

UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY

ALASKA AIRLINES, INC., AIRTRAN	:
AIRWAYS, INC., ATA AIRLINES, INC.,	:
FRONTIER AIRLINES, INC., MIDWEST	:
AIRLINES, INC., SOUTHWEST AIRLINES CO.,	:
and US AIRWAYS GROUP, INC.,	:
	:
Complainants,	:
	:
v.	:Docket OST-07-2007-27331
	:
LOS ANGELES WORLD AIRPORTS,	:
LOS ANGELES BOARD OF AIRPORT	:
COMMISSIONERS, and THE CITY OF	:
LOS ANGELES, CALIFORNIA,	:
	:
Respondents.	: Date of Filing: 4/09/07

REVISED EXPERT REPORT

OF

DANIEL M. KASPER

LECG, LLC

I. IDENTIFICATION

1. I am a Managing Director of LECG, Corp. (formerly, The Law & Economics Consulting Group) and head of the firm's transportation practice. LECG provides expert analysis and management consulting in economics, accounting, and finance. My business address is 350 Massachusetts Avenue, Suite 300, Cambridge, Massachusetts 02319. I have over 25 years of experience at LECG, Coopers & Lybrand, L.L.P., Harbridge House, Inc., and the U.S. Civil Aeronautics Board ("CAB") dealing with issues involving competition, competition policy, economics and finance in the airline (and other transport-related) industries.
2. I have also served on the faculties of the Harvard Business School and the University of Southern California School of Business Administration for a total of ten years. In 1993, I was one of 15 appointed members of the U.S. National Airline Commission, a body created by Congress to evaluate and make recommendations on how to improve the performance of the U.S. airline and aerospace industries. In addition, I have served as a consultant to the U.S. Departments of Transportation, State and Defense, on various airline industry matters and have also testified as an expert on airline and aviation industry matters before courts and federal administrative agencies, as well as legislative bodies and antitrust authorities both in the United States and abroad.

3. I have held senior level positions at the United States Civil Aeronautics Board (including Director of International Aviation) where my responsibilities included, *inter alia*, the formulation and implementation of the Board's antitrust and other economic regulatory powers with respect to the airline industry. I have authored two books on aviation as well as numerous articles, case studies, and research papers on various aspects of air transportation and government policy. I earned my M.B.A. and J.D. degrees from the University of Chicago. A copy of my curriculum vitae is provided as Appendix A.

4. I have been retained by Alaska Airlines, Inc., AirTran Airways, Inc. ATA Airlines, Inc., Frontier Airlines, Inc., Midwest Airlines, Inc., Southwest Airlines Co. and US Airways Group, Inc. ("Complainants") to provide an independent economic analysis of the terminal charges that Los Angeles World Airports ("LAWA") has imposed on the airlines using Terminals 1 ("T1") and 3 ("T3") at Los Angeles International Airport ("LAX"). **I prepared this Revised Report in order to reflect changes in T1/T3 carriers' rates and charges that were announced by LAWA on or about March 30, 2007 (after the submission of my Initial and Supplemental Reports).¹ For the convenience of the Court, I have highlighted in this Report the figures that were changed as a result of the revisions made by LAWA.**

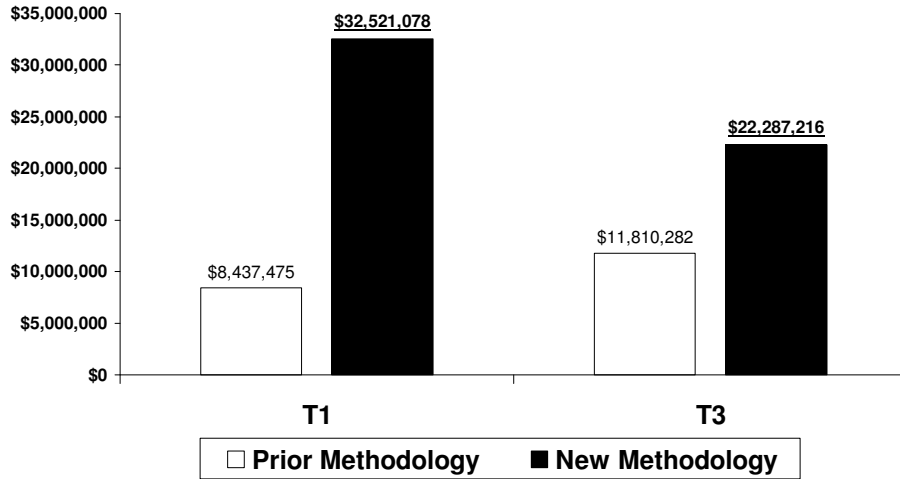
¹ See *Stipulation*, (filed April 9, 2007), Docket OST-2007-27331, hereafter "Stipulation."

II. OVERVIEW & SUMMARY OF CONCLUSIONS

5. The essence of the dispute between T1/T3 carriers and LAWA hinges on a question that is surprisingly straightforward: Is it permissible for an airport to impose over a period of up to 20 years substantially higher terminal charges on some airlines than it imposes on other airlines using comparable terminal facilities where the only significant difference between the two groups of carriers is their lease expiration dates? LAWA does not dispute that the charges it has now imposed on carriers serving T1/T3 are substantially higher (up to **11.5** times higher per square foot) than those it charges to airlines serving the other terminals at LAX. Likewise, it is clear that the types of facilities at Terminals 1 & 3 are physically comparable to those provided at Terminals 2, and 4-8 at LAX. Rather, LAWA appears to suggest that the higher charges imposed on T1/T3 airlines are non-discriminatory because the airlines using T1/T3—unlike airlines utilizing other LAX terminals—are not operating under long-term leases.

6. The new airport terminal charges imposed by LAWA will result in massive year-over-year rent increases for the airlines using Terminals 1 and 3 at LAX. As illustrated in Revised Figure 1 below, charges for T1 airlines would roughly quadruple from \$8,437,475 to **\$32,521,078**, while charges for T3 users would roughly double from \$11,810,282 to **\$22,287,216**.

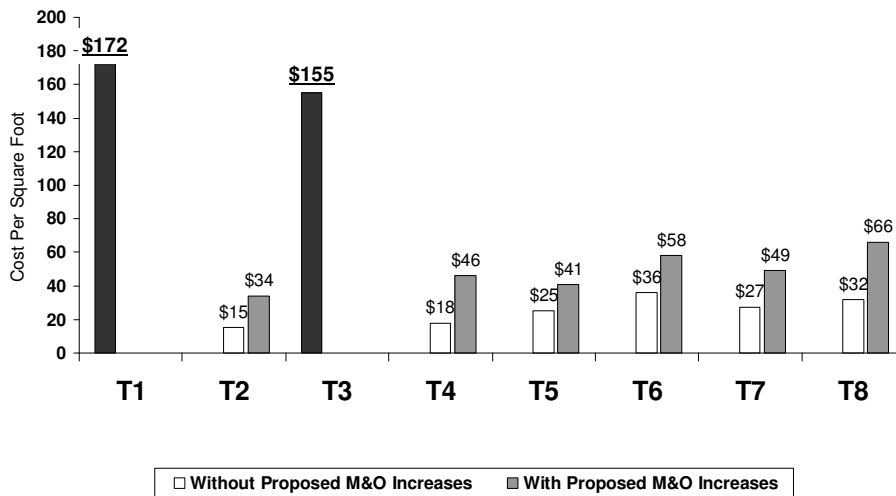
**REVISED FIGURE 1: TOTAL INCREASES IN TERMINAL CHARGES AT LAX
TERMINALS 1 AND 3 – 2007**



Source: Prior Methodology amounts based on LAWA Staff Report, 12/18/06, Nos. 13 and 14, page 3.
New Methodology amounts based on Stipulation, April 9, 2007, page 1.

7. The large and discriminatory increases in terminal charges imposed by LAWA on T1/T3 airlines have forced these carriers to pay disproportionately higher terminal charges per square foot than are paid by carriers serving T2 and 4-8, as shown in Revised Figure 2.

**REVISED FIGURE 2: LAX TERMINAL CHARGES
PER SQUARE FOOT – 2007**



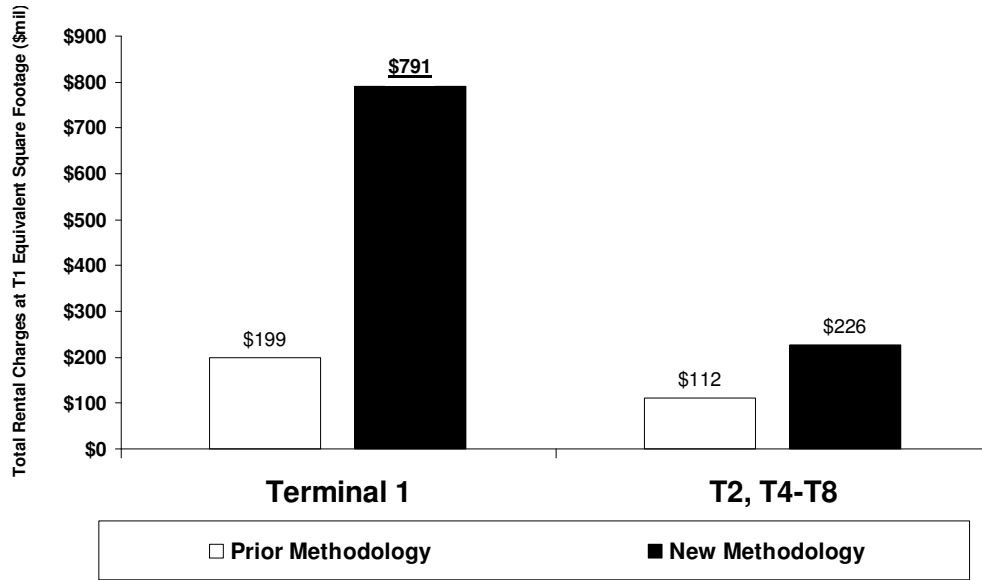
Source: See Revised Appendices B(A) and B(B).

8. LAWA has imposed these massive increases only on the airlines serving T1/T3², and these increases will cause T1/T3 airlines to pay as much as **11.5** times more per square foot of terminal space than is paid by airlines utilizing other terminals at LAX. The primary cause of this huge differential in terminal charges is the fact that the new charging methodology adopted by LAWA substantially increases the percentage of terminal space that is allocated (and charged) to airlines compared to the charging system LAWA uses for other terminals at LAX. Thus, the percentage of terminal space charged to airlines was increased from 52% to 87% for T1 and from 61% to 80% for T3.³
9. The huge differential in terminal costs resulting from the new charging policy has put the airlines serving T1 and T3 at a significant cost—and competitive—disadvantage vis-à-vis other airlines serving LAX. And if the Department permits these increases to stand, the added costs paid by T1/T3 would amount to hundreds of millions of dollars more in terminal charges over the next 15 years compared to both the charges paid by carriers using other terminals at LAX and to the charges T1/T3 would have paid under the prior charging system, as shown in Revised Figures 3 and 4. This huge cost differential will increase even further before the last long-term lease expires in late 2025.

² Similar increases were also imposed on a very small amount of airline space in Terminal 6 that was not covered by a long term lease.

³ See Appendix C.

