

Passenger Demand Analysis

Durango - La Plata County Airport

November 2013



Note:

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The data, analyses, and conclusions contained in this document are based on information and sources deemed reliable as of November 2013. However due to the dynamic nature of the subject matter, and the air transportation industry in general, they cannot be guaranteed.

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I. Executive Summary

Scope

Boyd Group International, Inc. was retained by the Durango - La Plata County Airport to complete a Traffic Demand Study including determinations of leakage levels from the airport's catchment area.

In this project, historical, current, and forecasted data were utilized. A challenge specific to Durango is that due to the expansion of the oil and gas industry in the region, the market's role as the Four Corners gateway has grown, and traffic has correspondingly grown.

Boyd Group International was honored to be involved with the team that revised Durango's Master Plan in 2011. In that project, it was found that the real forecast expansion of DRO was over 3% annually. The FAA's Terminal Area Forecast, based on historical trends and demographic assumptions, were inconsistent with the new realities facing the region.

The data indicate approximately 8% of passengers generated by the DRO market use other airports.

Based on the geography of accessing such airports, this traffic is considered to be "episodic."

Included in the planning mix is shifting strategies in the airline industry. After year after year of consistent passenger expansion since 2005 – representing growth of over 95% - enplanements at Durango – La Plata County Airport are expected to decline in the last quarter of 2013. The reason is reduction in seats offered, mainly due to Frontier's Denver service being cut to "seasonal." In that regard, Boyd Group International expects to see a flattening of passenger traffic in 2014, but no significant decline.

With this in mind, there are specific opportunities at DRO which can help continue to build passenger traffic while at the same time help to recapture some of the leaking passengers. These opportunities are discussed later in the report, but include the potential for United IAH nonstop service to cater to the burgeoning oil and gas industry in the Durango region.

Methodology

Today, there are no fully-reliable sources of data to ascertain the levels of capture that an airport has from its service (or also called catchment) area;

- The replacement of paper tickets with "e-tickets," eliminated the ability to analyze a substantial portion of travel purchases formerly made via travel agencies.

- Retailing of air transportation is now increasingly via the internet, and within that, increasingly being done directly on airline websites, which are not available for public review.
- There are some sources that would appear to provide key data in regard to both consumer trends and location of passengers' residences. These include Marketing Information Data Tapes ("MIDT") and data from the Airline Reporting Company ("ARC"). In both cases, the data is not only incomplete (with little or no information from airline-direct bookings) it is often only anecdotal.¹
- The hard fact is that, regardless of some vendors' claims to the contrary, the diffused nature of air travel retailing results in no single source that can reliably track geographically where passengers live vs. where they fly from.

However, to gain some perspective, Durango-region booking data generated by ARC was reviewed to gain some basic insight regarding the travel capture at Durango – La Plata County Airport. This data gives a view of where in the region Durango is likely gaining its passengers.

In response to the challenge resulting from the dynamics of this new data, Boyd Group International has developed methodologies that utilize its extensive O&D database of over 145 airports that relates population and demographics to enplanements as a foundation to determine the traffic generation that can realistically be expected at a specific airport.² When compared to actual enplanement data at a particular airport, the result is a reasonable estimate of the captured traffic levels.

Additionally, the following factors impact each airport's true traffic generation and levels of traffic capture:

- **Airline Capacity Trends and Current Air Service Levels:**
The primary metrics of air service levels include capacity, number of airline choices, the number of destinations or hubs available from an airport, as well as connectivity to destinations beyond the hubs accessed from an airport. It is critical to measure these metrics at the airport being analyzed as well as neighboring airports that are sources of traffic leakage.

¹ Even MIDT data – which is from ticket sales – has a number of vendors, and each has differing data results.

² The Boyd Group maintains this database as part of its [Airports:USA Forecast](#) and Aviation **DATAMINER** suite of data products. Additional information on these databases, as well as their analytical capabilities and forecasting methodologies is available at: www.airportsusa.com

- **Economic Factors:** There is a significant correlation between income levels and air traffic generation. Income levels are of particular importance at smaller airports due to the limited availability of low-fare service which is often in competition for discretionary dollars of the consumer. It is the opinion of Boyd Group International that this trend has the potential to become more noticeable if energy prices remain high and consumer confidence remains weak.
- **Pricing Differentials:** Differences in fares between airports can also influence considerable traffic leakage, especially when one particular airport consistently offers significant fare savings over neighboring airport(s). The value associated with the savings due to lower fares varies based on the passengers' purpose for travel (business vs. leisure), and the associated demographics and traffic base will impact the level of price differential that a specific market can effectively absorb.
- **Service Area Geography and Proximity:** The ability to easily access other regional airports within a market area due to the interstate highway transportation system, climate, and geography directly impacts the levels of leakage that airports experience. For example, an airport within driving distance to another that has low-fare service, reasonably predictable weather, and good interstate highway access is likely to endure higher levels of leakage than an isolated market, such as an island or mountain market.
- **Tourism Influence:** In addition to typical levels of traffic generation in a service area, inbound tourism is a necessary consideration in specific markets. The most obvious examples of this are Las Vegas and Orlando, where inbound visitors generate over 70 percent of airport traffic. New Orleans is another relevant example.

Each of these above factors, along with the enplanement-to-population ratios methodology, has been applied to estimate the levels of traffic captured at Durango – La Plata County Airport.

