

## Executive summary

- Our requirement for a 3 day average pairing length creates a scheduling constraint to keep 33% of our aircraft in domicile each night
- In order to meet this network constraint, we fly low Load Factor (LF) flights at the beginning and end of the day that are estimated to cost \$75-115M per year
- To reduce the number of these low LF flights, we have several options:
  - Meet average pairing length with increased use of deadheads
  - Negotiate an increase in the average pairing length with SWAPA and TWU 556
  - **Develop a different base model to meet our average pairing requirement in a more cost-effective way**
- If we decide to pursue a different base model, we have several options:
  - Increase number of traditional bases
  - Add mini-domiciles attached to larger bases
  - Add virtual bases
- Recommended approach is.....

## There could be significant value in relaxing the current RON requirement in the Pilot contract...

- **Current contract** – requires a 3 day average pairing which means that 33% of planes need to be in domicile every night
- **Value unlock** – by relaxing the 3 day pairing requirement to have only 29% of planes in domicile every night, we can make three changes that have significant cost savings

Savings category	Description	Profit impact (\$M)
1 Cancel flights	<ul style="list-style-type: none"> <li>▪ Cancel unprofitable shoulder flying which was scheduled to achieve crew base RON requirements</li> </ul>	21 <sup>1</sup>
2 Move passengers	<ul style="list-style-type: none"> <li>▪ Recapture customers from canceled flights</li> </ul>	63 <sup>2</sup>
3 Redeploy aircraft	<ul style="list-style-type: none"> <li>▪ Redeploy 25 crew base RON aircraft to non-crew base stations and re-optimize schedule.</li> </ul>	31 <sup>3</sup>

1 Cost savings (variable + semi-variable) – revenue loss.

2 Assumes a 50% recapture rate

3 Estimate is for YE 2Q2012 (includes weekends). Does not include any future scheduling changes due to upcoming DEN crew base. No change in aircraft utilization  
Southwest Airlines Proprietary and Confidential Information – Not For Distribution

# ...and if we decide that reconfiguring our domicile structure is our best course, we have at least 3 options

Would like 4-5 examples per option...Steve J?

Potential Examples

Options	Description / Definition	Advantages	Disadvantages	Potential Examples
Traditional Bases	<ul style="list-style-type: none"> <li>Standard domicile, as defined in current contract</li> </ul>	<ul style="list-style-type: none"> <li>Straightforward to execute...in current contract</li> </ul>	<ul style="list-style-type: none"> <li>Costs to start and maintain physical base, with management</li> <li>Difficulty of closing bases limits future flexibility</li> </ul>	<ul style="list-style-type: none"> <li>Los Angeles</li> <li>Tampa</li> <li>Xxx</li> <li>Xxx</li> </ul>
Mini Domiciles	<ul style="list-style-type: none"> <li>Small domicile, with potential to grow</li> <li>Limited infrastructure</li> <li>Limited management</li> </ul>	<ul style="list-style-type: none"> <li>Would require only minor modifications to current contract</li> </ul>	<ul style="list-style-type: none"> <li>Would apply to limited no. of new bases</li> <li>Does not address seasonal flexibility issues</li> </ul>	<ul style="list-style-type: none"> <li>Atlanta</li> <li>Nashville</li> <li>Xxx</li> <li>xxx</li> </ul>
Virtual Domiciles	<ul style="list-style-type: none"> <li>Domicile with no physical base or mgmt</li> <li>Likely to be in cities where commuter Employees live</li> <li>Ability to flex, move, close, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Would improve Employee quality of life by reducing commute time</li> <li>Would improve schedule quality by making RON constraint less impactful</li> <li>Limited startup costs, enabling more flexibility to shrink or close domiciles based on seasonality</li> </ul>	<ul style="list-style-type: none"> <li>Has not been tested or executed at Southwest</li> <li>Would need to be negotiated with Pilots and FAs (already have FA SL to allow testing)</li> <li>Need to design so that resident Employees are able to get trips from virtual base city</li> <li>Will need to work out reserve requirements</li> </ul>	<ul style="list-style-type: none"> <li>San Antonio</li> <li>Austin</li> <li>Sacramento</li> <li>xxx</li> </ul>

# Detailed financial estimates for base options

Who has the historical data on crew base cost ? 1-time & annual/ongoing?

	Cost per base	Cost savings	Network “value unlock”
Traditional bases	<ul style="list-style-type: none"> <li>\$5M</li> </ul>	<ul style="list-style-type: none"> <li>xxx</li> </ul>	<ul style="list-style-type: none"> <li>xxx</li> </ul>
Mini Domiciles	<ul style="list-style-type: none"> <li>\$1-2M</li> </ul>	<ul style="list-style-type: none"> <li>xxx</li> </ul>	<ul style="list-style-type: none"> <li>xxx</li> </ul>
Virtual Domiciles	<ul style="list-style-type: none"> <li>&lt;\$1M</li> </ul>	<ul style="list-style-type: none"> <li>xxx</li> </ul>	<ul style="list-style-type: none"> <li>\$75-115M<sup>1</sup></li> </ul>