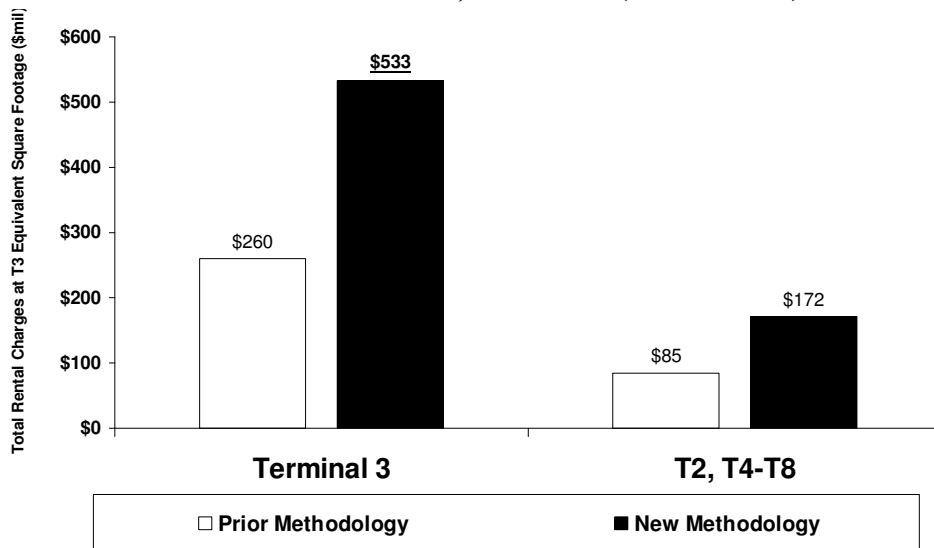
REVISED FIGURE 3: ESTIMATED TOTAL TERMINAL CHARGES AT TERMINAL 1 COMPARED TO T2 AND T4-T8, 2007-2021 (IN MILLIONS)



Source: See Revised Appendices D and E.

Notes: New Methodology in Terminals 2 and 4-8 assume proposed M&O rate increases.

REVISED FIGURE 4: ESTIMATED TOTAL TERMINAL CHARGES AT TERMINAL 3 COMPARED TO T2 AND T4-T8, 2007-2021 (IN MILLIONS)



Source: See Revised Appendices F and G.

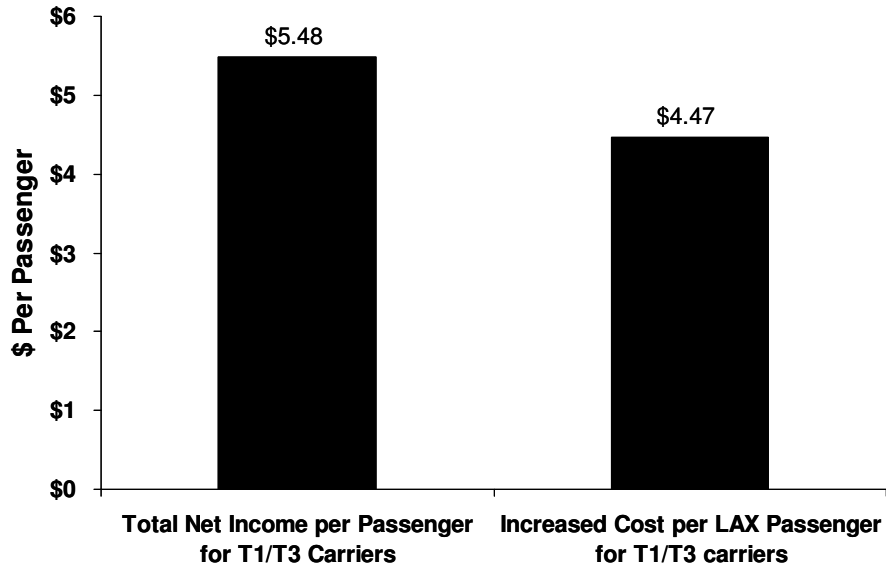
Notes: New Methodology in Terminals 2 and 4-8 assume proposed M&O rate increases.

10. LAWA has not provided—nor do I believe it can provide—a credible economic justification for the huge disparity in terminal charges that its new charging methodology has created among airlines serving different terminals at LAX. On the contrary, LAWA’s actions constitute the type of unjust discrimination and abuse of market power that have led—both in the United States and elsewhere—to regulatory oversight and controls designed to prevent such abuses.
11. The substantially higher terminal charges LAWA has imposed on the T1/T3 airlines will have adverse economic and competitive effects on both the affected airlines and travelers using LAX, and those effects are highly likely to be substantial. LAWA has acknowledged that the new charging methodology will increase the average cost per enplaned passenger at T1 by \$4.19 and by \$5.45 at T3.⁴ These added costs are significant for both the affected airlines and their passengers. For example, \$4.19 amounts to 5% of the average fare collected by Southwest and US Airways/America West for the 2.2 million short haul passengers (i.e., those traveling 500 miles or less) they carried during the first 6 months of 2006 on their flights serving LAX. Increases of this magnitude would be significant for most businesses, but they are particularly significant for the airline industry where average operating margins are typically less than 10%. Indeed, on a per passenger basis, the increase in the average cost per enplaned

⁴ During the 12/18/06 hearing before the Board of Airport Commissioners, LAWA acknowledged that the cost per enplanement (“CPE”) at T1 would increase from \$5.70 to \$9.89. Likewise, it indicated that the cost per enplanement at T3 would go from \$6.15 to \$11.60. **Although LAWA has not provided updated CPE figures incorporating the most recent revisions to its fees & charges for T1/T3, the relatively small size of the changes involved will not materially alter the CPE amount previously provided by LAWA.**

passenger at T1 and T3 amounts to approximately 80% of the average system wide profit per passenger earned by T1/T3 carriers in 2006.

FIGURE 5: 2006 NET INCOME PER PASSENGER VS. ADDED COST PER PASSENGER FOR T1 AND T3 CARRIERS*



Sources: Carrier 10Ks, 10Qs, and Press Releases; "Los Angeles World Airports Commission Meeting, December 18, 2006, Excerpts of Proceedings, Agenda Items 9 through 15"; U.S. DOT T100
*Includes Southwest Airlines, US Airways (including America West) Alaska Airlines, Airtran, Midwest. ATA is not included as it has not released 2006 passenger data.
Notes: Net Income is after tax and excludes special charges. Midwest passengers are reported for O&D passengers.

12. Faced with the prospect of such large increases in airport costs that their competitors are not required to pay, the T1/T3 airlines are likely to respond either by attempting to raise fares to offset these higher costs (and hoping that their competitors using other terminals at LAX do likewise), and/or by reducing or eliminating service in order to lower their terminal usage and costs at LAX. In either case, the predominantly low cost/low fare carriers serving T1/T3 would be put at an unfair cost and competitive disadvantage vis-à-vis carriers using other terminals at LAX. Ultimately, consumers using LAX would suffer from higher fares and/or reductions in service.

13. Concerns about the adverse impacts of such large, discriminatory cost increases on consumers as well as on the T1/T3 airlines are more than theoretical. As shown in Figure 6 below, T1/T3 carriers provide most of the low-fare services available at LAX, serving routes that accounted for approximately three-quarters of LAX's origin and destination ("O&D") traffic. Moreover, on twenty-one (21) large routes that accounted for 54% of domestic O&D traffic at LAX in 2006, the average fare charged by the T1/T3 airlines was 23% lower than the average fare charged by other airlines. Overall, the average fare for T1/T3 carriers is 15% lower than those charged by non-T1/T3 carriers to common city-pairs. Southwest and the other predominantly low-cost, low fare T1/T3 carriers are typically the low-price leaders in their respective markets, and if they are forced to raise fares due to increased terminal charges, experience indicates that competing carriers will quickly do the same. Consequently, the impact on fares and service resulting from the higher terminal charges imposed by LAWA on the T1/T3 airlines is likely to be both substantial and widespread, affecting not just passengers carried by T1/T3 airlines but those carried on other carriers as well.

FIGURE 6: RELATIVE AVERAGE FARES OF DOMESTIC PASSENGERS SERVED BY T1/T3 CARRIERS

Destination City*	Number of T1/T3 Carriers between Destination City and LAX Airport**	Number of Other Carriers between Destination City and LAX Airport	Percentage of Total LAX O&D Traffic	T1/T3 Carriers Average Fare as a Percent of Other Carriers
1 San Francisco	2	2	9.29%	71.5%
2 Chicago	1	2	4.94%	72.0%
3 Las Vegas	2	3	4.77%	103.6%
4 Washington	2	2	4.05%	65.9%
5 Honolulu	1	5	3.43%	94.2%
6 Phoenix	2	1	3.22%	85.0%
7 Seattle	2	2	2.76%	102.4%
8 Denver	1	2	2.71%	75.3%
9 Houston	1	1	2.64%	88.2%
10 Atlanta	1	1	2.56%	85.2%
11 Boston	1	3	2.38%	77.3%
12 Dallas	1	2	2.38%	84.4%
13 Sacramento	1	1	2.29%	89.5%
14 Philadelphia	2	1	2.07%	92.2%
15 Salt Lake City	1	2	2.03%	76.5%
16 Orlando	1	3	1.98%	91.5%
17 Minneapolis- St. Paul	1	1	1.85%	72.4%
18 Portland	2	2	1.65%	103.8%
19 Kahului	1	4	1.43%	92.0%
20 Tuscon	1	1	1.35%	77.4%
21 Kansas City	2	1	1.14%	93.6%
22 St. Louis	1	1	1.05%	88.9%
23 Reno/Tahoe	2	1	0.95%	96.7%
24 Austin	1	1	0.89%	94.0%
25 Tampa	1	2	0.89%	105.1%
26 Indianapolis	2	3	0.85%	86.2%
27 Albuquerque	2	1	0.85%	98.9%
28 Nashville	1	1	0.80%	89.8%
29 Cleveland	1	1	0.78%	84.2%
30 Charlotte	2	3	0.71%	134.7%
31 San Antonio	1	2	0.68%	99.7%
32 Milwaukee	1	1	0.59%	95.0%
33 Pittsburgh	2	4	0.56%	112.9%
34 Hartford	1	4	0.56%	97.7%
35 Columbus	2	5	0.55%	113.3%
36 New Orleans	1	3	0.50%	97.1%
37 Memphis	1	1	0.40%	81.7%
38 El Paso	2	0	0.38%	74.1%
39 Boise	2	3	0.35%	98.5%
40 Spokane	2	1	0.33%	106.0%
41 Colorado Springs	1	1	0.24%	88.4%
42 Anchorage	2	1	0.19%	107.6%
43 Arcata/ Eureka	1	1	0.15%	105.2%
44 Medford	1	2	0.14%	95.8%
45 Redding	1	1	0.10%	101.4%
Total Served By T1/T3 Carriers			74.40%	85.0%

Source: U.S. DOT OD1A, 2006 Q1/Q2; OAG

* Cities included with at least one departure per day from LAX in May 2006 by a T1/T3 carrier. Airports in the following major metropolitan areas are grouped: San Francisco (SFO, OAK, SJC), New York (LGA, EWR, HPN, JFK), Chicago (ORD, MDW), Houston (IAH, HOU), Dallas (DFW, DAL), Detroit (DTW, DET), Miami (MIA, FLL), Washington, DC (DCA, IAD, BWI), Boston (BOS, PVD, MHT, ORH).