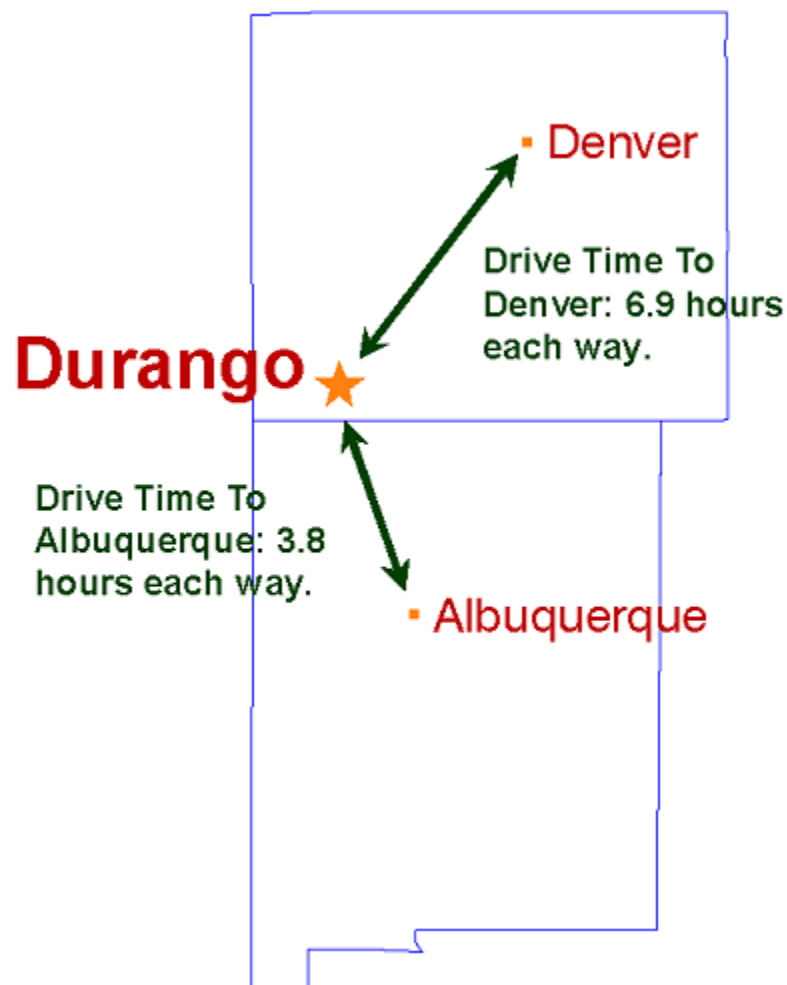
Key Project Findings

Durango Has Very Low Leakage

Leakage is generally the result of the presence of another reasonably accessible airport with materially better air service. This can be a combination of lower fares, more nonstop service, or wider airline brand choices.

There is no such airport or air service within a reasonable distance of Durango. Denver is a day's drive, and Albuquerque is nearly four hours. Furthermore, ABQ does not offer materially lower fares to a number of Durango's top O&D markets.

None of the market factors that typically cause leakage are in evidence at DRO



This is not to imply that some traffic generated in the DRO region does not use these alternative airports, however, both the raw geography and the data analyzed in this document point to leakage around 8% of all passengers generated to and from Durango.

This level of leakage is likely due to “episodic” reasons, instead of any structural deficiencies in service levels at DRO. These “episodic” reasons would typically be a family finding a much lower fare which would make the drive to ABQ cost-viable. But as for the core traffic generated in the region, DRO retains virtually all.

Current Air Service: Capacity Constrained

Reviews of current load factors clearly show that there is loss of traffic due to “demand spill” – there are insufficient seats available to meet the demand.

Currently, the market sees approximately 80% of all seats into and out of DRO filled. At American, the percentage is over 85%. Because there are very few convenient or reasonable airport alternatives, this situation manifests mostly in lost traffic. If seats are not available, and the onerous drive to and from ABQ (round-trip representing expenditure of a full day) is not acceptable, consumers and business travel is choked off.³

Near-term, additional capacity on the part of incumbents – while maintaining frequency – should be a priority.

New Air Service Recruitment: Potential Opportunities

The main focus of air service development must be on increasing capacity on current incumbent carriers.

The primary potential additional gateway hub that has near-term potential would be United/IAH. As noted herein, there are compelling reasons for United to consider this hub-route addition.

Other than that, however, the potential new airline hubs are somewhat limited. The only other airline connecting hub in the region would be Delta/SLC. This was attempted in the past, and Delta shows no interest in again adding this spoke.

When the AA/US merger is complete, there is some potential for AA/LAX service. However, American has found a number of routes to larger destinations – such as Boise – to be failures due to low market O&D and low flow connectivity due to the geographical location of LAX.⁴

Seasonal service from Delta/ATL Atlanta (ATL) or American (ORD) have some potential, and this is further elaborated upon later in the report.

³ This situation is exacerbated by the current (October 2013) problems with United Airlines flight reliability, which has resulted in UA officials traveling to Durango to meet with the airport and citizens groups. This is specifically due to Q400 reliability issues, and not airport related.

⁴ AA has added some smaller markets to LAX, with a major subsidy program. However, Boyd Group International projections indicate that when the subsidy expires, the airline will cease service.

II. Durango Overview

Current Air Service – A Growth Market & Strong Access

DRO has strong access from the rest of the globe – with access to hubsites at Denver, Phoenix, and Dallas – Ft. Worth.

The current air service access levels at Durango are strong. We use the term “access” because the ability to get to and from points in the global air transportation system is critical for economic growth.



DRO enjoys service from four airline systems. American, United, US Airways and Frontier, the last of which is pulling out and has noted it will serve the market seasonally.⁵

Airline Performance by Year							
Metric	2007	2008	2009	2010	2011	2012	2013 Est.
Enplanements	117,460	134,422	149,537	165,581	175,019	186,527	193,569
Departure Seats	169,874	213,341	210,010	224,359	234,322	241,475	241,939
Flight Departures	3,927	4,338	4,228	4,155	4,346	3,960	3,658
Seats Per Departure	43.3	49.2	49.7	54.0	53.9	61.0	66.1
Overall Load Factor	69.1%	63.0%	71.2%	73.8%	74.7%	77.2%	80.0%

Note: Year 2013 estimates based on published flight schedules with an enplanement annual growth of 3.8%

Source: DOT/BTS, DRO Enplanement Report, and Innovata Flight Schedules

The DRO market has been strong for its incumbent carriers, with load factors now over 80% - very robust for a market of this size. From this, and the data analyzed in this project, it is likely that there is also “demand spill” – where lack of capacity at certain times of the year simply causes consumers to not travel at all. This would be particularly true of the in-bound (visitor) sector. If seats are not

⁵ Frontier was recently sold. As a practical matter, the pull-out may be permanent, depending on the strategies implemented by the airline’s new owner.

available when the consumer wants to travel, the lack of any viable alternative nearby airport would tend to deter travel.

Conclusion: DRO Is Not Prone To Outbound Travel Diversion

The key causes of leakage – poor access to airline hubs, high fares, and presence of a reasonably-viable larger alternative airport in the region – are not in place in the situation with Durango.

Therefore, any leakage will be due to “episodic” issues – a large movement of passengers in a group, or a sudden and temporary fare differential at ABQ, or a family vacation that is highly price-sensitive.

Service Area

Durango is the gateway to the Four Corners region.

In actuality, it encompasses what would be the service areas of both Farmington and Cortez. These markets essentially have service only to Denver, on Great Lakes Airlines 19-seat aircraft. The average passenger load at both airports is less than 9 passengers.

