

American Airlines

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Via email and mail

The National Commission to Ensure Consumer
Information and Choice in the Airline Industry
1110 Vermont Avenue, Suite 1160, NW
Washington, D.C. 20005

Re: Follow-up to June 12, 2002 Testimony

Dear Commissioners:

I appreciated the opportunity to testify before the Commission on June 12th, and want to follow up on Commissioner Murphy's request for data on the booking fees American pays.

American uses three principal measures for assessing its CRS costs. The first is American's average fee per "net booking," which American defines as a booking for which American held inventory through time of departure. This is different from the CRSs' posted rates because each CRS has different rates for different transactions, typically depending on the point of sale, the level of the access, and the nature of the transaction. For example, U.S. point of sale transactions are typically priced differently than European point of sale transactions. Passive bookings, Claim PNR transactions, and cancellations also typically have different charges. The average fee per net booking is likely to be different for each carrier's bookings in each CRS because each carrier's mix of transactions booked through a particular CRS is likely to be unique. For example, American's mix of U.S. point of sale versus Asia point of sale bookings in Sabre is likely to be different than United's mix of those bookings. Different carriers will also likely experience different cancel/rebook ratios. After careful consideration, American has concluded that it should not make its average CRS fees per net booking publicly available, because doing so might provide American's competitors with non-public information that they could use to weaken American's competitive position.

The second measure is CRS charges per ticket. To derive the CRS charges paid per ticket, one must adjust the per net booking cost to reflect the fact that some bookings never result in the issuance of a ticket. For example, a passenger "double-booking" on two flights, but flying on only one, would generate two net bookings (since inventory was held through time of departure on two flights), but only one ticket. Adjusting the per net booking charge by a net booking to ticketed segments ratio results in the CRS booking fee cost per ticketed segment. Next, this cost per ticketed segment must be adjusted by

the average number of segments per ticket. This varies by carrier, and in American's case, by CRS.

To illustrate, using Sabre's charges as reflected on its July, 2001 invoice to American, American calculates its average CRS charges per United States point of sale ticket issued by a travel agent using Direct Connect access in Sabre by the following formula:

\$4.14	Sabre Booking Fee per segment
+	
(\$4.14 * 1.33)	(Sabre Cancellation Fee) * (Cancellation/Net Booking Ratio)
=	
\$4.33	Booking Fee per Net Booking
*	
1.13	Net Booking to Ticket Ratio (an average ratio across all CRSs)
=	
\$4.89	CRS Charges per Ticketed Segment
*	
2.5	Average number of segments per ticket
=	
\$12.22	Average CRS cost per U.S. Point of Sale ticket issued using Sabre Direct Connect

To calculate American's average CRS booking fee paid for all tickets, one must perform a similar calculation for each level of access in each CRS, and then derive an average across all CRSs.

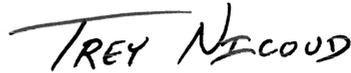
The third measure, average CRS costs per enplanement, is most telling for the Commission's purposes, however, because it can be used to compare American's costs to the costs of our competitors. American calculates its CRS costs per enplaned passenger by dividing its total CRS charges by its total enplanements.¹ For 2001, American, TWA, and American Eagle paid approximately \$424,600,000 in CRS charges, and reported approximately 112,400,000 enplanements, which results in an average CRS cost of \$3.78 per enplanement. American does not have the data to calculate Southwest's exact CRS charges per enplanement, but as I indicated in my June 12th testimony, we estimate those charges to be less than 50¢ per enplanement. As I sought to explain during my testimony, this differential in costs, and the ever-increasing competition American faces from Southwest and other low-cost airlines,² puts competitive pressure on American to do something about its own distribution costs.

¹ Note that a single passenger who flies from Sacramento to Chicago, transfers to a different plane, and then flies to Baltimore, will result in two enplanements (one in Sacramento, and one in Chicago).

² With all due respect, I simply must disagree with Commissioner Rogge's observation that Southwest is in a completely different business than American. Southwest pursues a different business plan than American, but surely no one would believe that Southwest's flights from Dallas Love Field do not

Thank you again for the opportunity to appear before the Commission. If you have any questions or would like additional information, please do not hesitate to contact me.

Respectfully submitted,

A handwritten signature in black ink that reads "TREY NICLOUD". The signature is written in a cursive, slightly stylized font.

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compete with American's flights from DFW, that Southwest's flights from St. Louis do not compete with American's flights from St. Louis, or that Southwest's flights from Chicago Midway do not compete with American's flights from Chicago O'Hare. Even where Southwest does not offer non-stop service, its network of flights offers considerable competition to American. For example, the Wright Amendment prohibits Southwest from offering service to Nashville Airport ("BNA") from Dallas Love Field ("DAL"), so Southwest neither lists DAL-BNA as an offered service nor sells a DAL-BNA ticket. Nevertheless, many consumers fly from Dallas Love Field to Nashville by buying a ticket on Southwest from Love Field to Austin or Houston, and then buying another ticket on Southwest from one of these cities to Nashville. American estimates that Southwest carries 19% of all passengers traveling between the Dallas-Fort Worth area and Nashville.