** Carriers with non-stop service or at least 5% share of passengers from LAX to City.

14. If LAWA's imposition of higher terminal charges on airlines without long term leases is permitted to stand, it will be more difficult for low cost and new entrant carriers to serve LAX. And it would open the door for other airports to impose similarly disproportionate and discriminatory terminal charges on carriers that are

new to the airport as well as those whose leases have expired. Carriers victimized by these practices will be forced to raise fares and/or curtail service in order to compensate for the increased costs, and the traveling public will suffer as a result of higher prices and reduced flight options.

15. The substantial difference between the terminal charges levied on the airlines serving T1/T3 compared to those charged for the use of comparable facilities at other LAX terminals constitutes *prima facie* evidence of economic discrimination by LAWA.⁵
16. LAWA, however, appears to believe that the charges it has imposed are permissible because it is a “commercial landlord” and is therefore free to impose substantially higher charges on T1/T3 airlines—for the next 15-19 years—because unlike the airlines using other LAX terminals, T1/T3 carriers are no longer protected by long-term leases.⁶
17. But LAWA’s contention is wrong, for several reasons. To begin with, LAWA is not a normal “commercial landlord”; nor is LAX a normal piece of commercial real estate. On the contrary, LAWA/LAX enjoy a position of de facto monopoly power in the provision of airport services in the Los Angeles Basin,⁷ and is more

⁵ Economic discrimination is of particular concern when, as here, it results from the actions of a seller with monopoly power. And LAWA has neither claimed that the wide divergence in rental rates is cost justified nor has it proffered evidence that would support such a claim.

⁶ “There is nothing discriminatory or unreasonable in negotiating new lease terms with carriers whose leases have expired.” Letter from LAWA, 9/29/06, Ex. C-15 at 1.

⁷ LAWA also owns and operates commercial airports in Ontario, and Palmdale that, in total, account for over three quarters of LA Basin passengers and departures.

properly characterized as a public utility.⁸ Access to LAX is also essential for airlines seeking to effectively serve LA Basin traffic. Thus, unlike typical commercial tenants who can move to another building with a new landlord, most airlines have no realistic alternative to LAX (and dealing with LAWA) if they want to access substantial segments of LA Basin traffic. As a result, LAWA holds effective monopoly power over its airline tenants, including the airline tenants at T1/T3.

18. Like other monopolies and public utilities, airports have long been subject to heightened levels of public scrutiny and regulatory oversight in order to prevent them from abusing the market power by increasing prices above competitive levels, restricting output and otherwise distorting economic efficiency. It was presumably as a result of concerns about the potential abuse of market power that Congress subjected airport rates and charges to federal regulatory review.
19. Finally, the charging system imposed on T1/T3 is also inconsistent in important respects with both the Department's Policy on Rates and Charges and sound economic regulatory policy. These inconsistencies include inappropriately charging airlines for both public and concessions space in T1/T3 and basing charges at T3 on the purported "fair market value" of the terminal.

⁸ See, e.g., *City of Los Angeles v. T.D. Dannenbrink*, 234 Cal. App. 2d 642, 645 (1965) (describing LAX as "a public utility"); *Stagg v. Municipal Court*, 2 Cal. App. 3d 318, 322 (1969) ("A municipally owned airport is classed as a public utility"); *Air Cal., Inc. v. City and County of San Francisco*, 865 F.2d 1112, 1117 (9th Cir. 1989) (the "California courts have . . . classified a municipally owned airport as a public utility").

III. LAWA IS NOT A TYPICAL COMMERCIAL LANDLORD

20. Although LAWA asserts that it is simply a typical “commercial landlord” and is thus free to impose on some airline tenants radically higher terminal charges than it charges other airline tenants for the use of substantially similar terminal facilities, that argument ignores crucial differences between LAWA and a typical commercial landlord. In particular, it ignores the fact that unlike a typical commercial landlord, LAWA possesses monopoly power vis-à-vis airlines serving LAX.⁹ Thus unlike normal commercial tenants, airlines have no realistic alternative to dealing with LAX (and LAWA) in order to effectively serve Los Angeles.
21. Likewise, Federal law, regulations and airport grant assurances all recognize the essential nature of commercial airports by requiring airports to provide access to all prospective users on a nondiscriminatory basis.

LAX HAS MONOPOLY POWER

22. Monopoly power arises when a factor or factors broadly described as barriers to entry effectively prevent or severely limit the ability of other producers to enter the market. These factors include governmentally imposed restrictions on entry (*e.g.*, strict licensing requirements) as well as large economies of scale or scope

⁹In 2006, LAX alone accounted for over 70% of the passengers, 75% of air cargo and 95% of international passengers and cargo in the five county Southern California region. LA Basin airports controlled by LAWA (LAX, ONT) accounted for over three-fourths of both passengers and departures. Sources: LAWA website; US DOT T100.

that sharply limit the number of economically viable producers. The latter case is sometimes described as a “natural monopoly.”

23. The market for commercial airport services generally, and in the Los Angeles Basin in particular, is characterized by exceptionally high barriers to entry. To begin with, commercial airports are characterized by significant economies of scale.¹⁰ Airport scale economies (*i.e.*, decreasing unit costs over a wide range of outputs) arise principally from “the necessity of making large investments merely in order to be in a position to serve customers on demand.”¹¹ These investments in the case of airports include the acquisition of large parcels of land (typically requiring the use of eminent domain) and the construction of runways, taxiways, access roadways, terminal facilities, towers, runway lighting and other systems—all investments for which the minimum efficient scale is large relative to demand.

As the Federal Aviation Administration has observed:

[G]iven the high cost of airport construction (e.g., more than \$4 billion for the new Denver International Airport), building a new airport is not a common capacity enhancement technique.¹²

24. And even in the relatively few U.S. metropolitan areas that have sufficient traffic to support more than one commercial airport, most of those airports are typically

¹⁰ Established airports also enjoy scope economies. These economies arise from the advantage to passengers, shippers, and air carriers of utilizing a facility large enough to provide them with access (in close proximity) to a variety of services from competing service providers—principally airlines in the case of passengers and competing suppliers of fuel, ground handling and other services in the case of airlines.

¹¹ Alfred Kahn, *The Economics of Regulation*, John Wiley & Sons, 1970, Vol. II, P. 119.

¹² Federal Aviation Administration, 1998 Capacity Enhancement Plan, Chapter 3, p. 45

under the control of a single owner (e.g., LAWA). In short, most airlines serving the LA Basin, have little choice but to deal with LAX and LAWA.¹³

25. It is therefore unsurprising that the need to protect airport users from the potential abuse of monopoly power by airports has been widely recognized¹⁴ or that it underlies the Department's Policy Regarding Airport Rates and Charges. Indeed, the point has even been recognized by expert consultants retained by the Board of Airport Commissioners for the City of Los Angeles:

Many airports, by virtue of location and large capital requirements, are like monopolies and are not constrained by competition from charging exorbitant prices. Moreover, commercial service airports...have characteristics of economic necessity which make them utility-like public infrastructure assets; thus, demand may be less sensitive to price than in other less "essential" industries.¹⁵

ACCESS TO LAX IS ESSENTIAL FOR AIRLINES

26. Los Angeles is the second largest city in the United States, and anchors a large, geographically expansive metropolitan area that accounts for 5.7% of all U.S.

¹³ The market power airports derive from economies of scale and the costs to airlines of relocating are further strengthened by the existence of other substantial barriers to entry, including the practical impossibility of acquiring sufficient land and the formidable array of zoning and other legal restrictions on the establishment of new airports.

¹⁴ Comments of the Federal Trade Commission Staff of the Bureau of Economics to U.S. Department of Transportation, September 14, 1994, at 11-12. See also, "Proposal for a Council Directive on Airport charges, 97/C 257/03, Official Journal of the European Communities, 22/8/97, Para. 12, which described airport services as "a monopoly situation." Likewise, the EC's Economic and Social Committee noted that "...the airport management body is in a monopoly situation as regard to the provision of airport facilities and services." 98/C73/08, Ibid., 9/3/98 Para. 1.1.1. Also, Laurence E. Gesse, The Administration of Public Airports, Coast Aire publications, 1988: "Airports are monopolistic in character."

¹⁵ "Financial Support for the General Fund, Part II Supplemental Report, June 1990, prepared for the Board of Airport Commissioners, Department of Airports, City of Los Angeles," by John F. Brown Company, p. 23.

enplanements.¹⁶ LAX, which accounts for 70% of passengers and over 80% of the area's cargo traffic, is clearly the preferred airport for most travelers and shippers flying to, from or through the Los Angeles area. In addition, no other airport in the Southern California area is able to provide airlines with comparable access to LA Basin passenger and cargo traffic. Of particular significance is the fact that virtually all international flights to and from Los Angeles use LAX. Thus as a practical matter, most airlines serving the LA Basin have little choice but to serve LAX.¹⁷

27. Since LAX is the most convenient airport for a substantial portion of Basin traffic and typically has more flights to most destinations, airline customers favor that airport over others in the LA Basin. Moreover, most of the LAX passengers carried by T1/T3 airlines travel on relatively short flights and are thus less likely to use other, less convenient airports for their flights.¹⁸ In any event, most T1/T3 carriers already serve the other LA Basin airports, a further indication that these airlines regard LAX as essential to effectively serving Los Angeles area traffic.¹⁹
28. Because access to LAX is thus essential for airlines desiring to serve Los Angeles, LAX enjoys what is sometimes called a "locational" monopoly, a situation that

¹⁶ US DOT T100, year ending June 2006.

¹⁷ See, for example, *Declaration of Donald S. Garvett, Alaska Airlines* and *Declaration of Pete McGlade, Southwest Airlines*.

¹⁸ For example, during the first half of 2006, well over half of the passengers served by T1 airlines traveled on routings of less than 500 miles

¹⁹ See *Declaration of Pete McGlade, Southwest Airlines* at page 5. Southwest already serves ONT, BUR and FNA in addition to LAX.

leaves airlines serving LAX vulnerable to abuses of monopoly power, including the imposition of excessive and unjustly discriminatory rates and charges.

29. In order to prevent monopolists from abusing their market power, governments both in the United States and abroad have subjected monopolies and other public utilities to heightened levels of public scrutiny and regulatory oversight—as did Congress when it subjected airport rates and charges to federal regulatory review.

IV. THE NEW TERMINAL CHARGES UNJUSTLY DISCRIMINATE AGAINST THE AIRLINE TENANTS OF T1/T3

30. Because competition among sellers in competitive markets typically limits or precludes sellers from engaging in price discrimination, the ability of a seller to discriminate among buyers who are similarly situated has long been recognized as one of the hallmarks of monopoly.
31. Prior to the establishment of its new charging framework and methodology, LAWA basically charged all airlines serving LAX a terminal charge²⁰ based on the airlines' proportion of *usable* terminal space plus an additional (“overhead”) charge of 15% of the terminal charge. Under its new charging methodology, LAWA changed the names of various cost categories but effectively imposes on

²⁰ The terminal charge includes: (a) rent for terminal facilities and the underlying land and (b) a charge for “maintenance and operations” (M&O).

the T1/T3 airlines a terminal charge based on a (larger) share of *rentable* space plus an additional (“overhead”) charge amounting to 50% of the terminal charges.