The hard reality is that DRO is now the gateway to the Four Corners, and is the access point for both Farmington and Cortez.

It's just airline industry reality.



While a viable community, the likelihood of Farmington recruiting a network airline is very low. Regardless of the number of studies or public polls accomplished, the fact is that the airline industry is shrinking, and the performance at FMN is not such as to be attractive

One extreme disadvantage facing these two airports (Cortez and Farmington) is that with only 19-seat, non-branded service, inbound traffic to these cities is likely diverted to DRO, simply due to the fact that there is no need or requirement to change airlines, let alone to a small aircraft.⁶

Overview of Durango Passenger Traffic

Durango's airline traffic distribution for the full year ending 2Q 2013 is indicated in the table below.

With the AA/US merger, AA will have a strong 25+% of the market – and the potential to add more capacity.

Airline Share at DRO							
Carrier	Psg	PDEW	% Psg	% Originating @ DRO	Gross OW Fare	Net OW Fare	Ticket Yield
AA	45,222	61.9	11.3%	31.9%	\$257.58	\$223.18	18.87¢
F9	78,150	107.1	19.5%	40.0%	\$161.36	\$134.68	17.24¢
UA	216,597	296.7	54.0%	41.7%	\$256.58	\$220.52	19.44¢
US	61,230	83.9	15.3%	49.5%	\$250.35	\$215.98	21.20¢
Total	401,199	549.6	100.0%	41.5%	\$236.41	\$202.69	19.30¢

The "PDEW" column is the average passengers on the carrier each way, assuming a 7-day operation.

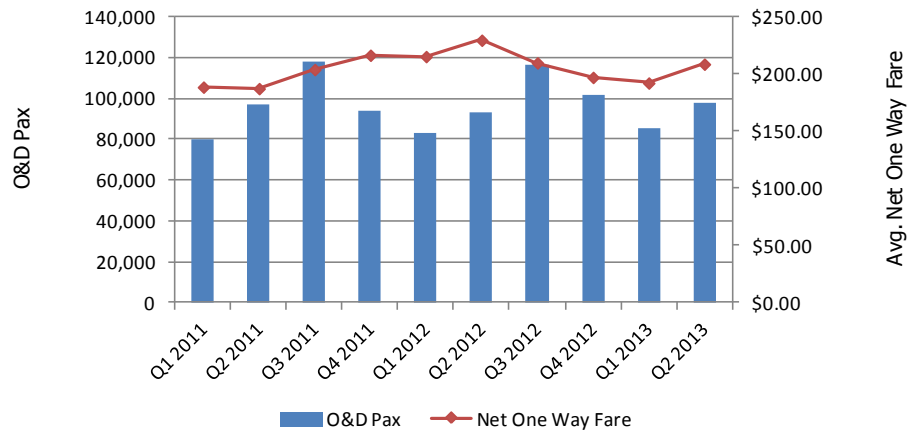
Note that United is the dominant carrier with approximately 54% of the total passengers at Durango. While each carrier has different route systems, the actual fares charged on a per mile basis do not vary wildly from carrier to carrier.

Another point is the "% Originating @ DRO" column. In total only 41% of the passengers using DRO are local - almost 59% of the traffic at DRO is comprised of visitors. This is not unexpected, not only because Durango is a leisure destination, but also due to the growth in the oil and gas industry in the Four Corners. In fact, the strong traffic from Houston – shown in a subsequent chart – is an indication of this trend.

⁶ Great Lakes does have code-share agreements with United.

Seasonality – A Challenge

The difference between peak quarters and non-peak traffic demand can have an effect on how airlines view a market. High seasonality – such as to ski areas – represents challenging scheduling issues. In general, strong traffic year round is a plus.



Durango has moderate seasonality in traffic, but fare levels (here shown as average OW, without federal taxes) do not vary greatly. This makes up for the traffic swings. Whereas seasonality can be a challenge in leisure markets such as ski markets, DRO does not suffer significantly from this phenomenon. DRO has relatively strong traffic year round.

Other Western Slope Airports Are Not Fare-Competitive

There is very little cause for leakage to the other two, network-carrier-served Western Slope airports – Montrose and Grand Junction - simply due to the geography and the fare situation.

Below, average fares are compared with Montrose, Grand Junction, and Albuquerque. Data is as of YE Q2 2013.

In most cases, the fare differential with ABQ is not onerous, despite the presence of two "low fare" carriers at that airport.

Market	DRO	ABQ	MTJ	GJT
DEN	\$146.83	\$116.94	\$300.56	\$351.53
DFW	\$217.18	\$176.36	\$299.05	\$269.96
IAH	\$240.04	\$240.15	\$319.27	\$331.21
PHX	\$171.88	\$146.33	\$377.25	\$170.53
ORD	\$226.01	\$251.01	\$328.04	\$265.35
AUS	\$217.53	\$190.61	\$276.33	\$216.63
SFO	\$246.82	\$196.76	\$363.31	\$270.29
SEA	\$233.77	\$198.12	\$344.77	\$252.78
MSP	\$193.94	\$241.61	\$287.02	\$254.85
ATL	\$225.81	\$255.89	\$281.31	\$292.24
LAX	\$229.34	\$173.59	\$348.96	\$139.17
SAN	\$207.80	\$175.17	\$362.21	\$233.99
EWR	\$253.57	\$266.80	\$449.08	\$339.62
LGA	\$261.01	\$238.73	\$396.06	\$281.80
IAD	\$273.49	\$306.70	\$350.72	\$290.74
PDX	\$232.29	\$193.59	\$325.54	\$258.06
BOS	\$330.51	\$283.19	\$350.28	\$309.76
SNA	\$227.39	\$202.79	\$327.15	\$235.49
STL	\$208.91	\$188.86	\$307.55	\$286.53
MCI	\$182.50	\$189.31	\$273.27	\$288.71
MCO	\$256.33	\$225.62	\$344.65	\$285.02
LAS	\$204.81	\$140.02	\$313.82	\$79.44
PHL	\$232.72	\$227.19	\$356.31	\$337.32
DTW	\$240.77	\$228.94	\$334.06	\$295.69
DCA	\$276.08	\$294.37	\$346.82	\$322.00
TOTAL	\$207.88	\$190.37	\$336.01	\$229.88
Fare Differential		-8.4%	61.6%	10.6%

Montrose – the closest airport, albeit with a drive over Red Mountain Pass - has fares that are 62% higher than at DRO on average, and in every top 25 DRO market, higher than Durango. This essentially rules Montrose out as a draw for any material leakage from Durango.