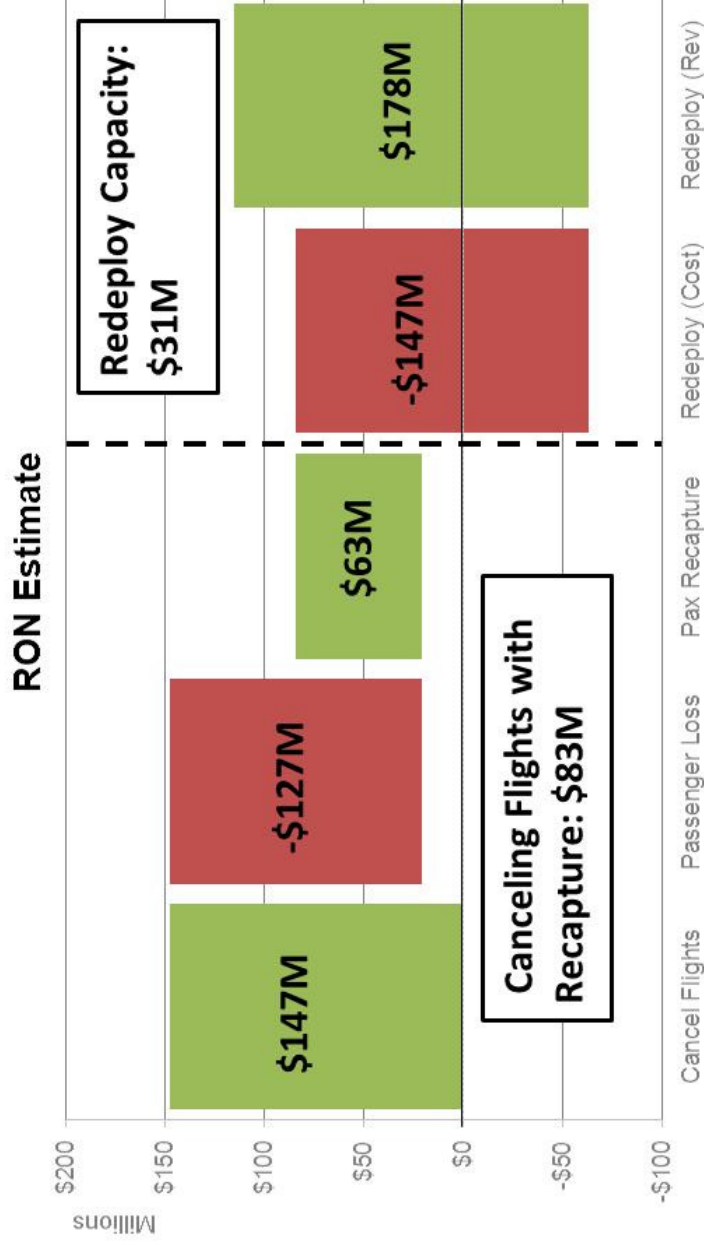
Johan – I assume this will be you & your Team... can you run scenarios based on the ‘Potential Examples’ listed on the prior slide? What other info do you need?

Estimate for reduction in hotel costs – assumptions, etc. Who should run estimates for FAs & Pilots? Jody / Adam?

<sup>1</sup> \$115M of savings estimated prior to Denver base opening. Current savings to be refined, but likely to be ~66% of YEQ2012

## There also appears to be significant value in relaxing the current RON requirement in the Pilot contract

- **Current contract** – requires a 3 day average pairing which means that 33% of planes need to be in domicile every night
- **Value unlock** – by relaxing the 3 day pairing requirement to have only 29% of planes in domicile every night, we can make three changes that have significant cost savings



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# Appendix

# What are the benefits and costs associated with creating virtual bases for Pilots?



 Quoted from letter to editor  
in Mar. 15 Pilot newsletter

**Virtual base – SWA has flexibility to start and stop Pilot lines in locations outside of the existing 9 bases**

## Benefits to Pilots and SWA

### Pilots

- Reduced Pilot commuting time and expense
- Potential for Pilots to live internationally, allowing easier start of new destinations

### Southwest

- Additional revenue from schedule optimization (\$40M)
- New bases without additional infrastructure / overhead costs, potential to reduce costs at current bases