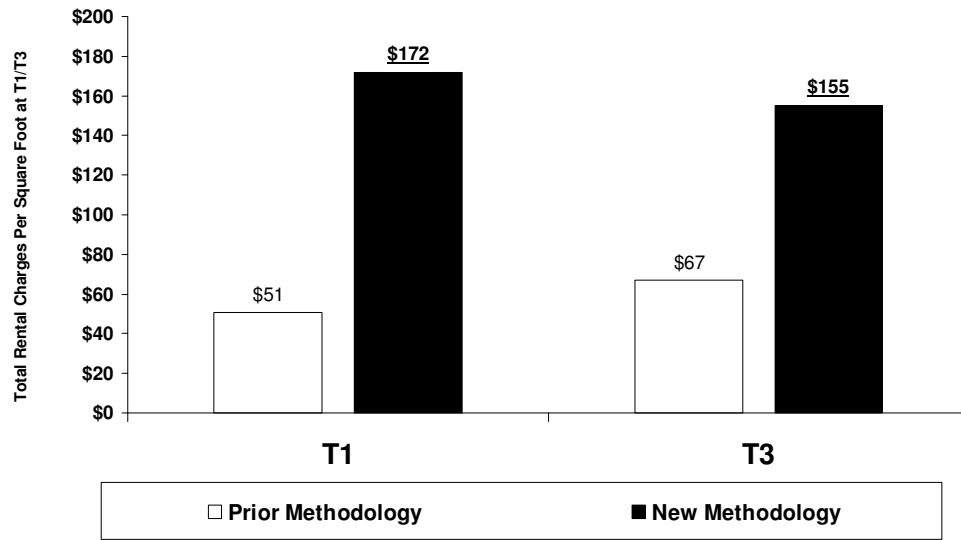
32. The financial impact resulting from the application of the new methodology imposed on the T1/T3 airlines can be summarized as follows:

- Terminal charges for airlines at T1 will roughly quadruple in a single year—from approximately \$8.4 to **\$32.5** million annually, while the annual charges paid by airlines at T3 will roughly double—from approximately \$11.8 to **\$22.3** million,²¹ as shown in Revised Figure 1 above.
- On a per square foot basis, the cost to the T1 airlines will increase more than three times, from \$50.62 to **\$171.86** while that of T3 airlines will more than double from \$66.81 to **\$155.16**, as shown in Revised Figure 7.²²

²¹ LAWA Staff Reports, 12/18/06, Nos. 13, and 14, at 3, **and Stipulation, April 9, 2007, page 1.**

²² A portion of the changes in the T1/T3 terminal charges per square foot is based on changes in the airline areas square footage at each of these terminals. If computed using 2006 square footage figures, the cost per square foot for 2007 would be **\$195.09** and **\$126.08** for T1 and T3, respectively. (See **Revised Appendix L**).

REVISED FIGURE 7: COMPARISON OF T1/T3 COST PER SQUARE FOOT PRIOR METHODOLOGY VS NEW METHODOLOGY

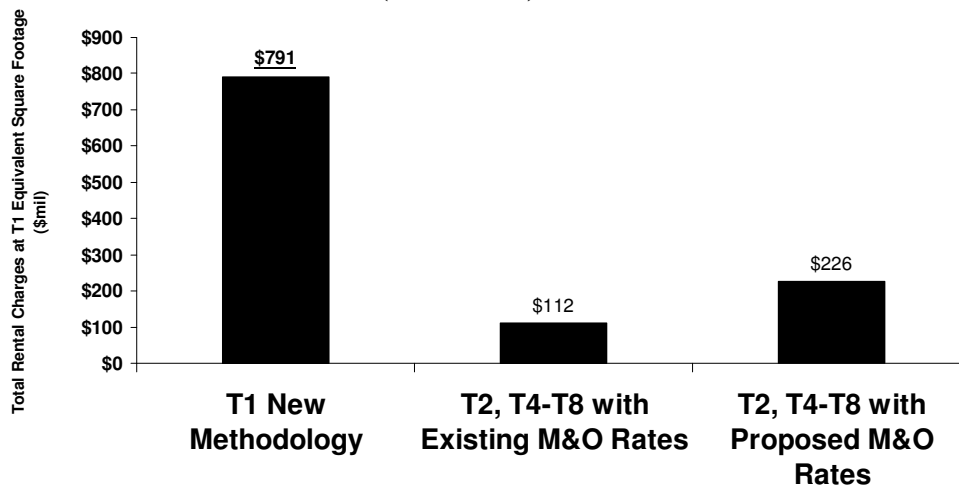


Source: Prior Methodology costs per LAWA Staff Report, 12/18/06, Nos. 13 and 14, page 3. Square footage per LAWA Staff Report, 12/18/06, No. 10. **New Methodology costs based on Stipulation, April 9, 2007, page 1.**

33. The new terminal charges imposed by LAWA will force T1/T3 airlines to pay charges that far exceed the charges paid by airlines at Terminals 2, 4, 5, 6, 7 and 8 and put T1/T3 carriers at a substantial financial and competitive disadvantage for a period of up to 20 years. As shown in Revised Figure 2 earlier, the terminal charges per square foot of space in T1/T3 will be up to **11.5** times higher than the terminal charges in those other terminals at LAX (assuming the T2/T4-8 airlines prevail in their suits to prevent LAWA from imposing the higher M&O increases).
34. Even if LAWA succeeds in imposing the higher proposed M&O charges on the T2/T4-8 airlines, the terminal charges paid by the T1/T3 airlines will still be approximately 2.5 to 5 times greater per square foot than the terminal charges paid by carriers serving Terminals 2 and 4-8 (see Revised Figure 2 above).

35. In 2007 alone, the new rates will result in T1 carriers paying between \$24 million and \$28 million more in terminal charges than T2/T4-8 carriers will pay for the equivalent terminal square footage. And because most carriers serving other terminals at LAX have signed leases that run for another 15-20 years, the higher cost burden borne by T1/T3 airlines is likely to persist for many years to come. Thus, over the next 15 years, I estimate that the new methodology will cause T1 airline tenants to pay between approximately \$560 million—\$680 million more than will be paid by carriers serving T2/T4-8 for the equivalent terminal square footage.

REVISED FIGURE 8: T1 EXCESS RENTAL CHARGES COMPARED TO T2/T4-8, (2007-2021)

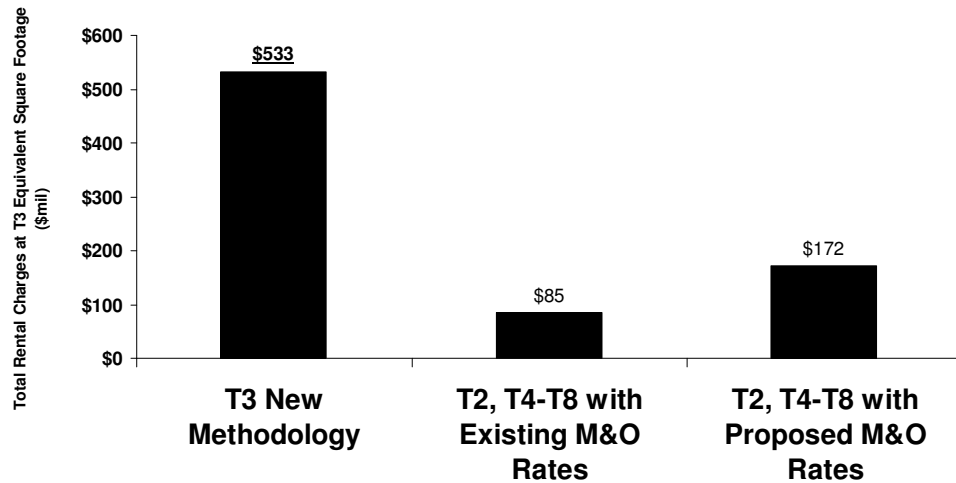


Source: See Revised Appendices D and E.

36. Likewise, T3 carriers will pay between approximately \$16 million and \$19 million (for equivalent square footage) compared to carriers serving T2/T4-8, and over the next 15 years, they will pay between approximately \$360 million and \$450 million more than T2/T4-8 carriers for the equivalent terminal square

footage. In short, the excess charges resulting from the new methodology will amount to hundreds of millions of dollars.

REVISED FIGURE 9: T3 EXCESS RENTAL CHARGES COMPARED TO T2/T4-8 (2007-2021)



Source: See Revised Appendices F and G.

37. In addition, terminal charges paid by T1/T3 airlines will also exceed by hundreds of millions of dollars the charges the carriers would have paid under the previous charging methodology, as shown in Revised Figures 3 and 4, above. When the additional years until the last long term leases expire are factored in, it is clear that the amount of excess charges created by LAWA's new terminal charging methodology will be even higher.

38. The added cost burden resulting from LAWA's discriminatory pricing policy will put the T1/T3 airlines at a substantial financial and competitive disadvantage vis-à-vis competing airlines that use other terminals at LAX.

39. The discriminatory terminal charges LAWA has imposed on the T1/T3 airlines can be expected to have substantial adverse economic and competitive effects on both those airlines and travelers using LAX. The new terminal charges will increase the average cost per enplaned passenger at T1 by \$4.19 and by \$5.45 at T3,²³ which amounts to 3%-5% of the average fare collected by T1/T3 carriers for flights to/from LAX in 2006. An increase of that magnitude is particularly significant for airlines whose average operating margin is typically less than 10% even in good years.
40. Faced with such a large increase in costs that their competitors are not required to pay, the T1/T3 airlines are likely to respond either by attempting to raise fares (and hoping that their competitors using other terminals at LAX do likewise) or by reducing service and terminal usage in order to lower their terminal costs at LAX.²⁴ In either case, the predominantly low cost/low fare carriers serving T1/T3 would be put at a significant competitive and financial disadvantage vis-à-vis carriers using other terminals at LAX, and consumers would face higher fares and/or reduced service. In short, the higher terminal charges imposed by LAWA on T1/T3 airlines are certain to have impacts that are both substantial and widespread.

²³ During the 12/18/06 hearing before the Board of Airport Commissioners, LAWA acknowledged that the cost per enplanement at T1 would increase by \$4.19 from \$5.70 to \$9.89. Likewise, it indicated that the at T3 would go from \$6.15 to \$11.60, an increase of \$5.45 **Although LAWA has not provided updated CPE figures incorporating the most recent revisions to its fees & charges for T1/T3, the relatively small size of the changes involved will not materially alter the CPE amount previously provided by LAWA.**

²⁴ See, for example, testimony of John Miller, Manager of Public Affairs, US Airways, Transcript of BOAC Meeting, Ex. B-5, at 33-34.

