



Summary of Analysis Regarding the U.S. Department of Transportation's Notice of Proposed Rulemaking on Enhancing Transparency of Airline Ancillary Service Fees

Prepared on behalf of:



Airlines for America[®]
We Connect the World

April 2024

Summary of Assessment of the Regulatory Impact Analysis

Campbell-Hill was engaged by Airlines for America to prepare a Benefit-Cost Analysis and to evaluate the feasibility of implementing the requirements of the NPRM on Enhancing Transparency of Airline Ancillary Service Fees.

Benefits:

- Calculated using the DOT's methodology outlined with a few adjustments (details on following slides).

Costs analyzed included:

- Initial Development Costs to Comply with Proposed Rule for Airlines.
- Ongoing Maintenance/Additional Development Costs due to the Proposed Rule for Airlines.
- Annual Costs to Airlines to Supply Agents Required Information.
- Cost of Increased Time Spent by Passengers on Airline Websites due to the Proposed Rule.

Costs not included:

- Costs to travel agents, online travel agents (OTAs), ATPCO, corporate travel managers, third party booking tools, and other affected stakeholders.
- Additional processing time to get search results.

Note: Despite inclusion in cost estimates, some of the items presented today may not be technically feasible or possible.

Benefits Calculated – Eliminating Deadweight Loss

Campbell-Hill followed DOT's outlined benefit method with a few adjustments to more accurately reflect consumer purchases (enplanements double counts passengers making connections).

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Item	Value
Domestic enplanements (2021)	674,000,000
Percentage of passengers who did not compare prices	1%
Passengers benefiting from display of ancillary fees	6,740,000
"Revealed" ancillary fees as percentage of airfare	5%
Revelation in price ("increase in price")	\$16.36
Percentage decrease in demand	-2.0%
Decrease in passengers	134,800
Benefits from eliminating lost consumer surplus in deadweight loss	\$1,102,462
Benefits per passenger who did not compare prices	\$0.16

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Figure 5 – Calculation of Annual Benefits by Eliminating Deadweight Loss

U.S. Roundtrip O&D Passengers in 2019	409,038,888
Percentage of passengers who did not compare prices	1%
Passengers benefiting from display of ancillary fees	4,090,389
"Revealed" ancillary fees as percentage of airfare	5%
Revelation in price ("increase in price") ¹¹	\$23.95
Percentage decrease in demand	-2%
Decrease in passengers	81,808
Benefits from eliminating lost consumer surplus in deadweight loss ¹²	\$979,585
Benefits per passenger who did not compare prices	\$0.23948
Benefits per total roundtrip passenger	<u>\$0.00239</u>

Sources: FMTraffic data via Cirium for passengers to/from the U.S. and Enhancing Transparency of Airline Ancillary Service Fees Regulatory Impact Analysis RIN 2105-AF10, page 19 filed in Docket OST-2022-0109.

- All data was converted to Origin & Destination ("O&D") passenger rather than enplaned passengers and used 2019 pre-pandemic for base traffic. This is a more accurate measure of consumer trips and trip planning.

Benefits Calculated – Time Savings Benefits

Campbell-Hill followed DOT's outlined benefit method, adjusted to reflect consumer trip planning for 2019, which reduced the potential benefits of the NPRM by 7% even with a higher customer value of time per hour (as recommended in DOT's Revised Value of Travel Time in Economic Analysis¹)

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Table 9: Example annual benefits for consumers already comparing prices

Item	Value
Domestic enplanements (2021)	674,000,000
Percentage of passengers who compared prices	1%
Passengers benefiting from display of ancillary fees	6,740,000
Average time saved per passenger who compared prices (minutes)	2
Passenger value of time per hour	\$22.00
Value of time savings for passengers comparing prices	\$0.73
Monetized time saved from reduction in search costs	\$4,942,667

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Figure 6 – Annual Time Savings Benefits

U.S. Roundtrip O&D Passengers in 2019	409,038,888
Estimated passengers per transaction	1.4
Estimated transactions	292,170,634
Percentage of transactions made by customers comparing prices	1%
Customers benefiting from display of ancillary fees	2,921,706
Average time saved by customer (minutes)	2
Saved time (hours)	97,390
Customer value of time per hour	\$47.10
Total Annual Time Savings	\$4,587,079

- All data was converted to O&D passenger rather than enplaned passengers and used 2019 pre-pandemic for base traffic.
- Converted passengers to transactions using average passengers per transaction from A4A carrier estimates.