Note that the average fare differential between DRO and ABQ is under \$20.⁷

⁷ For the purposes of this analysis the AVG fares for each airport were computed based on total airline-reported revenue divided by the total passengers.

The Issue of Local Fares To Denver

An expected consumer comment is in regard to the fares to and from Denver being very expensive. This is accurate – and is the result of raw economics, not any intent to overcharge local Durango consumer.

The reality of the situation is that every seat that United puts on route between Durango and Denver has enormous product value in feeding passengers through the United Airlines hub at Denver. This is the intent and indeed the value of the service – to connect Durango to the world and vice-versa. The flights are not in place to simply carry passengers between Denver and Durango.

The value of the seat going to the connecting hub – such as to United/Denver – is what it can produce in system revenues.

For this reason, local fares to Denver are high, because they reflect that value.

This is not a situation that has any potential of changing.

This is a reality that communities face around the nation: the seat to the connecting hub is provided mainly to generate national and international revenues connecting to and from other United flights. Therefore, filling it with just local traffic to and from Durango and Denver means that the fares must approach the value that a passenger going beyond Denver would generate to the airline in that same seat.

Example: The average one-way revenue generated in the first half of 2013 at Durango by United Airlines (including federal fees and taxes) is \$256. This is the reason that the average fare charged just to Denver (all categories, long-term booking and near-term bookings) is \$215 – almost 85% of the total United system fare average (to all destinations) at Durango

Furthermore, United has an 80%+ load factor, which means that at typical times consumers are traveling, the flights are full, and there is no economic incentive to lower local Durango-Denver fares, since they would simply displace other passengers who are paying more to get to and from places beyond Denver.⁸

This is a reality of the hub and spoke system. It is particularly a challenge in situations where the hubsite city has strong commercial interaction with the local community – as is the case with Durango – Denver. However, as a practical matter, there is no “solution” to this situation – the economics of air transportation cannot be changed.

There is no other airline that would have any incentive to attempt to serve the local DRO-Denver market. The costs and the size of the revenue stream would represent a very poor investment. Furthermore, the local Durango – Denver market, while important to

⁸ This is the reason that the fare for a close-in booking can be nearly \$800.

the community, is not sufficient to support any substantial levels of nonstop traffic by itself, based on today's cost of airline operations.

In year 2012, the local Durango – Denver traffic represented what would be a 15% load factor for the flights United operated, and just 27% load factor to the Frontier service to Denver. It is the connecting traffic over the Denver hub that supports the levels of service that Durango has today.

While it is not necessarily a situation that is pleasant to the consumer seeking only to go to Denver, it is one that is not likely to change. The structural economics of the industry have evolved to where short-haul, intra-regional air service is very expensive to produce.

III. Leakage Analysis

Boyd Group International utilizes a regional/comparative approach to estimating leakage at a given airport. This model – which has proven to be highly accurate – produces a result that is consistent with the known geographic and air service dynamics of the Durango/Four Corners region.

Boyd Group International used two ratios to estimate the total traffic generated with the Durango - La Plata County Airport:

- Enplanement-to-population
- Enplanement-to-personal income

Leakage is indicated at approximately 8%, most of which is likely due to factors beyond the control of Durango.

Using this methodology, low ratios are indicative of air service deficiencies and significant leakage of actual passengers to another nearby airport.

For the calendar year 2012, Durango - La Plata County Airport experienced 186,567 enplanements.⁹ Using the methodology below, it is estimated that DRO is suffering a slight leak of the traffic generated within the primary service area.

In this analysis, we have compared DRO to five markets of comparable population and income levels.¹⁰

Market Data	Duluth, MN	Traverse City, MI	Alexandria, LA	Grand Junction, CO	Market Averages	Durango, CO
Population	223,641	216,962	228,604	134,137	200,836	197,595
Personal Income (\$ Millions)	\$5,594	\$5,460	\$4,659	\$3,419	\$4,783	\$5,715
Per Capita Personal Income	\$25,014	\$25,164	\$20,379	\$25,489	\$24,012	\$28,925
CY 2012 Enplanements	158,569	179,879	189,476	217,369	186,323	186,567
Enplanements-per-Capita	0.71	0.83	0.83	1.62	0.93	0.94
Enplanements-per-\$ Million Personal Income	28.35	32.95	40.67	63.58	38.96	32.64
DRO Enplanement Generation Using Enplanements/Population Ratio:						183,316
DRO Enplanement Generation Using Enplanements/PI Ratio:						222,652
Average of Two Methodologies:						202,984
Traffic Capture						91.9%

SOURCE: Microsoft MapPoint software, FAA data, US Census data, and T-100 filings via Aviation Dataminer ®

The results indicate that currently Durango is capturing almost 92% of the traffic demand its economy and air service levels is generating.

This indicates that for the full year ending 2Q 2013, Durango had approximately 36,000 passengers “leak” to other airports – most to

⁹ Source: http://www.faa.gov/airports/planning_capacity/passenger_allcargo_stats/passenger/

¹⁰ Enplanements are the 12-months December 31, 2012, and obtained from FAA filings and sourced from www.faa.gov

Albuquerque, based on the fare and service differentials at other alternative gateways.

Competitor: Albuquerque International Sunport

ABQ is the only alternative larger airport available to DRO-region consumers and visitors. While ABQ has over 70 daily flights, including nonstops to 15 of Durango's top 25 O&D airports, there is no discernible and fundamental advantage at ABQ.¹¹

When the cost of using ABQ is factored in, other than flight frequency, the time and expense to get there is a net negative for business travel.

- Travel Time: Where it has nonstops vs. the connecting service offered at Durango, the 3.8-hour drive, combined with the (at least) one hour additional time for arrival at ABQ, more than compensates for the 45-minute to two hour time between flights at connecting hub.
- Fares: The chart on the following page clearly shows that the fares charged at DRO are not materially higher than at ABQ, and in some cases are actually lower.
- Total Cost of Travel: When the cost of driving an automobile is added to the fare at ABQ, in all but one (and very minor) case, the cost is still lower for a passenger at DRO. Where some leakage may be found would be in situations of group travel. A party of four would spread the driving costs out, for example. But the drive time is still an issue.
- Access Quality: One of the key factors found in this study was that virtually none of the top 25 Durango O&D markets have severe qualitative service deficiencies compared to the nearest major airport, Albuquerque. The ease of connectivity over the hubs accessed by DRO offer similar levels of service that can be accessed at ABQ. Generally, the markets that have nonstop service from ABQ typically have higher total travel costs than the costs at DRO. This is explained further in the following section.

