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Operator

Good day, and welcome to the Southwest Airlines Fourth Quarter and Full Year 2022 Conference Call. My name is Chad, and I will be moderating today's call. This call is being recorded, and a replay will be available on southwest.com in the Investor Relations section. [Operator Instructions]

At this time, I would like to turn the call over to Mr. Ryan Martinez, Vice President of Investor Relations. Please go ahead, sir.

Ryan Martinez
Vice President of Investor Relations

Thank you, operator, and welcome, everyone, to our Fourth Quarter and Full Year 2022 Conference Call. In just a moment, we will share our prepared remarks and then leave plenty of room for Q&A. Joining me on the call today is our President and CEO, Bob Jordan; Chief Operating Officer, Andrew Watterson; Executive Vice President and CFO, Tammy Romo; and Executive Vice President and Chief Commercial Officer, Ryan Green.

A quick reminder that we will make forward-looking statements, which are based on our current expectation of future performance, and our actual results could differ from expectations. Also, we had special items in our fourth quarter results, which we excluded from our trends for non-GAAP purposes, and we will reference our non-GAAP results today. So please refer to our press release from this morning and our Investor Relations website for more information.

And with that, Bob, I'll turn it over to you.

Robert E. Jordan
CEO, President & Director

All right. Thank you, Ryan, and I appreciate everybody joining us this morning. Well, we're disappointed to report a Q4 net loss as we were on track to produce a healthy fourth quarter profit prior to December 21. We provided an 8-K investor update earlier this month that quantified the preliminary estimate of the financial impacts, so a Q4 loss is likely not a surprise, but I would like to take a few minutes to talk about the operational disruptions.

And first and foremost, I want to apologize again to our customers and our employees for the impact the operational disruption had on them and on their holiday plans. We are intensely focused on reducing the risk of repeating that type of operational event, again, like we had last month. And we are highly focused on our customers and our plan going forward, and customer refunds and reimbursements remain a top focus. While I'm not proud of what happened, I am very proud of our people and all that they have done to take care of our customers and their needs.

Well, in terms of the events themselves, we canceled more than 16,700 flights from December 21 to December 31. The first few days through December 23 were specific to the winter storm, and we began to have additional disruptions in the operation on December 24. As the largest carrier in roughly half of the top 50 U.S. travel markets, we were impacted by rolling storms to an extraordinary degree. We experienced gridlock in many of our largest airports, along with a high frequency of short-notice cancellations, which created urgent and repeating efforts to repair the aircraft routings and then our pilot and flight attendant schedules.

Given the overwhelming volume of flight cancellations over multiple days, combined with manual work streams, we determined that the best course of action to get back on track operationally was to reduce our December 27 through December 29 flight activity by roughly 2/3, and that allowed us time to reset the operation to normal flight levels beginning on December 30.

But based on what we know at this point, our processes and technology generally worked as designed. But we were hit by an overwhelming volume of close-in cancellations, which put us behind in creating crew solutions, which, in turn, pushed us to manual efforts and solutions, and Andrew will cover that in detail more here in just a minute.

So we've got several streams of work underway. Immediately following the disruption, we moved swiftly to put mitigation efforts in place to reduce the risk of future operational disruptions and help fortify our operational resilience. Now we've created an early-indicator dashboard that closely monitors operational health and signals an alert if we approach predefined operational thresholds.

We established supplemental operational staffing that can quickly mobilize to support crew recovery efforts at the first sign of a potential workload backlog. We enhanced our existing tools for crew members to communicate electronically to crew scheduling during irregular operations. And we're in the process of swiftly updating and upgrading our crew recovery tools and systems to solve the backlogged repair of crew member schedules, which was one of the key issues during the disruption.

With these short-term risk mitigation steps in place or underway, we're taking additional steps to review the events and determine any additional changes to our plans. We worked early on with our Board of Directors, and they've established an Operations Review Committee that is working with our management to understand the events and help oversee the company's response.

We've engaged a third-party global aviation firm, Oliver Wyman, for a third-party assessment of the event and help make recommendations of additional mitigation elements for us to consider, and that work will conclude here over the next several weeks. And with that assessment and our own, we will reassess our 2023 plans, keeping in mind that we already had a robust operational modernization plan in place for 2023. And Andrew will walk you through that in greater detail as well.

