

The Rationale of the Block Hour Ratio

When Delta management first approached the MEC to discuss their proposed business plan and our potential role in that plan, among the first considerations was how to hold them to that business plan if we were to participate. For a decade, Delta pilots have been faced with stagnation or contraction in their flying, and they are rightly skeptical of *promises* of new flying. If management's plan was to shrink DCI and transfer flying to mainline, then the MEC needed assurances that Delta management would execute on that plan before we would assist in that plan.

In the past, various mechanisms have been tried to control the size of mainline flying and to ensure pilot jobs. We have had block hour floors and other mechanisms that, in the end, all failed to provide any real protections. An airline, or any business for that matter, cannot be artificially forced into a larger operation than necessary and still achieve long-term sustainable profits. Growth or contraction is dictated, in large part, by economic circumstances. Previous mechanisms negotiated to provide downside protections for the Delta pilots all had some type of economic buffer or resets based on the economy, which rendered those protections largely meaningless.

In *this* tentative agreement (TA), we created a metric that tracks Delta's business plan within a tight tolerance. In order to deal with an unforeseen economic downturn and the Company's need to react to the market environment, we created a ratio mechanism rather than use one of the limit-type mechanisms that have not been effective in the past. If this TA is ratified, then as Delta shifts flying from DCI to mainline, this shift will be captured by mainline in a *permanent and significant way*. In order to do that, we created the block hour ratio metric as the mechanism to capture that change. Since Delta can expand or contract flying with a ratio, we were able to tighten the tolerance more closely to the business plan and thus provide meaningful protections for our pilots.

We used block hours as the basis for the ratio because the core input to our staffing formula is Delta pilot block hours. More Delta pilot block hours equates to more Delta pilot jobs, so we concentrated on that metric as the basis for our protection.

Delta's exact fleet plan is confidential, but public sources provide us with this information.

The table below is based on the April 1, 2012 Fleet Information Booklet on DeltaNet, except for the B717, which is sourced from Delta's press releases:

Aircraft	Current Count	Fleet Plan	Change	Notes
DC-9	21	0	-21	Will stay in service into 2013
MD-90	35	65	+30	JAL aircraft complete this fleet
B-717	0	88	+88	Contingent upon ratification of the TA
737-900	0	100	+100	Replacements for aging 757-200/A320
50 Seat RJ	348	125	-223	Required upon delivery of additional 76 seat RJs
70 Seat RJ	102	102	0	
76 Seat RJ	153	223	+70	Available only upon acquisition of 88 B-717's

Using the above fleet plan, we calculated a series of projected block hour plans using historical usage rates, the mainline fleet additions and DCI reductions that will take place under the TA. Additionally, we determined recalculated ratios based on different growth percentages to determine what tolerance should be used in our contract. The agreed upon ratios in the TA positively add meaningful protections for the Delta pilots *regardless of the degree to which Delta fully executes its business plan*. The table below shows the expected fleet makeup on December 31, 2015 based on Delta's fleet plan going forward, both *with* and *without* a ratified TA. From the April 1, 2012 Fleet Booklet, the current size of the fleet consists of 714 mainline and 603 DCI aircraft. For the DCI fleet *without* a ratified TA, we assumed that Delta would minimize the 50-seat fleet to the lowest level allowed by their contractual arrangements with their DCI carriers and manufacturers (i.e. 566 DCI aircraft).

Delta System Seat Growth (Life of agreement)	Fleet With TA (Mainline/DCI)	Fleet Without TA (Mainline/DCI)
-6%	745/440 (Note: Ratio forces DCI to shrink below 450 fleet cap)	680/566
-3%	762/450	706/566
0%	787/450	731/566
3%	812/450	756/566
6%	837/450	781/566

As a comparison, based on industry analyst reports, Delta's system-wide capacity will be relatively flat over the period from 2010 to 2013.

The consensus of industry analysts is that Delta will grow system capacity by about 1.3% next year. Assuming that modest rate of growth continues, there will be about 3% system growth through the life of this agreement.

There is no way to guarantee growth at an airline. The industry continues to be volatile and is dependent on many outside economic and political conditions that are difficult to predict. This agreement, if ratified, enables Delta to significantly decrease DCI system capacity, capacity that can then only be replaced by additional mainline flying. The block hour ratio ensures that this increased share of mainline flying is retained, *even* in the event of a severe downturn in the industry. The hard cap on the DCI fleet ensures that all capacity growth beyond the minimum ratio must come from the mainline only. *In conjunction with the TAs furlough protection language, the block hour ratio offers significant job protections for Delta pilots.*