Albuquerque has nonstop flights to only 15 of Durango's top O&D markets. To the remainder, connections must be made, which puts DRO on an even playing field with ABQ. To be sure, ABQ has roughly 70 departing flights per day, compared to an average of 9 to 10 at Durango.

However, Durango has a strong "spread" of flights to each of the three connecting hub airports that link it to the air transportation system.

¹¹ Denver, which is a day's drive away, is not a "reasonable" alternative to the consumer, particularly business travelers.

Most Leakage Will Tend To Be Group Travel

A cost of travel analysis was accomplished comparing ABQ vs. DRO, to the top 25 DRO O&D markets.

DRO O&D Rank	Dest	Nonstop Avbl At ABQ	ABQ Fare	DRO Fare	Fare Diff	Add: Cost of Drive, Less Fare Variance	ABQ Net Cost	Actual Diff of ABQ Trip Each Way
1	DEN	X	\$116.94	\$146.83	\$29.90	\$93.27	\$210.21	\$63.38
2	DFW	X	\$176.36	\$217.18	\$40.82	\$82.35	\$258.71	\$41.53
3	IAH	X	\$240.15	\$240.04	-\$0.11	\$123.28	\$363.43	\$123.39
4	PHX	X	\$146.33	\$171.88	\$25.55	\$97.62	\$243.94	\$72.06
5	ORD	X	\$251.01	\$226.01	-\$25.00	\$148.17	\$399.18	\$173.16
6	AUS		\$190.61	\$217.53	\$26.91	\$96.26	\$286.87	\$69.34
7	SFO	X	\$196.76	\$246.82	\$50.06	\$73.11	\$269.87	\$23.05
8	SEA	X	\$198.12	\$233.77	\$35.65	\$87.52	\$285.64	\$51.87
9	MSP	X	\$241.61	\$193.94	-\$47.67	\$170.84	\$412.44	\$218.50
10	ATL	X	\$255.89	\$225.81	-\$30.08	\$153.25	\$409.14	\$183.33
11	LAX	X	\$173.59	\$229.34	\$55.75	\$67.42	\$241.00	\$11.66
12	SAN	X	\$175.17	\$207.80	\$32.62	\$90.55	\$265.72	\$57.92
13	EWR		\$266.80	\$253.57	-\$13.23	\$136.40	\$403.20	\$149.62
14	LGA		\$238.73	\$261.01	\$22.28	\$100.89	\$339.62	\$78.60
15	IAD	X	\$306.70	\$273.49	-\$33.22	\$156.39	\$463.09	\$189.60
16	PDX	X	\$193.59	\$232.29	\$38.70	\$84.47	\$278.06	\$45.77
17	BOS		\$283.19	\$330.51	\$47.32	\$75.85	\$359.04	\$28.53
18	SNA		\$202.79	\$227.39	\$24.60	\$98.57	\$301.36	\$73.98
19	STL		\$188.86	\$208.91	\$20.06	\$103.11	\$291.97	\$83.05
20	MCI	X	\$189.31	\$182.50	-\$6.81	\$129.98	\$319.28	\$136.79
21	MCO		\$225.62	\$256.33	\$30.71	\$92.46	\$318.07	\$61.74
22	LAS	X	\$140.02	\$204.81	\$64.79	\$58.38	\$198.39	-\$6.41
23	PHL		\$227.19	\$232.72	\$5.53	\$117.64	\$344.82	\$112.10
24	DTW		\$228.94	\$240.77	\$11.84	\$111.33	\$340.27	\$99.50
25	DCA		\$294.37	\$276.08	-\$18.29	\$141.46	\$435.83	\$159.75

As previously stated, the total average one way net fare for the top 25 markets combined is approximately \$20 greater at DRO vs. ABQ. In eight markets, the average fare paid is less at DRO.

The chart shows the fare differential at ABQ, and then factors in the mileage cost of driving to Albuquerque International Sunport, computed from downtown Durango, using the IRS mileage allowance of 56.8 cents per mile. In only one instance – LAS – is the total cost less than flying out of Durango. These data do not include other cost variances, such as parking.¹²

¹² Source: Fares from full year ending 2Q 2013 based on BTS/DOT data, including federal fees and taxes.

Therefore, for the individual traveler, cost of travel is typically lower at DRO than at ABQ. But for travel that involves more than one person, and which is not time-sensitive – such as a family on a vacation, the drive to ABQ will in some cases make economic sense. Therefore, it is logical that this segment of the air travel base is where the majority of leakage occurs.