I want to reiterate that Southwest has a very long history of innovation and continuous improvement. We've been investing up to $1 billion per year on technology, both recurring and investment spend included.

And we have implemented numerous large-scale technology and business projects over the past 5 years, including things like the first implementation of the Amadeus reservation system in North America, co-developing and innovative network planning system that's now part of the Amadeus product portfolio; ETOPS certification and processes for Hawaii flying; new aircraft maintenance systems; GDS platform capabilities in connection to 3 other platforms; a new fare product; and automated ancillary services capabilities.

And we're in the process of wrapping up the replacement of our revenue management system, which actually involves 3 RM systems simultaneously in production, which is an absolute technical feat. That list is not meant to be comprehensive, but hopefully it gives you an idea of what we've done and what's underway.

We're also currently budgeted to spend $1.3 billion of our 2023 annual operating plan on investments, upgrade and maintenance of our IT systems, which is higher than what we spent in 2022. The recent disruptions will likely accelerate some of our plans to enhance our processes and technology, but I suspect that the operational modernization opportunities that Andrew outlined at Investor Day have largely captured the key work streams, and we will dedicate the capital needed to execute in a timely and efficient manner.

We currently plan to stick with our 2023 growth plans. We were properly staffed for our 2022 flight schedules, including the holidays, and we continue hiring this year to be properly staffed for our 2023 flight schedules. Our plans call for adding over 7,000 new employees in 2023, which is actually a decrease of nearly 40% from 2022 hiring levels. We have the order book from Boeing that we need in 2023.

And with the short-term mitigation elements that we put in place, we believe we are well prepared to execute our network restoration plans this year. Nearly all planned 2023 capacity additions will go to restoring the network and adding breadth and depth in existing Southwest markets. And that network restoration should significantly help our operational resilience efforts over the long term. Andrew will also cover that in more detail.

Finally, we continue to work hard on labor agreements for our people. And I'm very proud of the fact that we were able to reach agreements with several of our unions recently, including our flight instructors, our facilities maintenance techs, our customer service agents and, just earlier this week, a tentative agreement with our dispatchers. We continue negotiations with the unions representing our ramp and ops employees and mediation with unions representing our pilots and flight attendants. And we intend, as always, to have competitive market compensation packages for our people.

In closing, we still made tremendous progress in 2022. And despite some impact here in Q1, we believe we still have a solid plan for 2023. We are holding ourselves accountable to the plans that we outlined at our early December Investor Day, and it is still our goal to achieve the long-term financial targets that we outlined. And I know that our people are up to the task. I'm just extremely proud of them for their dedication to the cause that is Southwest Airlines, and they remain absolutely our greatest asset, the heart and soul the company and a tremendous source of pride for me personally.

And with that, I will turn it over to Andrew.

Andrew M. Watterson
Chief Operating Officer

Thank you, Bob, and hello, everyone. I will focus the majority of my comments on the operational disruptions to provide some additional color to what Bob shared. We experienced a historic event with a combination of challenges we hadn't experienced before. However, as Bob mentioned, our crew scheduling software didn't stop working during the disruptions, but a combination of our processes and the technology couldn't keep up with the pace of cancellations at the height of the weather disruption.

That forced crew scheduling into fully manual mode to develop solutions, and they simply couldn't keep up with the volume of changes. Based on what we know today, it appears that the last domino to fall was when we could no longer use our automation for crew scheduling. Automation works very well for us, but when a problem gets dated, the automation doesn't have the ability to look backward as it tried to solve future problems.

To simplify, the decision support tool helps us solve 2 issues: one, repair the assignments of individual crew members; and two, solve crew coverage problems for individual flights by reassigning crew members and using reserve crew members. If a crew member's individual schedule is not repaired before the next assignment begins, then we aren't able to use the automation to repair the individual schedule.

Consequently, without updated crew member schedules, the software can't reassign crew members to solve for flights with crew coverage issues. So the disruption uncovered a functional gap in our technology. However, this issue is in the process of being addressed.

In terms of the moving parts of our point-to-point network, you can think of it in 3 buckets. You have the flight network, the aircraft network and the crew network. We feel very confident in the flight network and schedules we have published for sale, and we are very adequately staffed to operate our fourth quarter flight schedules. We feel very confident in our aircraft network, and we have a sophisticated technology product that we call the Baker that produces new aircraft solutions during irregular operations.

