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JUN 9 1970

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Dear Mr. Spong:

Your letter of May 20, 1970, requested that we assess the contents of a study report dated January 12, 1970, prepared by officials of the Bureau of National Capitol Airports (Bureau), Federal Aviation Administration (FAA), concerning the cost and benefits of introducing stretch 727 jets at Washington National Airport (National). Specifically, you requested that we provide (1) a report on the origin of the study, the time and effort put into the study, and the use that was made of the report and (2) a critique of the report in which the validity of the facts and conclusions are either questioned or verified. In accordance with an agreement reached with Mr. Jack Lewis of your staff, we are limiting our comments on item (2) above to a discussion of the pertinent underlying assumptions used by the Bureau in arriving at the conclusions presented in the report.

Regarding the origin of the study report, the Director of the Bureau informed us that he had instructed his staff to perform the study as a result of several discussions with the FAA Administrator who had indicated his belief that the decision to keep stretch 727 jets out of National should be reviewed to determine whether such a decision was in the best interest of the FAA, the air carriers, and the public. The FAA Administrator authorized the use of the stretch 727 jets at National on April 9, 1970.

The draft report dated January 12, 1970, which you made public at a hearing of the Senate District of Columbia Committee on May 19, 1970, was written by the Chief of the Bureau's Financial Management Staff using information supplied by several of his branch chiefs. Our inquiries indicated that the Chief and his staff worked on the study for a period of about 3 weeks and that the draft report was submitted to the Director of the Bureau for his approval on or about January 12, 1970. Subsequently, the Director revised the draft report with the assistance of his staff and personally delivered the report in its final form to the Administrator's office on January 21, 1970.

Although certain sections of the draft report were deleted from the final report, the language, estimates, and conclusions are essentially the same in the sections of the reports dealing with potential passenger capacity increases at National and potential revenue increases for air carriers that could result from the decision to allow the stretch 727 jets into National. The major conclusions of the final report were transmitted

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by the Administrator to the Senior Vice President, Operations, American Airlines, in a letter dated January 22, 1970, apparently to illustrate the problems associated with the introduction of stretch 727 jets into National.

The Director and the Deputy Director of the Bureau advised us that the final report is the official Bureau position and that the information and conclusions in the report, although prepared about 5 months ago, are valid today assuming that the air carriers are allowed unrestricted use of the stretch 727 jets at National. We were also informed that most of the data and conclusions in the report were based on either estimates or assumptions made by Bureau officials on the basis of their experience and knowledge relative to air-carrier operations.

The report concludes that, on the basis of the Bureau's traffic projections, the stretch 727 jets cannot be employed profitably at National without materially altering the prospects for growth at Dulles and Friendship Airports. The report states that full use of the aircraft by seven of the air carriers serving National, which presently have stretch 727 jets in their fleets, could increase annual passenger seating capacity of planes scheduled into National from 18.3 million to almost 24.2 million. To arrive at these estimates, Bureau officials assumed that these seven carriers would replace the planes being used by them on all flights scheduled into National with stretch 727 jets. On the basis of this assumption, they determined the existing total seating capacity of the aircraft scheduled into National by the seven air carriers and compared that with the capacity of the stretch 727 jets which would replace the aircraft in use. The maximum design seating capacity of the stretch 727 jets (170 seats) was not used in this determination. Instead, Bureau officials used the seating capacity of the particular configuration of the stretch 727 jet already in the fleets of the seven air carriers, which varies from approximately 130 seats to a maximum of 152 seats.

To determine the ultimate potential increase in the number of passengers that would use National as a result of the exchange of existing equipment for stretch 727 jets by the seven air carriers, Bureau officials applied the actual calendar year 1969 aircraft passenger load factor (56 percent) at National to the potential increase in seating capacity (5.8 million). On the basis of these calculations, Bureau officials concluded that the annual increase in passengers could amount to as much as 3.4 million.

Further, to refine their estimates and to determine the probable near term effect of the introduction of stretch 727 jets on passenger traffic, Bureau officials reviewed existing air-carrier flight scheduling and load factors and estimated that by mid-1971 the seven air carriers would use stretch 727 aircraft on 134 of their daily flights into National. The 134 flights represent about 30 percent of existing flights into National by the seven air carriers; the study did not assume an increased number of flights. Bureau officials concluded that using the stretch 727 jets for those 134 flights would increase passenger traffic at National by about one million a year.

The report concluded that the ultimate potential gross revenue increases accruing to the air carriers as a result of allowing the stretch 727 jets into National could reach $120 million annually, of which $60 million could represent increased profits to the air carriers. Bureau officials informed us that an estimated average ticket value of $40 and a 50-percent profit ratio were used to arrive at these estimates. As stated above, the probable annual traffic increase by mid-1971 would be about one million passengers; therefore, the decision to allow the stretch 727 jets into National would probably yield about $40 million in gross revenue and $20 million in profit annually to the air carriers.

We have no basis for questioning or validating the estimates and assumptions used in the Bureau study or the resultant conclusions. The validity of the conclusions, of course, depends largely upon the validity of the underlying estimates and assumptions, and the conclusions must be considered in this light.

We also made inquiries to determine whether any studies or reports had been made which favor the decision to allow the stretch 727 jets into National. Bureau officials were aware of two reports--one which was prepared by the Boeing Aircraft Corporation, manufacturers of the stretch 727 jet, and one which, according to Bureau officials was prepared by American Airlines, one of the air carriers that would benefit from the introduction of the stretch 727 jets at National. The Boeing report was prepared in May 1970, and the American Airlines report was dated March 8, 1970.

The Boeing Aircraft report dealt primarily with a comparison of the technical characteristics of the jet aircraft currently using National and the stretch 727 jet and concluded that the stretch 727 jet was technically compatible with National. The report attributed to American Airlines concluded that the introduction of the stretch 727 jets would not affect the growth of Dulles and Friendship Airports, would not affect the projected growth of National, and would improve the quality of service at National and permit more efficient use of equipment in the air carriers' fleets. The American Airlines report appears to be an effort to refute the information transmitted to American Airlines by the FAA Administrator on January 22, 1970.

In a critique, dated March 27, 1970, on the report attributed to American Airlines, the Bureau stated that:

"In summary the report does nothing to mitigate the case against the B727-200 at Washington National Airport. It can be misleading, since the details are essentially correct, but a careful reading reveals the flaws in some /effect on growth of Dulles, Friendship, and Washington National Airports/ of the conclusions reached."

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We trust that the information presented herewith will serve your purpose. FAA officials have not had an opportunity to formally review and comment on this report. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

The Honorable William B. Spong, Jr.
United States Senate