

February 28, 2005

Ms. Catherine M. Lang
Deputy Director of Airport Planning and Programming
Federal Aviation Administration
800 Independence Avenue, S.W.
Washington, D.C. 20591

Dear Ms. Lang:

This letter is being sent to satisfy the requirement of the Wendall H. Ford Aviation Investment and Reform Act for the 21st Century (“AIR-21”) that the City of Dallas update its Competition Plan for Dallas Love Field (the “Airport”).

On August 28, 2003, DOT/FAA approved the first update to the Dallas Love Field Competition Plan. Included with the approval the FAA made certain suggestions and requests for additional actions to be taken by Dallas, which are addressed in this letter. In addition, we have received DOT/FAA’s letter of November 19, 2004 and PGL 04-08, and this letter provides the information requested in those documents as well.

The member of DAL’s staff designated as the airport’s liaison for competitive access is Terry Mitchell, Assistant Director of Aviation. Mr. Mitchell can be reached at 214/670-6086.

Changes in Air Service to Love Field

Air service to Love Field continues to be depressed since 9/11. The Airport is served by two carriers, Southwest and Express Jet (Continental Express). Southwest offers flights to 17 destinations, and has eliminated a small number of departures since our last Update in June 2003. Express Jet has nine daily flights to Continental’s hub in Houston, and we have been advised that four more daily flights may be added in April. Passenger traffic at Love Field has not yet rebounded to pre-9/11 levels; in 2000 and 2001 there were more than 3.5 million annual enplanements, whereas FAA’s draft 2004 Terminal Area Forecast estimates a total of 2.9 million enplanements in 2004. According to the draft TAF, FAA does not predict that Love Field will regain pre-9/11 passenger levels until 2019.

Given the current and projected passenger levels, Dallas Love Field continues to have adequate gates available for all carriers serving and seeking to serve the Airport. The City makes and will continue to make all reasonable efforts to accommodate carriers seeking to provide service at Love Field.

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Issues raised by DOT/FAA in the August 28, 2004 Approval Letter

In its initial Competition Plan and its first Update, the City stated that it intended to take a number of actions regarding gates and access to the Airport. Some of those steps have been completed; others have been deferred due to the City's finding that the financial problems affecting the industry, the failure of passenger numbers to rebound as expected, and other factors have made those steps inadvisable or imprudent. In addition, DOT/FAA requested that the City consider a number of steps, and that the City provide its justification for choosing not to pursue any DOT/FAA recommended action.

The specific actions the City intended to take were: (1) capping overhead and profit surcharges on subleases; (2) converting two Continental Express gates to common use at the time of lease expiration and moving toward broader common-use arrangements at the City's earliest convenience; (3) proactively ensuring fair administration of the gate-sharing provisions of existing leases; and (4) providing information on gates and gate availability on Love Field's website by posting the Airport Master Plan.

In addition, DOT/FAA requested that the City: (1) report on conversion of the Continental Express gates and any other changes in gate leasing arrangements; (2) negotiate "use it or lose it" provisions applicable to American's three unused gates at Love Field; (3) confirm that there has been no demand warranting termination of the American leases; (4) negotiate termination of American's option to extend its gate leases until 2021, unless American resumes service to Love Field; (5) prepare for the introduction of a notification system advising all air carriers of gate availability; and (6) post a more transparent link to the Competition Plan and DOT/FAA responses on the Airport website.

As is apparent, some of these topics overlap. This Update will address the status of each of the issues in the following order: (1) the Continental Express gates and common use gates generally, and any other changes in gate lease arrangements (City item 2; DOT/FAA item 1); (2) discussion of the American gates (DOT/FAA items 2, 3 and 4); (3) status of the City's approach to subleases (City item 1); (4) status of the City's administration of gate-sharing provisions (City item 3); (5) status of changes to information and notification systems (City item 4; DOT/FAA items 5 and 6).

1. Continental Express gates and position on common-use gates generally: As discussed in our earlier filings, Continental Express leases two gates at Love Field. At the time of our previous filing the City intended to convert Continental Express' preferential use gates to common use gates upon lease expiration in June 2004.

In actuality, June 2004 did not find the City in a good position to take that step. Given the lack of demand for gate use at the Airport, moving from preferential use to common use of those gates would result in a drop in revenue to the Airport (since Continental Express would then pay for its use on a "per turn" basis and no other carriers were standing ready to use those facilities.) In addition, the City would face higher operating and maintenance costs due to taking over responsibility for maintenance when those gates became City-controlled facilities. As a result, the City is leasing those gates to Continental Express on its standard preferential-use basis, with required gate-sharing provisions, rather than incur this financial loss. As for future efforts to move to a common-use gate regime at the Airport, when gate leases come up for renewal, the City will continue to analyze the likely financial impacts given the demand for gate access at the Airport. If this analysis reveals that the City can move to common use gates without suffering financially, it intends to do so.

There have been no other changes in gate lease arrangements at the airport.

2. American Airlines gates: American Airlines leases three gates at the Main Terminal. Those gates are currently unused. DOT/FAA requested that the City negotiate "use or lose" provisions with American; that the City pursue termination of American's lease if there were demand for gates at the Airport warranting such action; and that the City pursue termination of American's option to extend its lease on those gates unless the airline resumes service at Love Field.

In 2003, American had approached the City about giving those gates back to the City and terminating American's lease. The City declined to take the gates back or to allow American to terminate its lease without financial compensation. The City's analysis indicated that the result would be a loss of lease revenue to the Airport of approximately \$335,000 per year. No other air carriers have displayed an interest in leasing those gates and making up that revenue shortfall.

The City has not negotiated additional changes in American's lease, which does not expire until 2011. There has not been demand for gates warranting seeking termination of American's lease.

3. Subleases: As discussed in our previous Update, the City's current policy is that carriers subleasing gates may not profit on those subleases and may collect only 15% above their own rental costs to reimburse them for administrative costs. No subleases have been submitted for approval since June 2003.

4. City administration of gate-sharing provisions: The City is committed to fair and proactive administration of the gate-sharing provisions in all its gate leases. During the period since June 2003, the City has received one preliminary inquiry. Casino Airlines, (d/b/a City Airlines) contacted the City regarding a possible operation using small aircraft (19 seat Beechcraft) at Love Field. City Airlines initially requested use of a former ground-loading gate that had been at one time leased to ASA. As reactivation of that former gate was not