At no time during the disruption did the point-to-point journeys of the aircraft present us with an unsolvable problem. For our crew network, the functional gap that was revealed in our crew scheduling software is in the process of being addressed and should be updated in a matter of weeks, which represents quick work by GE Digital and our teams to address the most notable cause of the event that we are currently aware of.

So in terms of where we go from here, if this were to happen again, our actions fall into 3 buckets: immediate mitigation efforts aimed at the last domino to fall; department level assessments and actions; and a systemic review supported by a third party. Bob covered the immediate mitigation efforts implemented, our dashboard, supplemental staffing, crew communication tool enhancements, et cetera. He also covered a third-party review of the events and the Board's involvement in working with management to oversee our response.

I want to briefly cover the second bucket, which is department actions. Each department has undertaken its own analysis to identify additional measures the departments can make to improve its management of significant disruptions while leaving the cross-departmental improvements to the systemic analysis conducted with a third party.

Some examples of the department efforts include: implementing a new crew scheduling phone system targeted for Q1 of 2023; create a network disruption pod and NOC, or network operation control center, to better integrate crew data into flight cancellation decisions; increase the number of crew schedulers; evaluate our cold weather preparedness and items such as assessing de-icing procedures, protocols and tools to increase throughput; ensuring we have sufficient ground support equipment fuel that is viable in subzero temperatures.

This list isn't meant to be comprehensive either. Just to share with you that we have already identified some smaller scale opportunities for improvement, and we will have taken actions even before we get to the third-party recommendations. But in terms of the review by Oliver Wyman, we think it is a valuable exercise to understand how the accumulation events led us to the final result. And we still want to see if there are opportunities to improve performance on bad weather days to integrate into our modernize the operation efforts.

We recently had an opportunity to test some of the new mitigation efforts implemented recently during the FAA technology outage earlier this month with a Notice to Air Missions or NOTAM system. Our NOC worked around the clock in constant contact with the FAA and the industry to make sure that NOTAM info was restored and valid before we pushed any of our flights. We took the time to ensure verification, safety and compliance, which is why we had not dispatched flights before the FAA ground stop, and it is another example that we will not sacrifice safety.

We did not sacrifice safety during the December event, the NOTAM event, and we simply won't going forward. Safety is paramount. And we used our new warning indicators. We deployed additional head count to assist crew scheduling, even though we didn't end up needing them. And we executed target cancellations that helped protect how we ended that day to assure a good start the following morning. So while we had a difficult start to that day, thanks to the swift actions taken and enhanced processes in place, we were #1 in the industry in on-time performance the next day.

Part of the organizational changes, when I stepped into the Chief Operating Officer role, was to combine network planning with the operations functions in order to further align commercial and operations objectives. And we recently announced a related org change by promoting Adam Decaire, former VP, Network Planning, to SVP, Network Planning and Network Operations Control. The goal of this move is to create a tighter feedback loop between schedule design and schedule execution in order to add resiliency and reliability to our network. This is another action that I believe will help us tremendously.

Since the disruptions in late December, our operational performance has been solid. The month of January has seen several ATC outages, historic precipitation in California, where we are the largest carrier, and multiple snowstorms in Denver. Through Monday, the 23rd, we are #2 in on-time performance out of 10 airlines, trailing American Airlines by less than 1 percentage point.

As a reminder of what we shared at Investor Day, I want to recap 2 areas: our operations focus areas and our capacity plan. First, much of what we are talking about in terms of operational improvement and technology upgrades I addressed at our December 7 Investor Day. In particular, in the areas of operating quality and frontline staffing and tools.

In the area of operating quality, I noted a focused area called network design recovery. While it was not planned as part of our 2023 delivery, at that point, we had begun work in that area at the time of Investor Day. We had already selected Oliver Wyman to assist us beginning this January. As part of our reevaluation of our 2023 priorities, we'll accelerate this work.

In the area of frontline staffing and tools, I noted focus areas of mobility/digital tools and continuous improvement. Again, these weren't specifically slated to deliver by the end of 2023 but will be evaluated again as part of the reassessment of our plans given the challenges with crew communications we experienced.