V. THE NEW TERMINAL CHARGES ARE NEITHER NECESSARY NOR JUSTIFIED

41. In addition to being unjustly discriminatory, the new terminal charges imposed on the T1/T3 airlines are not necessary for LAWA to be profitable or to maintain LAWA's financial strength and self-sufficiency. LAWA and LAX have been consistently profitable and have continued to record strong growth in net assets – a measure LAWA itself characterizes as “the key indicator of LAWA's strong financial position.”²⁵ For the fiscal year ending June 30, 2006, LAWA reported that it had “increased its total net assets by seven percent to \$2.6 billion, an increase of \$172.9 million over June 30, 2005.”²⁶ According to Alan Rothenberg, president of the Los Angeles Board of Airport Commissioners: “Los Angeles World Airports has posted another solid year of financial results [in 2006], with net assets continuing to grow...” and “despite relatively flat growth in passengers, our operating revenues increased, including virtually all categories of retail concessions.”²⁷ Consequently, financial exigency cannot be used to justify the imposition of these extremely discriminatory terminal charges on the T1/T3 airlines.

²⁵ According to LAWA, “net assets, the amount by which LAWA's total assets (which include its buildings, land equipment, cash investments and all receivables) exceed its total liabilities, serve as the key indicator of LAWA's strong financial position.” LAWA Press Release, January 3, 2007.

²⁶ Ibid.

²⁷ Ibid.

42. Moreover, LAWA has not provided—nor do I believe it can provide—a credible economic justification for the huge differential in terminal charges that it has imposed on airlines serving different LAX terminals.²⁸ Instead, it asserts that it is a “commercial landlord” and, as such, is free to impose hugely different charges on airline tenants in T1/T3 because they are no longer covered by long-term leases.

43. Further, LAWA has not justified the discriminatory terminal charges at T1/T3 as necessary to fund improvements at those terminals. Rather, LAWA has stated that it wants to increase terminal charges in order to facilitate borrowing in the future,²⁹ apparently disregarding the prohibition against charging airlines in advance for facilities not yet in use.³⁰

VI. LAWA’S METHODOLOGY IS INCONSISTENT WITH BOTH THE DEPARTMENT’S POLICY ON AIRPORT RATES AND CHARGES AND SOUND ECONOMIC REGULATORY POLICY

44. In addition to violating the prohibition against charging airlines in advance of the completion of such facilities, LAWA also based terminal charges at T3 on what it describes as the “fair rental value” of the terminal. However, the use of fair rental

²⁸ LAWA has indicated that the higher charges for T1/T3 are not based on any differences in bond obligations between T1/T3 and other terminals at LAX. If such differentials existed, they presumably were already reflected in the terminal charges per square foot that T1/T3 were paying under the previous charging methodology. In any event, the differences in terminal charges levied on the T1/T3 airlines are significantly greater than would be required to fund any bond obligations—net of applicable rent credits—incurred by carriers serving Terminals 2, 4-8.

²⁹ See Hubbell Declaration at Paragraphs 23-24; Berg Declaration at Paragraphs 25-26.

³⁰ Section 2.5.3, 61 CFR at 32020. “Except as otherwise provided below or as otherwise agreed by airfield users, the cost of facilities not yet built and operating may not be included in the rate base.”

value is inconsistent with both existing precedent and sound regulatory policy. The Department previously determined that historical costs is the appropriate basis for establishing airfield charges,³¹ and in doing so, acknowledged the need to protect airlines against the potential abuse of monopoly power that is inherent in the use of valuations based on “fair market value.” The Department’s decision to use the historical cost standard rather than “fair market value” also ratified the common understanding and virtually universal practice of U.S. airports for over 50 years.

45. Although the Department initially failed to recognize that the market power an airport derives from control over the airfield also extends to terminal facilities, the D.C. Circuit Court of Appeals recognized this “logical inconsistency” in the Department’s reasoning (i.e., in overlooking the fact that since airlines need access to terminal facilities in order to make effective use of the airfield, an airport’s monopoly power derived from its control of the airfield also extends to the terminals) and invalidated the Department’s initial determination not to require the use of historical costs for terminal as well as airfield charges.³²
46. In addition, LAWA’s application of the compensatory rate setting methodology is fundamentally inconsistent with sound economic and regulatory policy, as explained in the following paragraphs, in that it charges airlines for space that should have been paid for by the airport from non-airline revenues. “Under a

³¹ See, for example, *First Los Angeles International Airport Rate Proceeding*, Order 95-6-36 at 17. Also, *Second Los Angeles International Rates Proceeding*, Order 97-12-31 at 1.

³² *Air Transport Ass’n v. Department of Transportation*, 119 F. 3d 38 (D.C. Cir.) at 42-43.

compensatory system, an airline pays only the actual cost for the facilities and services it uses...[A]s an example, an airline paying a compensatory terminal rent would pay a per square foot rate for the space it actually leases in the terminal. *The cost for unleased areas, such as public circulation space or janitorial storage, would be paid for by the airport proprietor from non airline revenue (emphasis added).*”³³

47. In establishing a Rates and Charges policy to prevent airports from abusing their inherent monopoly power and to ensure that airport rates and charges are reasonable and not unjustly discriminatory, the Department faced a choice of either establishing a traditional public utility regulatory regime or a regime that—by setting ground rules sufficient to neutralize monopoly power—would enable airport users to protect themselves in direct bargaining with airports with minimal intervention by the Department. This latter approach is the one adopted by the Department in its Airports Rates and Charges Policy.

48. In this context, it is clear that the imposition of limits on the ability of compensatory airports unilaterally to charge airlines for public use space is fully consistent both with the approach the Department has adopted and with a sound regulatory policy to protect airport users from abuse of monopoly power by airports. It also recognizes that in authorizing the use of compensatory systems, Congress was aware of the potential for airports to abuse their monopoly power

³³ Rise J. Peters, *Northwest Airlines v. Count of Kent, Michigan: More Than You Ever Wanted to Know About Airport Rate Setting, Part One*, 22 Transp. L.J. 291, 1994.

under a compensatory rate setting system and therefore included provisions designed to limit that potential for abuse.

49. By requiring airlines in T1/T3 to pay terminal charges based on the number of “rentable” rather than “usable” square feet, however, LAWA is clearly forcing airlines to pay rent on, *inter alia*, public circulation spaces that, under a compensatory system, should be borne by LAWA from non-airline sources unless otherwise agreed by the parties. Likewise, LAWA’s requirement that airlines pay for public use space without permitting airlines to share in commercial revenues is inconsistent with established practices at other compensatory airports.

VII. CONCLUSION

50. The new terminal charges recently imposed by LAWA on the airline tenants at T1/T3 amount to unjust and unjustified discrimination against those carriers.
51. If the new terminal charges are permitted to stand, they will leave the T1/T3 airlines at a substantial competitive disadvantage for many years to come vis-à-vis competing carriers that use other terminals at LAX.
52. In addition to competitively and financially penalizing carriers that provide the bulk of the low fare service available at LAX, the new terminal charging methodology is likely to lead to higher fares and/or reduced service by low cost carriers at LAX and to deter entry by other carriers not now serving LAX. If

- allowed to stand, LAWA's action would disadvantage new entrant carriers not only at LAX but potentially at airports throughout the country. It would thus chill competition and lead to higher prices and reduced flight options for air travelers nationwide.
53. The discriminatory charges cannot be justified by financial exigency since LAWA has been consistently profitable and recently reported strong financial results for 2006.
54. Nor can LAWA justify such massive discrimination by claiming to be a typical commercial landlord. It is not. Rather, LAWA enjoys a monopoly at LAX, an airport that is essential for carriers seeking access to passenger and cargo traffic originating in, destined to, or transiting Los Angeles.
55. LAWA has failed to provide any credible economic justification for the huge differential in terminal charges it has imposed on the T1/T3 airlines compared to those levied on the airlines using T2/T4-8. In fact, LAWA appears to believe that there is no need for such a justification because the T1/T3 carriers no longer have the protection of long-term leases.
56. For the reasons given above, the charges and LAWA's new charging methodology are inconsistent in important respects with the Department's Rates & Charges Policy as well as with sound regulatory policy.

I declare that the above is true under penalty of perjury.

A handwritten signature in black ink, appearing to read "Daniel M. Kasper", written over a horizontal line.

Daniel M. Kasper

Executed on April 9, 2007

APPENDIX A: CURRICULUM VITAE OF DANIEL M. KASPER

DANIEL M. KASPER
LECG, LLC
350 Massachusetts Avenue
Suite 300
Cambridge, MA 02139

EDUCATION

BA, Political Science, UNIVERSITY OF KANSAS
Masters in Business Administration, UNIVERSITY OF CHICAGO
Juris Doctorate, UNIVERSITY OF CHICAGO

PRESENT POSITION

LECG November 1997-present
Managing Director, Cambridge, MA Office

At LECG, Mr. Kasper has focused his practice on the transportation industry. He has provided consulting services as well as expert economic analysis and testimony for a variety of clients in both the private and public sectors in the aviation, rail, trucking and maritime industries.

PREVIOUS EXPERIENCE

COOPERS & LYBRAND, Consulting 1993-1997
Partner and Chairman Transportation Industry Program

Mr. Kasper headed C&L's Transportation Industry Program where he directed a number of engagements involving domestic and international transportation clients in both the private and public sectors. He also appeared frequently as an expert witness before Federal courts, regulatory agencies, and the Congress of the United States.

UNITED STATES NATIONAL AIRLINE COMMISSION, 1993
Member

In 1993, Mr. Kasper was appointed and served as one of fifteen voting members of the US National Airline Commission, a body established by Congress to examine and make suggestions for strengthening the U.S. airline and aerospace industries. The Commission submitted its Report and recommendations to the President and Congress in September of 1993.

HARBRIDGE HOUSE, INC. 1983-1993
Vice President, Director and Head of the Transportation Practice

Mr. Kasper managed the firm's transportation practice and was responsible for a wide array of projects involving domestic and international transportation issues. He also served as an expert witness in numerous proceedings before Federal and state courts, regulatory agencies and legislative bodies.

UNITED STATES CIVIL AERONAUTICS BOARD, 1979-1983

Director of International Aviation

From January 1980 through September 1983, Mr. Kasper served as Director of International Aviation, the Board's primary advisor and chief line officer for all matters involving international aviation. During his tenure as Director, Mr. Kasper was instrumental in developing and implementing a pro-competitive U.S. international aviation policy.

Executive Assistant to Civil Aeronautics Board Member

From July through December of 1979, Mr. Kasper served as chief staff advisor to Board Member and Vice-Chairperson Elizabeth E. Bailey. In that capacity, he was responsible for reviewing all matters pending before the Board and advising Ms. Bailey on proper disposition of those matters. Matters dealt with by the Board during that period included a number of proposed airline mergers, the allocation of takeoff and landing slots, potential barriers to entry posed by control of gates at congested airport facilities, retail marketing of air transportation, pricing policy, and a request for antitrust immunity by the International Air Transport Association.

HARVARD UNIVERSITY, BUSINESS SCHOOL, 1976-1981

Faculty

At Harvard Business School, Mr. Kasper specialized in two principal areas: the impact of alternative forms of government regulation on the management and performance of business organizations and on the study of national economic policies and strategies. Mr. Kasper authored a number of case studies on various aspects of the transportation and telecommunication industries.

While at Harvard, Mr. Kasper was a member and active participant in the Harvard Regulatory Reform Project conducted under the auspices of the Kennedy School of Government. He also consulted with firms in the telecommunications and computer industries to help them anticipate and prepare for the impact of telecommunications deregulation on their businesses.