DRO Leakage by Market

Estimated Traffic Leakage at DRO - Top 25 O&D Markets

Rank	Market	Airport	Reported O&D Passengers	Estimated True O&D	Estimated % Leakage	Remarks
1	Denver	DEN	65,467	66,841	2.1%	United and Frontier DEN nonstops and the drive distance to Albuquerque limits leakage; One way gross fares only \$30 higher at DRO vs. ABQ (\$147 vs. \$117)
2	Dallas/Ft. Worth	DFW	26,191	28,391	8.4%	High load factors on current nonstops drives some leakage to ABQ, however it is mitigated by the reasonably comparable fares at DRO and ABQ and the ability to connect over PHX and DEN to/from Durango
3	Houston	IAH	24,210	26,534	9.6%	DRO one way gross fare same as ABQ (\$240); Ease of connectivity over DEN on United and DFW on American also limits leakage
4	Phoenix	PHX	17,318	17,976	3.8%	US Airways nonstops provide convenient and efficient access between Durango region and Phoenix; Convenience of nonstops offsets \$25 fare premium vs. ABQ
5	Chicago	ORD	10,262	10,805	5.3%	ORD is United hub and frequency over DEN (another United hub) makes DEN a logical and efficient connection point; DRO has \$25 lower one way gross fares vs. ABQ
6	Austin	AUS	10,076	11,053	9.7%	No nonstops available at ABQ limits leakage; DRO fare premium of \$27 vs. ABQ is not significant enough to offset drive time, fuel, and parking at ABQ
7	San Francisco	SFO	8,756	9,929	13.4%	DRO fare premium of \$50 vs. ABQ; United nonstop from ABQ creates some leakage, but inconvenience of 4 hour drive to ABQ limits leakage
8	Seattle	SEA	8,727	9,906	13.5%	DRO fare premium of \$35 vs. ABQ; Southwest nonstop from ABQ creates some leakage
9	Minneapolis/St. Paul	MSP	8,370	8,864	5.9%	One way gross fares: DRO \$194; ABQ \$242 - leakage limited
10	Atlanta	ATL	8,124	8,628	6.2%	One way gross fares: DRO \$226; ABQ \$256 - leakage limited
11	Los Angeles	LAX	7,800	8,923	14.4%	AA, UA, and WN nonstops from ABQ combined with DRO having a \$56 one way fare premium causes traffic leakage
12	San Diego	SAN	7,787	8,691	11.6%	DRO fare premium of \$33 vs. ABQ; Southwest 2-3x daily nonstop from ABQ creates some leakage
13	Newark	EWK	6,139	6,465	5.3%	One way gross fares: DRO \$254; ABQ \$267 - leakage limited
14	New York	LGA	6,085	6,912	13.6%	No nonstop from ABQ; No qualitative or quantitative reason to use ABQ over DRO (DRO fare premium of \$22 offset with 4 hour drive and fuel/parking/time savings)
15	Washington, D.C.	IAD	5,902	6,309	6.9%	One way gross fares: DRO \$273; ABQ \$307 - leakage limited
16	Portland	PDX	5,781	6,492	12.3%	1x daily nonstop on Southwest drives minimal leakage
17	Boston	BOS	5,337	6,116	14.6%	No nonstop from ABQ, and therefore limited population would choose 4 hour drive over using DRO with one stop connectivity over DEN, DFW, and PHX
18	Orange County	SNA	5,300	5,983	12.9%	No nonstop from ABQ; No qualitative or quantitative reason to use ABQ over DRO (DRO fare premium of \$25 offset with 4 hour drive and fuel/parking/time savings)
19	St. Louis	STL	5,175	5,859	13.2%	1 x daily nonstop on Southwest discontinued in 2013 will limit leakage going forward
20	Kansas City	MCI	5,174	5,702	10.2%	1x daily nonstop from ABQ on Southwest, however DRO fare \$7 lower one way vs. ABQ which helps limit leakage
21	Orlando	MCO	5,125	5,812	13.4%	\$31 fare premium at DRO limits leakage
22	Las Vegas	LAS	5,000	5,760	15.2%	5x daily nonstops from ABQ and \$65 DRO fare premium causes leakage to ABQ
23	Philadelphia	PHL	4,995	5,554	11.2%	No nonstop from ABQ; DRO fare premium only \$6 vs. ABQ
24	Detroit	DTW	4,472	4,973	11.2%	No nonstop from ABQ; DRO fare premium only \$12 vs. ABQ
25	Washington, D.C.	DCA	4,171	4,459	6.9%	DRO one way fare \$18 lower than ABQ limits leakage
TOTAL			271,744	292,938	7.8%	

SOURCE: Airports:USA DataMiner, O&D data for 12-months ending June 30, 2013 and analysis of Boyd Group International

Note that traffic leakage for the illustrated markets equates to approximately 7.8%, which varies slightly from the macro-level

market average the total of approximately 8%. This is due to different levels of leakage among the hundreds of lower ranking markets.

IV. Add'l Service Options & Strategies

Strong Hub Aggregation

Durango's current air service access is made possible entirely by the ability to aggregate passenger traffic over connecting hubs.

The chart indicates the percentage of passengers generated by Durango that are traveling to/from only the hubsite city, and those who are connecting at the hub. Data is as of YE Q2 2013.

Airline - Hub	Local Pax - Hub City	Total DRO Pax	Connecting Pax	% of Pax Connecting
United - DEN	33,672	216,597	182,925	84.5%
Frontier - DEN	31,794	78,150	46,356	59.3%
American - DFW	14,879	45,222	30,343	67.1%
US Airways - PHX	16,257	61,230	44,973	73.4%
Total	96,602	401,199	304,597	75.9%

Note that the local/connect ratio at United/DEN is almost 85% connecting. This is not surprising, in that the United seats between DRO and DEN has its "value" in the amount of revenue it can attract to the United system. Therefore, the local OW fare for consumers who seek only to go to/from Denver (\$189) is about the same as the fare United gets for DRO-MSP (\$201) or DRO-MCI (\$195).

Current Capacity - Short

This brings up another air service dynamic at Durango: load factors. Data is as of YE Q2 2013.

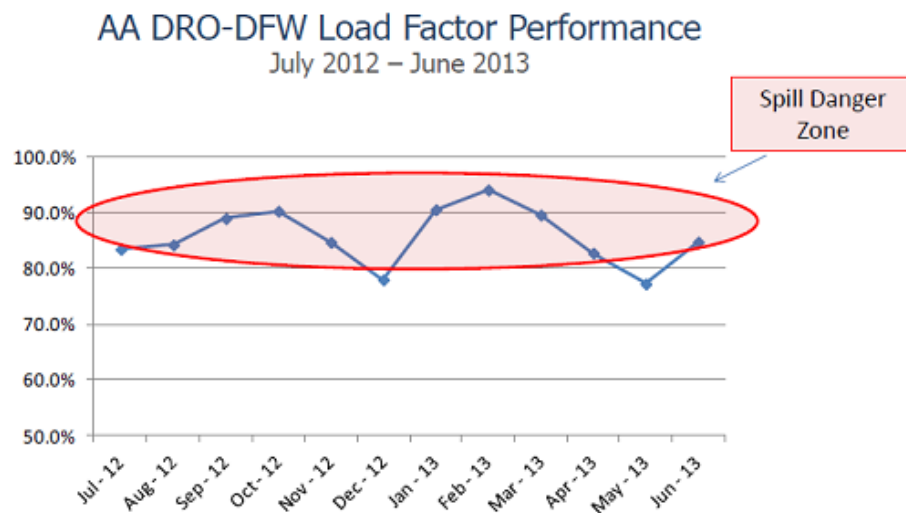
Airline - Hub	Seats	Local Load Factor	Total Load Factor
United - DEN	264,180	12.7%	79.0%
Frontier - DEN	109,126	29.1%	75.8%
American - DFW	49,280	30.2%	85.0%
US Airways - PHX	76,500	21.3%	79.8%
Total	499,086	19.4%	79.0%

79% of all seats offered to and from DRO are sold. That means that generally speaking, seats are not available at peak times. In many regions, this would just push consumers to use another nearby airport. However, because the only other airport (ABQ) is nearly 4 hours away, and does not have in many cases materially better

access than what is now at DRO, most of this seat-deprived traffic does not “leak” to other airports. *It simply does not travel at all.*

Immediate Objective: Additional AA Capacity To DFW

Of particular interest is the American Airlines situation. At an 85% load factor, there is no question that additional AA system capacity can be supported – most beneficially by a combination of both additional frequencies and larger gauge aircraft. It is understood that a third flight is under consideration.