I want the third-party review to conclude before I opine on what exactly needs to be done and over what time line, but we have good line of sight to potential improvements in several operations areas that span multiple years, including 2023. Now we need to finalize our plan for 2023 and determine what sequence of improvements are most appropriate in terms of technology and tools investment.

And secondly, our 2023 capacity growth is now up to 16% to 17% year-over-year, but this is apples to apples in line with the old 15% that we outlined in Investor Day. Nothing has materially changed in our capacity plans for this year. The increase is simply due to lower capacity in Q4 2022 due to the flight cancellations. We were headed all along toward network restoration, and the December events had nothing to do with staffing levels or our capacity plans.

Speaking to 2023 capacity plans, it is nearly all going back in the key Southwest markets and adding market depth. These are markets that we borrowed from to fund new airport expansions in the pandemic. And as leisure demand remains strong and business demand improves, we have opportunities to build this back up. And this is lower-risk capacity growth primarily in markets where we have the #1 or #2 share and a strong Southwest Airlines customer base.

Our goal is to have the network fully restored by the end of 2023. And by summer 2023, we should be about 90% done. And in doing so, it should help fortify the operation with better itineraries, depth and reaccommodation options for customers, crews and aircraft when we do have weather or delays that create irregular operations. So we plan to continue our investment in the network this year.

And on the topic of 2023 schedules, last month, we extended our flight schedule for sale from July 11 to August 14. This included depth in the Southwest points of strength as well as bringing back longer-haul markets, all part of our continued network restoration and accounts for anticipated travel demand for the peak summer travel period.

Denver grows at just over 300 flights a day, the highest ever daily total account for any Southwest Airport. And Baltimore hits approximately 220 day departures, which is higher than December 2019. We will peak with total daily flights of nearly 4,400 in July 2023. Our next schedule through October 4 will be published on February 9.

I want to wrap up by reiterating that we are intensely focused on reducing the risk of repeating the type of operational event we had last month. And we are also focused on moving forward and running a great operation each and every day. So while there will be lessons learned, we aren't losing focus on the fact on the blocking and tackling that is necessary to efficiently operate our network. I'm confident that our people will continue to do just that, and I'm thankful for their focus on running a safe and reliable operation and providing excellent customer service to our customers.

Finally, I would be remiss if I didn't commend the negotiating teams of TWU 557, who represents our flight instructors; and AMFA, who represents our facilities maintenance technicians. These negotiating teams worked tirelessly to reach agreements for their memberships, and I am pleased we can reward these employees with well-deserved pay increases and quality-of-life enhancements.

I'm also pleased that we just recently reached a tentative agreement with TWU 550, who represents our flight dispatchers, and they will be voting on their TA soon. We continue negotiations with the unions representing our other work groups that await a tandem agreement to vote on, and we intend to continue to pay competitive market compensation packages to our employees.

So with that, I will turn it over to Tammy.

Tammy Romo
Executive VP & CFO

Thank you, Andrew, and hello, everyone. I will provide a quick overview of our financial results and share some additional comments on our 2023 outlook.

As a result of the operational disruptions in late December, driving a $620 million negative after-tax net impact, we reported a fourth quarter net loss of $226 million, excluding special items. These results are clearly disappointing and not where we expected to be. Our quarterly performance leading up to December 21 was strong and trending in line with our previous guidance expectation aside from CASM-X, which I will cover in a minute.

As Bob mentioned, we still made tremendous progress in 2022 despite the operational setback in late December, generating full year 2022 net income of $723 million, excluding special items. Despite the negative revenue impact from the flight cancellations in December, we generated record fourth quarter operating revenues. Ryan will speak to our revenue performance and outlook here shortly, so I will turn to our cost performance and outlook.

Beginning with fuel, our fuel hedge performed well last year, especially in a volatile market environment. In total, our full year 2022 fuel hedge benefit was roughly $950 million, with roughly $170 million in fuel expense savings in fourth quarter alone. For 2023, we are 56% hedged in first quarter, 51% hedged in the second quarter and 47% hedged in second half 2023, which equates to 50% hedged for the full year.