UNIVERSITY OF SOUTHERN CALIFORNIA, 1971-1976

Faculty

While at USC, Mr. Kasper developed, administered and taught courses dealing with the control of business activities by means of direct government regulation, the enforcement of private contracts, and through the use of tort law. His research focused on the regulation of transportation, telecommunications industries and workplace safety. He also served as a member of the Faculty Senate.

BOOKS

- 1) *Deregulation and Globalization: Liberalizing International Trade in Air Services*, Ballinger Publishers, Cambridge, MA, 1988.
- 2) *The US Regional Airline Industry to 1996: Markets, Competition, and the Demand for Aircraft*, The Economist Publications, London & New York, 1987.

PROFESSIONAL AFFILIATIONS

Member of the Illinois Bar

Member of the California Bar

Member, American Bar Association

December 2006

REVISED APPENDIX B(A)
Total Terminal Charges per Square Foot - 2007
Assuming New M&O Amounts Not Implemented at Terminals 2 and 4-8

	T1 ¹	T2 ²	T3 ³	T4 ²	T5 ²	T6 ⁴	T7 ²	T8 ²
Total M&O Expenses	\$23,858,245	\$2,997,794	\$15,547,129	\$4,047,292	\$4,355,860	\$4,745,038	\$6,225,509	\$1,642,822
Base Rent (Space and Footprint)	5,671,364	602,425	4,059,961	2,751,734	2,204,424	2,674,318	3,185,753	1,058,670
Terminal Special Expenses	2,267,600		2,352,912					
Airport Infrastructure Charges	723,869		327,214			30,883		
Total	\$32,521,078	\$3,600,219	\$22,287,216	\$6,799,026	\$6,560,284	\$7,450,239	\$9,411,262	\$2,701,492
Airline areas - sq. ft.	189,231	240,934	143,640	373,705	266,644	206,617	342,861	84,986
Cost per sq. ft.	\$171.86	\$14.94	\$155.16	\$18.19	\$24.60	\$36.06	\$27.45	\$31.79

Notes:

1. **Per Stipulation , April 9, 2007, page 1** and LAWA Staff Report, 12/18/06 No. 13, at 6 (airlines area square feet).
2. Per LAWA Staff Report, 12/18/06, No. 10, at Attachment 1. M&O Expenses equal the 2005 amounts adjusted by the average growth rates to estimate the amounts for 2007 (See Appendix B1). Base Rent equals the 2006 amounts adjusted by the average growth rates to estimate the amounts for 2007 (See Appendix B2).
3. **Per Stipulation , April 9, 2007, page 1** and LAWA Staff Report, 12/18/06 No. 14, at 6 (airlines area square feet).
4. Per LAWA Staff Report, 12/18/06, No. 10, at Attachment 2 (M&O and Base Rent). M&O Expenses equal the 2005 amounts adjusted by the average growth rates to estimate the amounts for 2007 (See Appendix B1). Base Rent equals the 2006 amounts adjusted by the average growth rates to estimate the amounts for 2007 (See Appendix B2). Per LAWA Staff Report, 12/18/06, No. 9 at Attachment 1 (airport infrastructure charges) and No. 15, at 5 (airlines area square feet).

REVISED APPENDIX B(B)
Total Terminal Charges per Square Foot - 2007
Assuming New M&O Amounts Are Implemented at Terminals 2 and 4-8

	T1 ¹	T2 ²	T3 ³	T4 ²	T5 ²	T6 ⁴	T7 ²	T8 ²
Total M&O Expenses	\$23,858,245	\$7,595,897	\$15,547,129	\$14,327,248	\$8,739,812	\$9,285,906	\$13,624,628	\$4,548,345
Base Rent (Space and Footprint)	5,671,364	602,425	4,059,961	2,751,734	2,204,424	2,674,318	3,185,753	1,058,670
Terminal Special Expenses	2,267,600		2,352,912					
Airport Infrastructure Charges	723,869		327,214			30,883		
Total	\$32,521,078	\$8,198,322	\$22,287,216	\$17,078,982	\$10,944,236	\$11,991,106	\$16,810,381	\$5,607,015
Airline areas - sq. ft.	189,231	240,934	143,640	373,705	266,644	206,617	342,861	84,986
Cost per sq. ft.	\$171.86	\$34.03	\$155.16	\$45.70	\$41.04	\$58.04	\$49.03	\$65.98

Notes:

1. **Per Stipulation , April 9, 2007, page 1** and LAWA Staff Report, 12/18/06 No. 13, at 6 (airlines area square feet).
2. Per LAWA Staff Report, 12/18/06, No. 10, at Attachment 1. M&O Expenses equal the 2006 amounts adjusted by the average growth rates to estimate the amounts for 2007 (See Appendix B1). Base Rent equals the 2006 amounts adjusted by the average growth rates to estimate the amounts for 2007 (See Appendix B2).
3. **Per Stipulation , April 9, 2007, page 1** and LAWA Staff Report, 12/18/06 No. 14, at 6 (airlines area square feet).
4. Per LAWA Staff Report, 12/18/06, No. 10, at Attachment 2 (M&O and Base Rent). M&O Expenses equal the 2006 amounts adjusted by the average growth rates to estimate the amounts for 2007 (See Appendix B1). Base Rent equals the 2006 amounts adjusted by the average growth rates to estimate the amounts for 2007 (See Appendix B2). Per LAWA Staff Report, 12/18/06, No. 9 at Attachment 1 (airport infrastructure charges) and No. 15, at 5 (airlines area square feet).

APPENDIX B1
Summary of Changes in the M&O Terminal Charges
Terminals 2 and 4-8

	<u>T2</u>	<u>T4</u>	<u>T5</u>	<u>T6</u>	<u>T7</u>	<u>T8</u>
M&O Rate per Sq. Ft. - 2002 ¹	9.6516	5.6675	12.1497	12.7638	9.8161	19.6589
Custodial Rate per Sq. Ft. - 2002 ¹	<u>13.8078</u>	<u>16.8867</u>	<u>18.1556</u>	<u>12.0790</u>	<u>15.5705</u>	<u>20.4000</u>
Combined Rate per Sq. Ft. - 2002	<u>23.4594</u>	<u>22.5542</u>	<u>30.3053</u>	<u>24.8428</u>	<u>25.3866</u>	<u>40.0589</u>
M&O Rate per Sq. Ft. - 2005 ²	10.5957	7.2467	14.6006	14.9175	12.3343	15.0083
Custodial Rate per Sq. Ft. - 2005 ²	<u>19.7199</u>	<u>23.3208</u>	<u>20.9006</u>	<u>24.3860</u>	<u>26.1277</u>	<u>43.8147</u>
Combined Rate per Sq. Ft. - 2005	<u>30.3156</u>	<u>30.5675</u>	<u>35.5012</u>	<u>39.3035</u>	<u>38.4620</u>	<u>58.8230</u>
CAGR %	<u>8.9%</u>	<u>10.7%</u>	<u>5.4%</u>	<u>16.5%</u>	<u>14.9%</u>	<u>13.7%</u>

Notes:

1. Per LAWA Staff Report, 7/18/05, No. 21, at Attachment 1.
2. Per LAWA Staff Report, 7/18/05, No. 21, at Attachment 1 and LAWA Staff Report, 11/20/06, No. 26, at Attachment 1.

APPENDIX B2
Summary of Estimated Base Rent
Terminals 2 and 4-8

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Annual Rent (Space and Land) ¹	\$10,230,796	\$14,237,581	\$14,257,067	\$15,106,038	\$16,553,465
Growth Rate (Year Over Year)		39.2%	0.1%	6.0%	9.6%

Note:

1. Per LAWA Resolution No. 22889.

APPENDIX C
Summary of Terminal Square Feet Allocated to Airlines
Terminals 1 and 3

	<u>T1</u>	<u>T3</u>
<i>Prior</i> ¹		
Airline Space	166,698	176,775
Terminal Space	320,990	291,122
Percentage Allocated to Airlines	<u>52%</u>	<u>61%</u>
 <i>New</i> ²		
Airline Rentable Space	283,568	231,280
Terminal Space	326,588	289,362
Percentage Allocated to Airlines	<u>87%</u>	<u>80%</u>

Notes:

1. Per LAWA Staff Report, 12/18/06, No. 10, at Attachment 1.
2. Per LAWA Staff Report, 12/18/06, Nos. 13 and 14, p. 6.

REVISED APPENDIX D
Summary of Estimated Total Excess Terminal Charges - Terminal 1
2007 - 2021

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Terminal 1 - New⁹																
Total M&O Expenses ¹	\$23,858,245	\$25,731,257	\$27,751,311	\$29,929,951	\$32,279,627	\$34,813,767	\$37,546,851	\$40,494,498	\$43,673,553	\$47,102,183	\$50,799,979	\$54,788,075	\$59,089,259	\$63,728,111	\$68,731,141	\$640,317,808
Base Rent (Space and Footprint) ²	5,671,364	5,841,505	6,016,750	6,197,253	6,383,170	6,574,665	6,771,905	6,975,062	7,184,314	7,399,844	7,621,839	7,850,494	8,086,009	8,328,589	8,578,447	105,481,211
Terminal Special Expenses	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	34,014,000
Airport Infrastructure Charges	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	10,858,035
Total	\$32,521,078	\$34,564,231	\$36,759,530	\$39,118,673	\$41,654,266	\$44,379,901	\$47,310,225	\$50,461,030	\$53,849,337	\$57,493,495	\$61,413,287	\$65,630,038	\$70,166,737	\$75,048,170	\$80,301,057	\$790,671,054
Terminal 1 - Prior																
Total M&O Expenses ³	\$5,181,110	\$5,587,857	\$6,026,536	\$6,499,655	\$7,009,916	\$7,560,235	\$8,153,758	\$8,793,875	\$9,484,246	\$10,228,815	\$11,031,836	\$11,897,900	\$12,831,955	\$13,839,338	\$14,925,807	\$139,052,838
All Other ²	3,218,890	3,315,457	3,414,921	3,517,369	3,622,890	3,731,576	3,843,524	3,958,829	4,077,594	4,199,922	4,325,920	4,455,697	4,589,368	4,727,049	4,868,861	59,867,867
Total ⁴	\$8,400,000	\$8,903,314	\$9,441,457	\$10,017,023	\$10,632,805	\$11,291,811	\$11,997,281	\$12,752,705	\$13,561,840	\$14,428,737	\$15,357,756	\$16,353,597	\$17,421,323	\$18,566,388	\$19,794,668	\$198,920,705
Terminals 2 and 4-8⁵																
Total M&O Expenses ⁶	\$2,998,029	\$3,233,391	\$3,487,231	\$3,761,000	\$4,056,260	\$4,374,700	\$4,718,140	\$5,088,541	\$5,488,021	\$5,918,863	\$6,383,529	\$6,884,673	\$7,425,160	\$8,008,079	\$8,636,760	\$80,462,376
Base Rent (Space and Footprint) ^{2,7}	1,557,711	1,650,469	1,808,613	1,862,872	1,918,758	1,976,321	2,035,610	2,096,679	2,159,579	2,224,366	2,291,097	2,359,830	2,430,625	2,503,544	2,578,650	31,454,724
Airport Infrastructure Charges ⁸	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	57,833
Total	\$4,559,596	\$4,887,716	\$5,299,700	\$5,627,727	\$5,978,873	\$6,354,876	\$6,757,605	\$7,189,075	\$7,651,456	\$8,147,085	\$8,678,481	\$9,248,359	\$9,859,641	\$10,515,478	\$11,219,265	\$111,974,933