One conclusion is inescapable: Durango can support far more capacity than it has today. This is going to be more important when Frontier goes to “seasonal” service – and even there, it may not re-instate flights.

Immediate Objective: United To IAH

Because of the oil and gas industry, Houston is the #3 O&D market at Durango. The market share held by incumbents is of interest. Note that American, Frontier and US Airways traffic is entirely through their connecting hubs.¹³

Market	P sgr	P DEW	% Pax	% Originating @ DRO	Gross OW Fare
American					
IAH	1,406	1.9	5.8%	36.9%	\$207.07
Frontier					
IAH	875	1.2	3.6%	33.4%	\$199.31
United					
IAH	20,818	28.5	86.0%	24.3%	\$239.16
US Airways					
IAH	1,111	1.5	4.6%	37.3%	\$332.99
Total	24,210	33.2	100.0%	25.9%	\$240.04

Note that United flights DRO-DEN experience a very high 79% load factor. Furthermore, the DRO-IAH traffic that United carries over Denver represents over 10% of all United traffic at Durango. Shifting that traffic to a nonstop DRO-IAH segment would not only free up seats to and over Denver, but could be expected to see connect flows over IAH similar in scope to those of American at DFW.

At this time, United has indicated low interest in adding spokes to IAH, but this will change in the future, and should be a cornerstone of Durango's air service objectives.

Immediate Objective: Additional United Lift To Denver

It is understood that in the late summer and fall of 2013, United experienced some challenges with reliability of its leased-in (from Republic) Q-400 fleet at Denver. This is likely to improve in the near term.

The Q-400 is a near-perfect aircraft to feed traffic to the United/Denver hub. Its 70-74 seat capacity, speed, and ability to generally carry a full load give Durango the type of service it needs to build additional traffic. We would note that the majority of the United traffic is generated in-bound, and additional seats will bring immediate economic impact to the Four Corners.

¹³ AA, US, F9, which do not have connecting hub operations at IAH, would have no possibility nor interest in a nonstop DRO-IAH flight.

A pertinent “selling” point for this additional United lift is the flow traffic it would give United over Denver to strengthen its competitive position vs. Southwest:

Dest	UA Connecting Pax	PDEW
IAH	20,784	28.5
ORD	8,763	12.0
DFW	5,483	7.5
MSP	5,581	7.6
AUS	5,540	7.6
EWR	5,768	7.9
IAD	5,540	7.6
SFO	5,233	7.2
SEA	4,701	6.4

Looking at the top ten United DRO-Denver connect markets, all of them (by city) are where United competes with Southwest. These additional revenue passengers represent support for the United flights out of Denver that Southwest cannot match.

Other Options

The following are other potential opportunities for DRO to pursue to increase its air service.

- Delta/SLC: This was attempted and failed five years ago. The Delta hub does not offer strong new connectivity. This is not to imply that contact with Delta should not be made – just that there are realities that indicate no strong potential for the service.
- American/LAX: American has shown interest in building Los Angeles. With the AA/US merger, American will immediately have 25% of the Durango market, and may eventually be open to discussions.

It should be kept in mind that the local DRO-LAX traffic is nowhere near sufficient to support nonstop service to LAX, which is a semi-hub for American.

- Delta/ATL Seasonal: Delta has shown some willingness to fly summer seasonal service from ATL to western US markets. These include Bozeman, Missoula, Jackson Hole, and Kalispell. Durango is a world class summer recreational destination and there is potential for Delta to operate DRO-ATL nonstops.

- United/American/ORD: It is unlikely that United will consider overflying its DEN hub to ORD, as they both offer similar connectivity. However, it is reasonable to have conversations with American about the potential for ORD service. With the merger going through, American will have a bigger presence at DRO and adding another hub would allow it to capture passengers from United and stimulate net new demand.

However, it is noted that it is not beneficial to the community if new American ORD service is detrimental to United's DEN nonstops. It is recommended that DRO continue to discuss ORD potential with American, but keeping in mind this may have a negative impact on its largest incumbent carrier.

V. Appendix

DRO Top 25 O&D Markets – All Carriers YE Q2 2013

Rank	Market	P sgr	PDEW	% Originating @ DRO	Gross OW Fare
1	DEN	65,467	89.7	41.8%	\$146.83
2	DFW	26,191	35.9	29.3%	\$217.18
3	IAH	24,210	33.2	25.9%	\$240.04
4	PHX	17,318	23.7	45.2%	\$171.88
5	ORD	10,262	14.1	34.7%	\$226.01
6	AUS	10,076	13.8	31.8%	\$217.53
7	SFO	8,756	12.0	47.3%	\$246.82
8	SEA	8,727	12.0	48.2%	\$233.77
9	MSP	8,370	11.5	39.7%	\$193.94
10	ATL	8,124	11.1	38.0%	\$225.81
11	LAX	7,800	10.7	42.0%	\$229.34
12	SAN	7,787	10.7	55.5%	\$207.80
13	EWR	6,139	8.4	36.2%	\$253.57
14	LGA	6,085	8.3	38.6%	\$261.01
15	IAD	5,902	8.1	34.9%	\$273.49
16	PDX	5,781	7.9	50.3%	\$232.29
17	BOS	5,337	7.3	43.2%	\$330.51
18	SNA	5,300	7.3	42.5%	\$227.39
19	STL	5,175	7.1	36.9%	\$208.91
20	MCI	5,174	7.1	44.5%	\$182.50
21	MCO	5,125	7.0	56.8%	\$256.33
22	LAS	5,000	6.8	73.4%	\$204.81
23	PHL	4,995	6.8	35.9%	\$232.72
24	DTW	4,472	6.1	39.5%	\$240.77
25	DCA	4,171	5.7	46.3%	\$276.08
Total		271,744	372.3	40.0%	\$207.06
All Markets		401,199	549.6	41.5%	\$236.41