Based on the January 20 forward curve, we now estimate our first quarter fuel price to be in the $3.25 to $3.35 per gallon range, up $0.25 from our previous guidance; and our full year 2023 fuel price to be in the $2.90 to $3.00 per gallon range, up $0.05 from our previous guidance. Our first quarter guidance includes $0.16 of hedging gains and a hedging premium expense of $0.06 per gallon.

We recently added to our 2024 fuel hedge portfolio and are now 39% hedged, with a fair market value of nearly $561 million in total for 2023 and 2024. We will continue to seek cost-effective opportunities to expand our hedging portfolio in 2024 with the goal to get to roughly 50% hedging protection.

Moving to our nonfuel cost. We experienced a significant cost increase in fourth quarter, primarily as a result of the December operational disruptions, including a lower capacity from the flight cancellations. The year over 3-year negative impact to fourth quarter CASM, excluding special items, fuel and profit sharing, or CASM-X was 23 points.

In addition to the impact from lower ASM, the majority of this headwind was driven by the estimated redemption value of Rapid Reward points offered to customers impacted as a gesture of goodwill and travel expense reimbursements to customers. There was also premium pay and additional compensation for employees, but that made up a much smaller portion of the 23-point CASM-X impact.

Excluding the impact from the operational disruptions, our fourth quarter CASM-X was roughly 4 points higher than the high end of our previous guidance range of up 14% to 18% compared with fourth quarter 2019. This was primarily due to additional labor accruals at year-end.

As a reminder, we have been accruing for all open labor contracts since April 1, 2022, and these accruals are dynamic as we continuously evaluate market compensation. Looking forward, we continue to experience year-over-year inflationary cost pressures as well as cost headwinds due to operating at suboptimal productivity levels.

We now estimate first quarter CASM-X to increase in the range of 2% to 4% year-over-year, which is approximately 2 points higher than our previous guidance of flat to up 2%. This 2-point increase is due to the continuation of premium pay for a portion of January relating to the December operational disruptions as well as an increase in labor accruals for open contracts.

For full year 2023, we now estimate CASM-X to decrease in the range of 6% to 8% year-over-year compared with previous guidance of down 1% to 3%. The vast majority of the change in guidance is related to the year-over-year impact from lower fourth quarter 2022 capacity as well as higher fourth quarter 2022 costs attributable to the December 2022 operational disruptions.

We have also increased our labor accruals this year, which results in a slight offset year-over-year. Putting aside the effects of the December operational disruptions, we continue to expect our second half 2023 CASM-X trends to improve from first half 2023 year-over-year.

Turning to our fleet. We ended 2022 with 770 aircraft, which is net of 26-700 retirements. We received a total of 68 aircraft deliveries from Boeing, all MAX 8s, which was 2 more than our previous expectation of 66 aircraft. However, we are still short of 46 aircraft from the 114 contractually scheduled 2022 MAX deliveries due to Boeing supply chain challenges and the timing of the -7 certification. These 46 orders are reflected as 2023 deliveries in the order book included in our press release this morning.

However, we don't expect to be caught up on MAX deliveries by the end of this year. We continue to expect 100 MAX-8s this year, which remains our planning assumption. And we continue to expect to retire 27-700 aircraft, which will bring our fleet count to 843 at the end of this year. We have also recently exercised options for delivery in 2024, as outlined in our press release.

Our full year 2022 CapEx was $3.9 billion, relatively in line with our previous guidance. In regards to our CapEx plans for this year, we continue to estimate spend to be in the range of $4 billion to $4.5 billion, which includes $1.2 billion in non-aircraft capital spending.

Bob and Andrew touched on our current thoughts regarding technology spend this year in light of the operational disruptions, but I want to reiterate that we are focused on executing our operational modernization plans outlined at Investor Day, which includes our current expectation to spend approximately $1.3 billion this year, including both capital and recurring spend on technology investments, upgrades and system maintenance. And our total CapEx range should allow for additional CapEx investments as needed.

Moving to our balance sheet. We ended the year with cash and short-term investments of $12.3 billion after paying a total of $3.1 billion to retire $2.9 billion in principal of debt and finance lease obligations during 2022. This includes the $1.2 billion principal prepayment of our 2023 notes, which leaves a modest $85 million in scheduled debt repayments this year. Our leverage is at a very manageable 47%, which we expect to decline over the next several years. Our balance sheet remains strong, and we continue to be the only U.S. airline with an investment-grade rating by all 3 rating agencies.