¹ DOT Revised Departmental Guidance on Valuation of Travel Time in Economic Analysis, September 27, 2016

Cost Summary

Figure 8 – Summary of Costs Incurred by Airlines from Proposed Rule

	Millions of Dollars
Initial Development Cost	\$86.5
Annual Maintenance/Additional Development	\$9.0
Annual Costs to Supply Agents Required Information	\$8.8

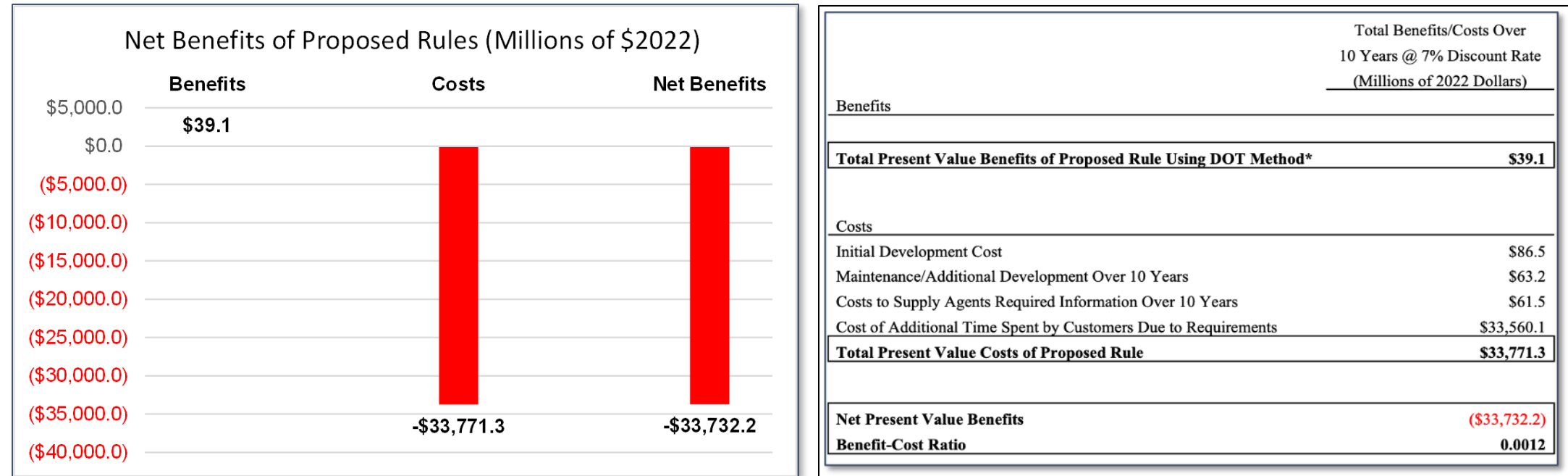
Figure 9 – Calculation of Annual Costs of Time

U.S. Roundtrip O&D Passengers in 2019	409,038,888
Estimated passengers per transaction	1.4
Estimated transactions	292,170,634
Share of airline searches that are booked ¹⁸	2%
Estimated total annual searches	14,608,531,707
Extra time added for searching	25 seconds
Time added (Minutes)	6,086,888,211
Time added (Hours)	101,448,137
Value of time per hour	\$47.10
Total Additional Search Costs	\$4,778,207,246

- A4A carriers were source of Figure 8 costs. Extrapolated the sample costs we received from carriers representing approximately 50% of all U.S. passengers.
- A4A carriers provided estimate of extra time added per search in Figure 9 and estimated passengers per transaction. The share of airline searches that are booked came from multiple sources noted in our report and ranged from 1.8% to 2.2%.
- Assumed recurring costs for 10 years and discounted at 7%.

This Rule Would Result in a Negligible 0.0012 Benefit-Cost Ratio

Campbell-Hill prepared an analysis of DOT's Regulatory Impact Analysis regarding Enhancing Transparency of Airline Ancillary Service Fees. Using DOT's methodology for evaluating benefits and estimated costs to implement this rule, would provide just **\$0.12 in benefits per \$100.00 in costs**.



- All data was converted to O&D passenger rather than enplaned passengers and used 2019 pre-pandemic for base traffic.
- This estimate does not include cost that would be born by non-airline ticket vendors, Online Travel Agents, Travel Management Companies, or Travel Agencies.

* Includes the benefit categories and general methodology outlined by the DOT.