DRO Top 25 O&D Markets – United YE Q2 2013

Rank	Market	P sgr	P DEW	% Originating @ DRO	Gross OW Fare
1	DEN	33,632	46.1	43.6%	\$189.12
2	IAH	20,788	28.5	24.3%	\$239.18
3	ORD	8,881	12.2	34.4%	\$223.21
4	EWR	5,853	8.0	35.3%	\$251.01
5	IAD	5,616	7.7	35.2%	\$269.94
6	MSP	5,584	7.6	41.8%	\$200.79
7	AUS	5,530	7.6	32.4%	\$215.78
8	DFW	5,523	7.6	39.2%	\$220.84
9	SFO	5,194	7.1	46.0%	\$258.64
10	LGA	5,040	6.9	39.7%	\$260.26
11	SEA	4,621	6.3	48.2%	\$236.25
12	ATL	4,536	6.2	39.1%	\$231.88
13	BOS	3,985	5.5	44.8%	\$333.03
14	MCO	3,333	4.6	58.4%	\$260.69
15	LAX	3,278	4.5	39.7%	\$245.09
16	PHL	3,236	4.4	40.0%	\$217.21
17	STL	3,161	4.3	41.8%	\$217.04
18	MCI	2,993	4.1	49.2%	\$195.30
19	PDX	2,930	4.0	46.6%	\$242.55
20	MSY	2,776	3.8	45.8%	\$258.22
21	OKC	2,696	3.7	37.5%	\$215.90
22	TUL	2,466	3.4	36.0%	\$339.15
23	DTW	2,419	3.3	37.4%	\$257.67
24	SAN	2,068	2.8	52.1%	\$223.64
25	SMF	1,947	2.7	46.2%	\$238.44

DRO Top 25 O&D Markets – American YE Q2 2013

Rank	Market	P sgr	P DEW	% Originating @ DRO	Gross OW Fare
1	DFW	14,879	20.4	25.2%	\$226.80
2	AUS	1,988	2.7	33.5%	\$218.10
3	ATL	1,866	2.6	33.9%	\$220.86
4	IAH	1,406	1.9	36.9%	\$207.07
5	ORD	989	1.4	28.9%	\$241.53
6	SAT	908	1.2	38.4%	\$267.44
7	BOS	903	1.2	26.1%	\$309.38
8	LGA	899	1.2	32.8%	\$274.96
9	FLL	877	1.2	26.6%	\$271.95
10	PHL	840	1.2	24.5%	\$219.04
11	BNA	834	1.1	34.2%	\$228.55
12	MCO	821	1.1	46.9%	\$255.32
13	DCA	782	1.1	40.1%	\$261.17
14	TPA	766	1.0	45.3%	\$269.97
15	RDU	690	0.9	32.1%	\$317.74
16	CLT	660	0.9	26.2%	\$263.51
17	MSY	651	0.9	43.6%	\$246.09
18	HOU	640	0.9	46.1%	\$278.75
19	RSW	609	0.8	58.3%	\$278.06
20	STL	586	0.8	20.9%	\$222.06
21	MIA	539	0.7	33.8%	\$352.66
22	PIT	522	0.7	31.3%	\$344.14
23	DTW	519	0.7	44.8%	\$236.19
24	TUL	510	0.7	27.7%	\$278.74
25	IND	464	0.6	39.9%	\$205.52

DRO Top 25 O&D Markets – US Airways YE Q2 2013

Rank	Market	P sgr	P DEW	% Originating @ DRO	Gross OW Fare
1	PHX	16,257	22.3	46.5%	\$169.17
2	SAN	4,692	6.4	55.1%	\$203.93
3	LAX	2,994	4.1	48.2%	\$235.35
4	SNA	2,893	4.0	41.8%	\$223.13
5	LAS	2,206	3.0	76.8%	\$214.52
6	SFO	2,121	2.9	50.3%	\$253.40
7	ONT	1,773	2.4	46.9%	\$223.57
8	OAK	1,435	2.0	35.5%	\$243.61
9	SMF	1,362	1.9	38.7%	\$255.91
10	BUR	1,338	1.8	43.9%	\$219.36
11	TUS	1,300	1.8	42.5%	\$238.12
12	SEA	1,245	1.7	64.1%	\$252.79
13	CLT	1,212	1.7	28.4%	\$318.73
14	IAH	1,111	1.5	37.3%	\$332.99
15	SJC	1,037	1.4	50.9%	\$243.00
16	RNO	995	1.4	55.9%	\$265.03
17	PDX	981	1.3	53.4%	\$244.95
18	HNL	895	1.2	80.8%	\$530.88
19	ANC	883	1.2	62.2%	\$415.41
20	PHL	815	1.1	33.6%	\$309.64
21	SBA	726	1.0	45.2%	\$252.87
22	LGB	693	0.9	41.5%	\$209.65
23	DFW	675	0.9	41.0%	\$258.73
24	FAI	646	0.9	94.9%	\$523.92
25	AUS	641	0.9	51.7%	\$279.49

DRO Top 25 O&D Markets – Frontier YE Q2 2013

Rank	Market	P sgr	P DEW	% Originating @ DRO	Gross OW Fare
1	DEN	31,794	43.6	39.9%	\$103.93
2	DFW	5,104	7.0	29.3%	\$184.00
3	SEA	2,771	3.8	41.2%	\$222.44
4	MDW	2,459	3.4	42.8%	\$186.77
5	MSP	2,426	3.3	35.7%	\$173.47
6	MCI	1,968	2.7	36.4%	\$156.55
7	AUS	1,887	2.6	21.5%	\$201.72
8	PDX	1,850	2.5	53.8%	\$210.30
9	DCA	1,765	2.4	39.6%	\$250.18
10	IND	1,640	2.2	26.9%	\$197.06
11	ATL	1,621	2.2	37.8%	\$210.64
12	MKE	1,519	2.1	46.5%	\$174.10
13	LAX	1,487	2.0	33.1%	\$185.10
14	DTW	1,463	2.0	39.5%	\$211.51
15	SFO	1,382	1.9	48.3%	\$199.22
16	STL	1,348	1.8	32.5%	\$178.13
17	LAS	1,066	1.5	62.9%	\$171.77
18	SAN	977	1.3	62.6%	\$194.31
19	GEG	958	1.3	46.1%	\$173.30
20	BNA	957	1.3	49.9%	\$224.89
21	IAH	875	1.2	33.4%	\$199.31
22	OKC	793	1.1	32.3%	\$186.11
23	SNA	788	1.1	51.5%	\$194.75
24	OMA	695	1.0	48.4%	\$152.41
25	MCO	676	0.9	55.6%	\$212.37