In closing, I am immensely proud of the progress our people made throughout 2022 and their continued resiliency through numerous unexpected challenges. While the last several weeks have been tough, we have not lost sight of the priorities and focus areas that we outlined at Investor Day. In addition to the operational modernization plans we already mentioned, we are eager to wrap up negotiations with all of our open contract labor groups.

Although it's disappointing, we expect another loss in first quarter this year due to a carryover revenue drag from the operational disruption. We remain steadfast in our focus to generate consistent quarterly profitability. And even with the first quarter headwinds, our 2023 plan continues to support solid profits with year-over-year margin expansion for full year 2023.

Furthermore, we remain determined to achieve our long-term financial targets to grow our profits, margins and returns while delivering on our commitment to provide outstanding customer service and reliable operations that have been a source of tremendous pride over our 51-year history.

And with that, I will turn it over to Ryan.

Ryan C. Green
Executive VP & Chief Commercial Officer

Thank you, Tammy. I'll provide a bit more detail on fourth quarter trends and our revenue outlook for first quarter. First, as Bob mentioned, we are very focused on taking care of our customers impacted by the operational disruptions last month.

We've sent gestures of goodwill. We processed all bags for return to customers. We processed nearly all customer refunds and have completed more than 80% of the reimbursement requests we've received from customers for reasonable expenses related to alternative transportation. We're processing the remaining requests as quickly as possible and plan to have those largely completed by next week. We will continue working hard every day until all requests are resolved.

Turning to our trends. At our Investor Day in early December, we shared that our fourth quarter revenue outlook remains strong. Leisure revenue trends were strong, both in load factors and yields and for both holiday and nonholiday time periods. Managed business revenues also continue to be strong, and all of that held true right up to the operational disruptions that began on December 21, and we were tracking right in line with our operating revenue guidance to that point. But in the last 10 days of the month, we incurred an estimated $410 million revenue penalty due to the operational disruptions.

As the end of December is typically a low demand period for business travel, we experienced less of an impact on business travel trends than with leisure. We still came in at the better end of our managed business revenues fourth quarter guidance range at down 20% compared with fourth quarter of 2019. And despite the $410 million impact, we still generated record fourth quarter revenues of $6.2 billion and a record passenger yield of $0.177.

We saw other positive contributors in the fourth quarter from our loyalty program, with fourth quarter records in new co-brand card acquisitions and retail sales. In addition, we benefited from the continuation of increased take rates for upgraded boarding, and our portfolio of new cities and development markets also performed in line with expectations in fourth quarter, absent the event. So in all, there was plenty to be encouraged by in terms of underlying trends in the fourth quarter.

We continue to feel good about our 2023 revenue plan. Admittedly, we are starting off first quarter with a $300 million to $350 million headwind, which we assume is attributable to the operational disruptions in December. However, booking trends have improved sequentially this month, and we believe the vast majority of the first quarter impact is isolated to January and February travel.

For March 2023, leisure booking and yield trends appear strong and in line with what we would expect from a high-demand travel month. And based on recent improvements in close-in booking trends, we expect March 2023 managed business revenues to be roughly restored to pre-pandemic 2019 levels. Beyond that, we expect that our GDS and Southwest business initiatives will provide the opportunity to grow managed business revenues sequentially beyond March.

So we are optimistic about both the improving sequential trends we're seeing as well as the early read on March bookings. And based on these trends, we currently expect first quarter operating revenues to increase in the range of 20% to 24% year-over-year. And then finally, while we have limited visibility further out on the booking curve, we continue to see no noticeable signs of a slowdown in macro travel demand and our booking trends.

Our commercial focus areas and initiatives that we outlined at Investor Day remain unchanged. We continue to focus on driving value from network restoration, new market maturation, Southwest business and GDS, our new fare product, revenue management system modernization and in-flight customer experience enhancements.

In closing, I want to acknowledge that we are mindful that we have a few new headwinds in 2023, both on the revenue and the cost side. And as a result, we will continue to work even harder on our revenue plans and revenue generation this year. Ultimately, we need to offset higher costs, and revenue is part of that equation. We still believe there is strong demand ahead of us, and we're encouraged by the revenue trends we currently see in March.