Notes:

1. Assumed growth rate of 7.9% (CAGR of LAX operating costs from 2000-2006). See Appendix H.
2. Base Rent and "All Other" costs assumed to increase based on 3% long term inflation rate (Ibbotson Associates' *SBBi 2006 Yearbook*, at Table B-10).
3. See Appendix I. Assumed growth rate of 7.9% (CAGR of LAX operating costs from 2000-2006). See Appendix H.
4. The 2007 amount per LAWA Staff Report, 12/18/06, No. 13, at 3.
5. Based on "airline areas" of 189,231 square feet (LAWA Staff Report, 12/18/06, No. 13, at 6).
6. Assumed growth rate of 7.9% (CAGR of LAX operating costs from 2000-2006). See Appendix H.
Based on an average M&O Expense of \$15.84 per square foot. See Appendix J.
7. Based on an average Base Rent of \$8.23 per square foot (See Appendix J) and estimated increases through 2009 (See Appendix B2).
8. Based on an average Airport Infrastructure Charge of \$0.02 per square foot. See Appendix J.
9. **2007 Terminal 1 New Expenses Per Stipulation , April 9, 2007, page 1.**

REVISED APPENDIX E
Summary of Estimated Total Excess Terminal Charges - Terminal 1
Assuming New M&O Amounts Are Implemented at Terminals 2 and 4-8
2007 - 2021

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Terminal 1 - New⁹																
Total M&O Expenses ¹	\$23,858,245	\$25,731,257	\$27,751,311	\$29,929,951	\$32,279,627	\$34,813,767	\$37,546,851	\$40,494,498	\$43,673,553	\$47,102,183	\$50,799,979	\$54,788,075	\$59,089,259	\$63,728,111	\$68,731,141	\$640,317,808
Base Rent (Space and Footprint) ²	\$5,671,364	5,841,505	6,016,750	6,197,253	6,383,170	6,574,665	6,771,905	6,975,062	7,184,314	7,399,844	7,621,839	7,850,494	8,086,009	8,328,589	8,578,447	105,481,211
Terminal Special Expenses	\$2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	2,267,600	34,014,000
Airport Infrastructure Charges	\$723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	723,869	10,858,035
Total	\$32,521,078	\$34,564,231	\$36,759,530	\$39,118,673	\$41,654,266	\$44,379,901	\$47,310,225	\$50,461,030	\$53,849,337	\$57,493,495	\$61,413,287	\$65,630,038	\$70,166,737	\$75,048,170	\$80,301,057	\$790,671,054
Terminal 1 - Prior																
Total M&O Expenses ³	\$5,181,110	\$5,587,857	\$6,026,536	\$6,499,655	\$7,009,916	\$7,560,235	\$8,153,758	\$8,793,875	\$9,484,246	\$10,228,815	\$11,031,836	\$11,897,900	\$12,831,955	\$13,839,338	\$14,925,807	\$139,052,838
All Other ²	3,218,890	3,315,457	3,414,921	3,517,369	3,622,890	3,731,576	3,843,524	3,958,829	4,077,594	4,199,922	4,325,920	4,455,697	4,589,368	4,727,049	4,868,861	59,867,867
Total ⁴	\$8,400,000	\$8,903,314	\$9,441,457	\$10,017,023	\$10,632,805	\$11,291,811	\$11,997,281	\$12,752,705	\$13,561,840	\$14,428,737	\$15,357,756	\$16,353,597	\$17,421,323	\$18,566,388	\$19,794,668	\$198,920,705
Terminals 2 and 4-8⁵																
Total M&O Expenses ⁶	\$7,256,127	\$7,825,776	\$8,440,145	\$9,102,746	\$9,817,364	\$10,588,085	\$11,419,311	\$12,315,794	\$13,282,656	\$14,325,422	\$15,450,052	\$16,662,971	\$17,971,112	\$19,381,949	\$20,903,545	\$194,743,054
Base Rent (Space and Footprint) ^{2,7}	1,557,711	1,650,469	1,808,613	1,862,872	1,918,758	1,976,321	2,035,610	2,096,679	2,159,579	2,224,366	2,291,097	2,359,830	2,430,625	2,503,544	2,578,650	31,454,724
Airport Infrastructure Charges ⁸	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	3,856	57,833
Total	\$8,817,694	\$9,480,100	\$10,252,614	\$10,969,473	\$11,739,978	\$12,568,261	\$13,458,777	\$14,416,328	\$15,446,090	\$16,553,644	\$17,745,004	\$19,026,657	\$20,405,592	\$21,889,348	\$23,486,051	\$226,255,611

Notes:

1. Assumed growth rate of 7.9% (CAGR of LAX operating costs from 2000-2006). See Appendix H.
2. Base Rent and "All Other" costs assumed to increase based on 3% long term inflation rate (Ibbotson Associates' *SBBI 2006 Yearbook*, at Table B-10).
3. See Appendix I. Assumed growth rate of 7.9% (CAGR of LAX operating costs from 2000-2006). See Appendix H.
4. The 2007 amount per LAWA Staff Report, 12/18/06, No. 13, at 3.
5. Based on "airline areas" of 189,231 square feet (LAWA Staff Report, 12/18/06, No. 13, at 6).
6. Assumed growth rate of 7.9% (CAGR of LAX operating costs from 2000-2006). See Appendix H. Based on an average M&O Expense of \$38.35 per square foot. See Appendix K.
7. Based on an average Base Rent of \$8.23 per square foot (See Appendix K) and estimated increases through 2009 (See Appendix B2).
8. Based on an average Airport Infrastructure Charge of \$0.02 per square foot. See Appendix K.
9. **2007 Terminal 1 New Expenses Per Stipulation , April 9, 2007, page 1.**

REVISED APPENDIX F
Summary of Estimated Total Excess Terminal Charges - Terminal 3
2007 - 2021

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Terminal 3 - New⁹																
Total M&O Expenses ¹	\$15,547,129	\$16,767,670	\$18,084,030	\$19,503,732	\$21,034,889	\$22,686,250	\$24,467,254	\$26,388,076	\$28,459,695	\$30,693,947	\$33,103,601	\$35,702,428	\$38,505,277	\$41,528,166	\$44,788,370	\$417,260,514
Base Rent (Space and Footprint) ²	4,059,961	4,181,760	4,307,213	4,436,429	4,569,522	4,706,608	4,847,806	4,993,240	5,143,037	5,297,328	5,456,248	5,619,936	5,788,534	5,962,190	6,141,055	75,510,865
Terminal Special Expenses	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	35,293,680
Airport Infrastructure Charges	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	4,908,210
Total	\$22,287,216	\$23,629,555	\$25,071,368	\$26,620,287	\$28,284,537	\$30,072,984	\$31,995,186	\$34,061,442	\$36,282,858	\$38,671,401	\$41,239,975	\$44,002,489	\$46,973,937	\$50,170,482	\$53,609,552	\$532,973,269
Terminal 3 - Prior																
Total M&O Expenses ³	\$4,896,459	\$5,280,859	\$5,695,438	\$6,142,563	\$6,624,790	\$7,144,875	\$7,705,789	\$8,310,738	\$8,963,180	\$9,666,842	\$10,425,746	\$11,244,228	\$12,126,965	\$13,079,003	\$14,105,781	\$131,413,255
All Other ²	6,903,541	7,110,648	7,323,967	7,543,686	7,769,997	8,003,097	8,243,189	8,490,485	8,745,200	9,007,556	9,277,782	9,556,116	9,842,799	10,138,083	10,442,226	128,398,372
Total ⁴	\$11,800,000	\$12,391,507	\$13,019,405	\$13,686,249	\$14,394,786	\$15,147,971	\$15,948,978	\$16,801,224	\$17,708,380	\$18,674,398	\$19,703,528	\$20,800,344	\$21,969,765	\$23,217,086	\$24,548,007	\$259,811,627
Terminals 2 and 4-8⁵																
Total M&O Expenses ⁶	\$2,275,720	\$2,454,378	\$2,647,061	\$2,854,870	\$3,078,994	\$3,320,713	\$3,581,409	\$3,862,570	\$4,165,805	\$4,492,845	\$4,845,559	\$5,225,964	\$5,636,233	\$6,078,710	\$6,555,924	\$61,076,757
Base Rent (Space and Footprint) ^{2,7}	1,182,415	1,252,825	1,372,868	1,414,054	1,456,476	1,500,170	1,545,175	1,591,530	1,639,276	1,688,455	1,739,108	1,791,282	1,845,020	1,900,371	1,957,382	23,876,408
Airport Infrastructure Charges ⁸	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	43,899
Total	\$3,461,062	\$3,710,129	\$4,022,855	\$4,271,851	\$4,538,397	\$4,823,810	\$5,129,511	\$5,457,028	\$5,808,008	\$6,184,226	\$6,587,594	\$7,020,172	\$7,484,180	\$7,982,007	\$8,516,233	\$84,997,064

Notes:

1. Assumed growth rate of 7.9% (CAGR of LAX operating costs from 2000-2006). See Appendix H.
2. Base Rent and "All Other" costs assumed to increase based on 3% long term inflation rate (Ibbotson Associates' *SBBi 2006 Yearbook*, at Table B-10).
3. See Appendix I. Assumed growth rate of 7.9% (CAGR of LAX operating costs from 2000-2006). See Appendix H.
4. The 2007 amount per LAWA Staff Report, 12/18/06, No. 14, at 3.
5. Based on "airline areas" of 143,640 square feet (LAWA Staff Report, 12/18/06, No. 14, at 6).
6. Assumed growth rate of 7.9% (CAGR of LAX operating costs from 2000-2006). See Appendix H. Based on an average M&O Expense of \$15.84 per square foot. See Appendix J.
7. Based on an average Base Rent of \$8.23 per square foot (See Appendix J) and estimated increases through 2009 (See Appendix B2).
8. Based on an average Airport Infrastructure Charge of \$0.02 per square foot. See Appendix J.
9. **2007 Terminal 3 New Expenses Per Stipulation, April 9, 2007, page 1.**

REVISED APPENDIX G

Summary of Estimated Total Excess Terminal Charges - Terminal 3 Assuming New M&O Amounts Are Implemented at Terminals 2 and 4-8 2007 - 2021