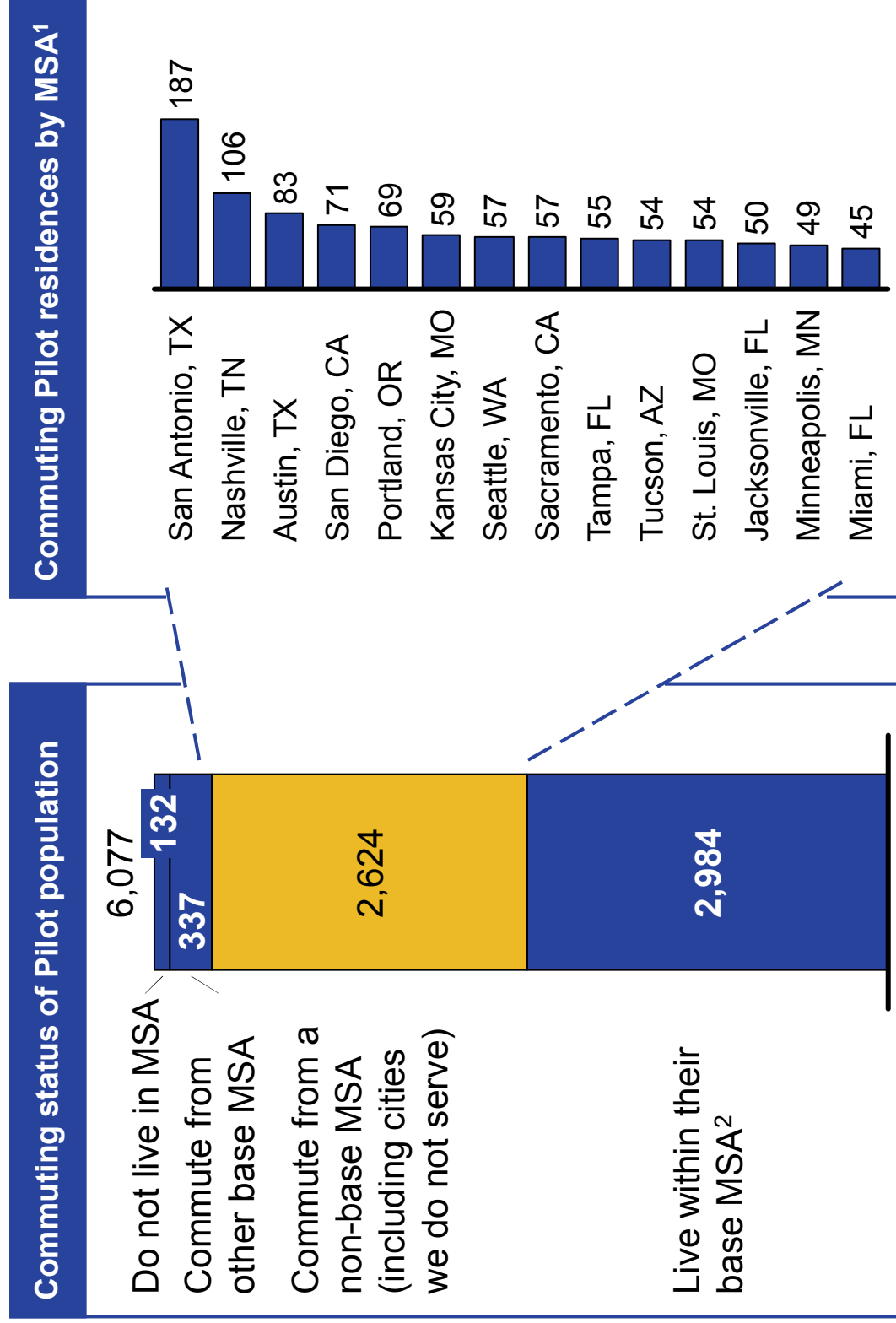
## Costs of Virtual bases

- May require a technology upgrade (~\$5M up front, \$1M per year)
- May impose additional schedule complexity
- Union may want reserve guarantee in each virtual base (8% in current bases)
- Most senior Pilots may bid on lines from a virtual base other than their own

- Reduced fuel burn
- Reduced scheduling cost
- Pairing quality improves (swaps, sit times, pairing mix) for both non-commuter and commuter Pilots
- Reduce reserve costs
- Reduced absenteeism
- Save on moving costs
- Reduce supervisor costs

- Are there additional benefits or costs?
- What are the other variations of virtual bases?
- What contractual language would limit implementation of virtual bases?

## 43% of Pilots commute from non-base MSAs



<sup>1</sup> Metropolitan statistical area (MSA) is a geographical region with a relatively high population density at its core and close economic ties throughout the area

<sup>2</sup> Includes Pilots that live within 70 miles (straight line distance, this is ~85-100 miles traveling by car) to their base airport

Source: SWA internal data and residence ZIP code



## Virtual bases can save our Flight Attendants a lot of pain and money

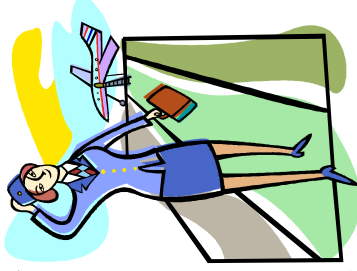


50-70 additional nights away from home

\$2,000-5,000 spent on 'crash pads' and other airline flights

6% more likely to call in sick

The typical commuting F/A



Total of ~200 thousand nights and \$7-14 million spent by our F/As to live where they want or need to!

**Virtual bases can keep 50% of commuters at home**

### **Concept:**

- As many as 20 additional virtual bases: online check-in, no lounges, no supervisors (feasible because of new supervisor model)

### **Financially approximately neutral:**

- Some savings due to reduced hotel/paid deadhead are offset by additional reserve needs and scheduling costs
- Further work plus analysis from scheduling team needed to analyze true schedule cost impact

### **Bases could have 'lifestyle contract':**

- Keep bases open conditionally as long as attendance/no-show rates are good