,430
	Total	597,650

3 flights 50 Seat CRJ @ 70% LF = 38,325/yr



Air Service Models

- Improved Network Access
- Shuttle to Chicago's Midway Airport
- Satellite Airports
- Alternate Airport



Improved Network Access

Current Daily Summer Schedule

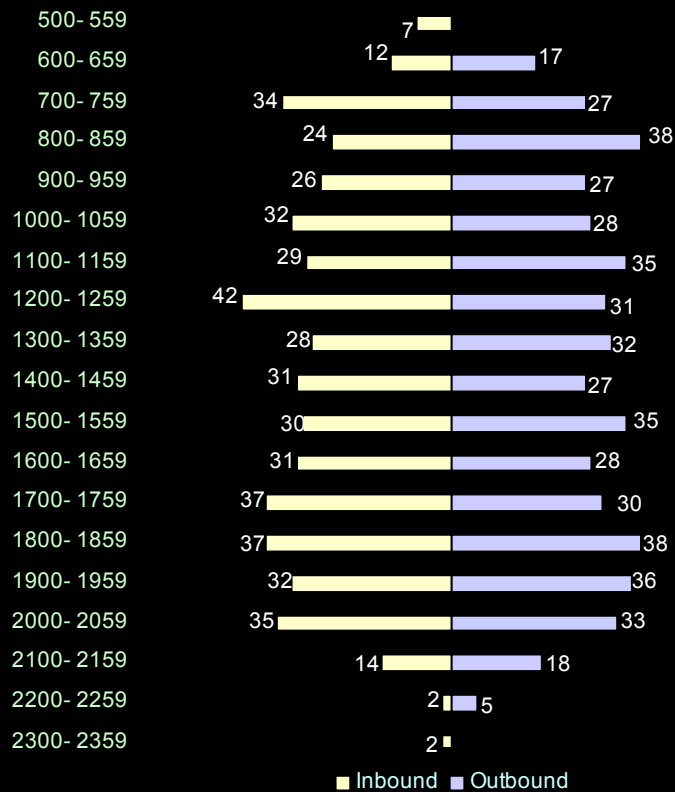
Airports	Minneapolis	Chicago	Denver
Duluth	9		
Eau Claire	5		
Rochester	9	4	
St. Cloud	5		



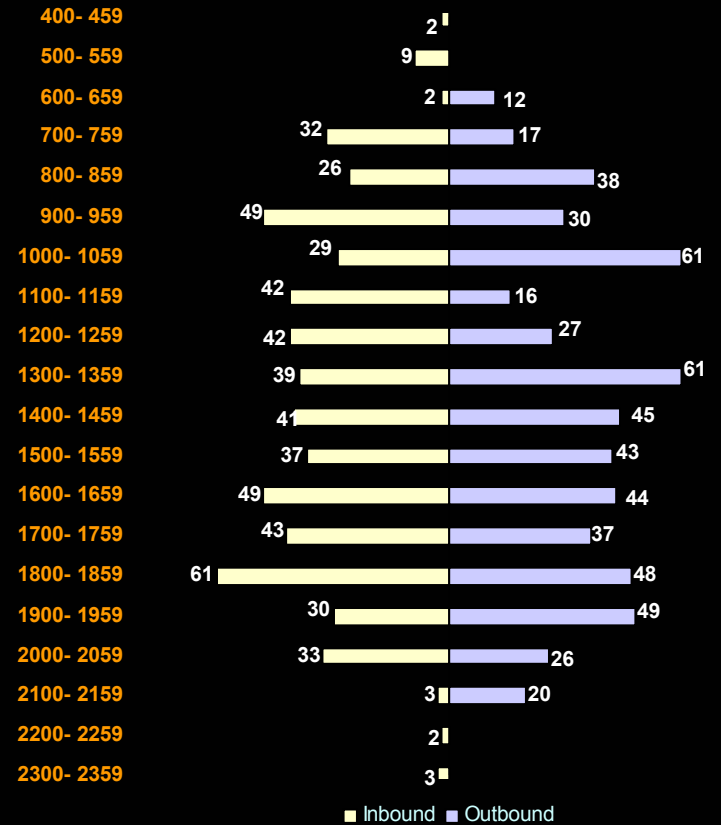
Near Term Service Increment

Airports	Goal	Notes
Duluth	Chicago	Reinstatement of Chicago Service
Eau Claire	More MSP Chicago	Higher Frequency, better connecting schedule at MSP, confirm capture rate, go after Chicago
Rochester	Denver	Begin Denver recruitment, targets: United and Frontier
St. Cloud	More MSP Chicago	Higher Frequency, better connecting schedule at MSP, RJ's to Chicago

Chicago Hubs Changing



American De-Peaked



United Connecting Banks



Shuttle to Midway - Concept

- Goal: To get into the low cost carrier systems
- Challenge: Address security and baggage issues.
- Solve: Interline issues at Midway
- Solve: Low cost shuttle to Midway



Satellite Airports

- Assumption: LCC does not go to MSP
- Duluth too far
- Rochester infrastructure sufficient
- St. Cloud has location but needs to build out
- Eau Claire constrained by urban development?
- A Southwest-scale operation solidifies a larger role for Tier 2 airports in the future

Strategic positioning - Yes

Premature investing – No



Alternate Airport

- Big LCC goes to Tier 2
- MSP originating passengers double
- NW ramps up MSP hub; significant capacity and delay issues

Formal relationship between MSP & Tier 2

Ground access improved to alternate airport

Regional Plan in place to coordinate & invest



Infrastructure Needs

- Network Improvements
 - Loading bridges compatible with RJ's
 - Additional parking at STC
- Satellite Airport
 - Improve roadway access at RST – County Road 16 and Highway 63
 - Modify/expand terminal at EAU, expand ramp and increase parking area
 - Expand terminal at STC, expand ramp, increase car parking, and improve roadway access



Infrastructure Needs (cont.)

- Alternate Airport
 - Initially, same as Satellite Airport
 - Longer range, add parallel runway
 - Expand or replace terminal
 - Expand or replace ramp, depending on terminal location and design
 - Expand car parking
 - Category II precision instrument approach
 - Connect to downtown MSP via rail or other system.



Recruiting New Service

- Good numbers not enough
- Minimum revenue guarantees
- Travel Bank
- Local support for station and staff costs
- Advertising
- Congressional interest and support



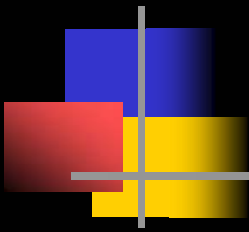
Strategies to Lower Air Fares

- Near term, support MSP initiatives to attract smaller low cost carriers
- Decide best airports for Southwest
- Schedule a Minnesota day at Southwest (even if you can't agree on airports)
- Consider partnering with DIA in efforts to attract LCC



Next Steps

- Force Multiplier – THE INCUBATOR
- Build Enplanement Base at Tier 2
- Regional Plan
- Reserve St. Cloud option
- Legislative Actions
 - Revise MN Air Service Program to reflect today's reality
 - Support Federal initiatives to promote investment in regional and the regional concept of airports



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