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Terminal 3 - New ⁹																
Total M&O Expenses ¹	\$15,547,129	\$16,767,670	\$18,084,030	\$19,503,732	\$21,034,889	\$22,686,250	\$24,467,254	\$26,388,076	\$28,459,695	\$30,693,947	\$33,103,601	\$35,702,428	\$38,505,277	\$41,528,166	\$44,788,370	\$417,260,514
Base Rent (Space and Footprint) ²	\$4,059,961	4,181,760	4,307,213	4,436,429	4,569,522	4,706,608	4,847,806	4,993,240	5,143,037	5,297,328	5,456,248	5,619,936	5,788,534	5,962,190	6,141,055	75,510,865
Terminal Special Expenses	\$2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	2,352,912	35,293,680
Airport Infrastructure Charges	\$327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	327,214	4,908,210
Total	\$22,287,216	\$23,629,555	\$25,071,368	\$26,620,287	\$28,284,537	\$30,072,984	\$31,995,186	\$34,061,442	\$36,282,858	\$38,671,401	\$41,239,975	\$44,002,489	\$46,973,937	\$50,170,482	\$53,609,552	\$532,973,269
Terminal 3 - Prior																
Total M&O Expenses ³	\$4,896,459	\$5,280,859	\$5,695,438	\$6,142,563	\$6,624,790	\$7,144,875	\$7,705,789	\$8,310,738	\$8,963,180	\$9,666,842	\$10,425,746	\$11,244,228	\$12,126,965	\$13,079,003	\$14,105,781	\$131,413,255
All Other ²	6,903,541	7,110,648	7,323,967	7,543,686	7,769,997	8,003,097	8,243,189	8,490,485	8,745,200	9,007,556	9,277,782	9,556,116	9,842,799	10,138,083	10,442,226	128,398,372
Total ⁴	\$11,800,000	\$12,391,507	\$13,019,405	\$13,686,249	\$14,394,786	\$15,147,971	\$15,948,978	\$16,801,224	\$17,708,380	\$18,674,398	\$19,703,528	\$20,800,344	\$21,969,765	\$23,217,086	\$24,548,007	\$259,811,627
Terminals 2 and 4-8 ⁵																
Total M&O Expenses ⁶	\$5,507,925	\$5,940,329	\$6,406,680	\$6,909,642	\$7,452,089	\$8,037,121	\$8,668,082	\$9,348,577	\$10,082,495	\$10,874,030	\$11,727,705	\$12,648,399	\$13,641,372	\$14,712,299	\$15,867,301	\$147,824,047
Base Rent (Space and Footprint) ^{2,7}	1,182,415	1,252,825	1,372,868	1,414,054	1,456,476	1,500,170	1,545,175	1,591,530	1,639,276	1,688,455	1,739,108	1,791,282	1,845,020	1,900,371	1,957,382	23,876,408
Airport Infrastructure Charges ⁸	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	2,927	43,899
Total	\$6,693,267	\$7,196,081	\$7,782,474	\$8,326,622	\$8,911,491	\$9,540,218	\$10,216,184	\$10,943,035	\$11,724,698	\$12,565,412	\$13,469,740	\$14,442,607	\$15,489,319	\$16,615,597	\$17,827,609	\$171,744,355

Notes:

1. Assumed growth rate of 7.9% (CAGR of LAX operating costs from 2000-2006). See Appendix H.
2. Base Rent and "All Other" costs assumed to increase based on 3% long term inflation rate (Ibbotson Associates' *SBBi 2006 Yearbook*, at Table B-10).
3. See Appendix I. Assumed growth rate of 7.9% (CAGR of LAX operating costs from 2000-2006). See Appendix H.
4. The 2007 amount per LAWA Staff Report, 12/18/06, No. 14, at 3.
5. Based on "airline areas" of 143,640 square feet (LAWA Staff Report, 12/18/06, No. 14, at 6).
6. Assumed growth rate of 7.9% (CAGR of LAX operating costs from 2000-2006). See Appendix H. Based on an average M&O Expense of \$38.35 per square foot. See Appendix K.
7. Based on an average Base Rent of \$8.23 per square foot (See Appendix K) and estimated increases through 2009 (See Appendix B2).
8. Based on an average Airport Infrastructure Charge of \$0.02 per square foot. See Appendix K.
9. **2007 Terminal 3 New Expenses Per Stipulation , April 9, 2007, page 1.**

APPENDIX H
Summary of LAX Operating Expenses
(in \$ 000's)

	<u>2000</u> ¹	<u>2001</u> ²	<u>2002</u> ³	<u>2003</u> ⁴	<u>2004</u> ⁵	<u>2005</u> ⁶	<u>2006</u> ⁷
Total Operating Expenses Before Depreciation and Amortization	\$286,783	\$352,962	\$339,820	\$346,498	\$378,234	\$407,953	\$451,324
Growth Rate (Year Over Year)		23.1%	-3.7%	2.0%	9.2%	7.9%	10.6%
CAGR %	<u><u>7.9%</u></u>						

Notes:

1. Per LAWA Annual Financial Report for 2000, p. 47.
2. Per LAWA Annual Financial Report for 2001, p. 51.
3. Per LAWA Annual Financial Report for 2002, p. 31.
4. Per LAWA Annual Financial Report for 2003, p. 41.
5. Per LAWA Annual Financial Report for 2004, p. 74.
6. Per LAWA Annual Financial Report for 2005, p. 47.
7. Per LAWA Annual Financial Report for 2006, p. 50.

APPENDIX I
Summary of Estimated Increased M&O Charges - 2007
Terminals 1 and 3

	<u>T1</u>	<u>T3</u>	<u>Total</u>
<i>New</i>			
M&O Charges - 2007 ¹	\$23,858,244	\$15,547,129	\$39,405,373
 <i>Prior</i>			
Estimated M&O Charges - 2007 ²	5,181,110	4,896,459	10,077,568
 Increased M&O With New Methodology - 2007	<u>\$18,677,134</u>	<u>\$10,650,670</u>	<u>\$29,327,805</u>

Notes:

1. Per LAWA Staff Report, 12/18/06, No. 9, at Attachment 1.
2. Per LAWA Staff Report, 7/18/05, No. 21, at Attachment 2. The 2005 amounts were \$4,400,765 and \$4,896,459 for Terminals 1 and 3, respectively. The 2007 amounts are estimated based on the 2005 amounts and the average growth rates from 2002 to 2005 (See Appendix I1). The 2007 T3 amount is equal to the 2005 amount as the "growth" rate from 2002 to 2005 was negative.

APPENDIX II
Summary of Changes in the M&O Charges Rate
Terminals 1 and 3

	T1	T3
M&O Rate per Sq. Ft. - 2002 ¹	15.4784	20.5852
Custodial Rate per Sq. Ft. - 2002 ¹	13.7592	17.8917
Combined Rate per Sq. Ft. - 2002	29.2376	38.4769
M&O Rate per Sq. Ft. - 2005 ²	19.3949	17.5526
Custodial Rate per Sq. Ft. - 2005 ²	17.9545	15.0855
Combined Rate per Sq. Ft. - 2005	37.3494	32.6381
CAGR %	8.5%	-5.3%

Notes:

1. Per LAWA Staff Report, 7/18/05, No. 21, at Attachment 1.
2. Per LAWA Staff Report, 7/18/05, No. 21, at Attachment 1 and LAWA Staff Report, 11/20/06, No. 26, at Attachment 1.

APPENDIX J
Average Terminal Charges per Square Foot - 2007
Assuming New M&O Amounts Not Implemented at Terminals 2 and 4-8

	T2 ¹	T4 ¹	T5 ¹	T6 ¹	T7 ¹	T8 ¹	Total
Total M&O Expenses	\$2,997,794	\$4,047,292	\$4,355,860	\$4,745,038	\$6,225,509	\$1,642,822	\$24,014,315
Base Rent (Space and Footprint)	\$602,425	\$2,751,734	\$2,204,424	\$2,674,318	\$3,185,753	\$1,058,670	12,477,323
Airport Infrastructure Charges				30,883			30,883
Total	\$3,600,219	\$6,799,026	\$6,560,284	\$7,450,239	\$9,411,262	\$2,701,492	\$36,522,521
Airline areas - sq. ft.	240,934	373,705	266,644	206,617	342,861	84,986	1,515,747
M&O cost per sq. ft.							\$15.84
Base rent cost per sq. ft.							\$8.23
Airport Infrastructure cost per sq. ft.							\$0.02
Cost per sq. ft.							<u>\$24.10</u>

Notes:

1. Per LAWA Staff Report, 12/18/06, No. 10, at Attachment 2; No. 9, at Attachment 1; and No. 15, at 5. M&O Expenses equal the 2005 amounts adjusted by the average growth rates to estimate the amounts for 2007 (See Appendix B1). Base Rent equals the 2006 amounts adjusted by the average growth rates to estimate the amounts for 2007 (See Appendix B2).

APPENDIX K
Total Terminal Charges per Square Foot - 2007
Assuming New M&O Amounts Are Implemented at Terminals 2 and 4-8

	T2 ¹	T4 ¹	T5 ¹	T6 ¹	T7 ¹	T8 ¹	Total
Total M&O Expenses	\$7,595,897	\$14,327,248	\$8,739,812	\$9,285,906	\$13,624,628	\$4,548,345	\$58,121,836
Base Rent (Space and Footprint)	\$602,425	\$2,751,734	\$2,204,424	\$2,674,318	\$3,185,753	\$1,058,670	12,477,323
Airport Infrastructure Charges				30,883			30,883
Total	\$8,198,322	\$17,078,982	\$10,944,236	\$11,991,106	\$16,810,381	\$5,607,015	\$70,630,042
Airline areas - sq. ft.	240,934	373,705	266,644	206,617	342,861	84,986	1,515,747
M&O cost per sq. ft.							\$38.35
Base rent cost per sq. ft.							\$8.23
Airport Infrastructure cost per sq. ft.							\$0.02
Cost per sq. ft.							<u>\$46.60</u>

Notes:

1. Per LAWA Staff Report, 12/18/06, No. 10, at Attachment 2; No. 9, at Attachment 1; and No. 15, at 5. M&O Expenses equal the 2006 amounts adjusted by the average growth rates to estimate the amounts for 2007 (See Appendix B1). Base Rent equals the 2006 amounts adjusted by the average growth rates to estimate the amounts for 2007 (See Appendix B2).

REVISED APPENDIX L
Comparison of Prior and New Costs Per Square Foot
Terminals 1 and 3

	T1		T3	
	Prior ¹	New ²	Prior ³	New ⁴
Total Terminal Charges	\$8,437,475	\$32,521,078	\$11,810,282	\$22,287,216
Airline Areas Square Feet	166,698	166,698	176,775	176,775
Cost Per Square Foot	<u>\$50.62</u>	<u>\$195.09</u>	<u>\$66.81</u>	<u>\$126.08</u>

Notes:

1. 2006 amounts per LAWA Staff Report, 12/18/06, Nos. 13, at 3 (costs) and 10, at Attachment 1 (square feet).
- 2. Per Stipulation, April 9, 2007, page 1 (costs).** Square feet assumed the same as in 2006. To the extent square feet are based on 2007 estimates (189,231 square feet per LAWA Staff Report, 12/18/06, No. 13, at 6), cost per square foot would be **\$171.86**.
3. 2006 amounts per LAWA Staff Report, 12/18/06, Nos. 14, at 3 (costs) and 10, at Attachment 1 (square feet).
- 4. Per Stipulation, April 9, 2007, page 1 (costs).** Square feet assumed the same as in 2006. To the extent square feet are based on 2007 estimates (143,640 square feet per LAWA Staff Report, 12/18/06, No. 14, at 6), cost per square foot would be **\$155.16**.