So with that, I turn it back over to Ryan Martinez.

Ryan Martinez
Vice President of Investor Relations
Thank you, sir. We have analysts queued up for questions. [Operator Instructions] And operator, please go ahead and begin our analyst Q&A.

Question and Answer

Operator

And the first question will be from Ravi Shanker with Morgan Stanley.

Ravi Shanker
Morgan Stanley, Research Division

Bob, thanks to you and the team for all the detail. Again, there was a lot of detail there, but if you were to just take a step back and look at the bigger picture here, there have been a few operating issues for, I'd say, the last 18 months or so. Is this just a series of unfortunate events given unprecedented circumstances?

Or do you take a step back and say, hey, we have not invested in kind of tech and systems and things that we should have, now we're catching up and kind of going forward? I think if that kind of realization and understanding sort of determines your response. And maybe, also, kind of if the regulators are focusing on this, kind of how they will react to it?

Robert E. Jordan
CEO, President & Director

Ravi, yes, thank you so much. I think I'd separate it into 3 pieces. Number one, we invest a lot in technology. We've invested roughly $1 billion a year, and that will be even higher here in 2023. And so there's been no lack of investment. You've seen us implement things recently like in an industry-leading aircraft routing and maintenance system.

It's just this year, we put in an entire new people and human capital management system and the ongoing. Technology is always a journey. And so there are always things to work on. And again, as we've gotten larger and more complex, there are continued investments in things like bag tracking and software that's used in the stations and transfer -- bag transfer driver applications.

And I could go on and on and on. So that's why you heard us at Investor Day and prior lay out one of our foundational strategies was modernize the operation. Again, not because of -- we're radically behind but because we need to invest in the operation, just as we continue to grow and continue to remain efficient.

I think if you take this event, this event was different. We saw just a historic level of weather activity across the country that hit so many cities continuing for days. Again, I'm not going to -- I don't want to blame just this on weather because it continued well after that. That caused an historic level of cancellations that turned into an historic level of aircraft reroutings that led to an historic level of crew reroutings or rescheduling. That ultimately was something we've never seen at that level, and it just overwhelmed the technology and the processes.

And the technology, by the way, in crew scheduling, there's been some, I think, bad information. It worked as designed. We just never had seen this level of activity. And so ultimately, all of that coming at crew scheduling put us to the point where, rather than solving future problems, in other words, new routings for crew was solving past problems. And that's what the software was really not designed to do because we had never seen that before. It's never been a requirement.

I'm glad to say that our folks at technology working with GE Digital have very quickly identified an enhancement and upgrade to deal with that. And that upgrade to the SkySolver is actually complete and in test right now, so they moved very quickly. So I don't know that -- I think this event was very different, but I would acknowledge that there are things that we need to work on as we continue to grow the operation and become even more efficient and use technology.

And Andrew, if you want to -- anything you want to add there?

Andrew M. Watterson
Chief Operating Officer

No, I think this functional gap was also -- other airlines use the software, and they had not asked for that gap to be covered either. So it was new for us. It's new for -- this tool at GE Digital is sold to not just us. And so it's not a common practice. It gets so far behind on issues to resolve. In this situation, it did.

We have a lot of medium-sized cities that are in this swathe of a weather. And we saw, as we got increased stress on the operation because of the cold weather, it led to incremental cancellations we talked about.

We precanceled, as we always do, in large weather events. But then the larger than impacted -- larger-than-expected distress in the operation from the weather led us to more cancellations closer in, and that's what gave us a problem, which manifested in this kind of past issue that the solver could not take care of.

Robert E. Jordan
CEO, President & Director

And Ravi, the only other thing, not to go on, but I'll add is just the -- this was a significant event. We disrupted thousands and thousands of customers at a critical point in time and really made a mess here for our employees and our customers. And I can't apologize enough for that.

And I own that, and we will do everything it takes to ensure that we don't have an event like that again, which is why we're doing short-term things that Andrew talked about. We've got this assessment coming here in weeks from Oliver Wyman, and we will take the learnings there and implement those. So you -- but just at the end of the day, that kind of disruption cannot happen again.

Ravi Shanker
Morgan Stanley, Research Division

Got it. That is very clear. Maybe as a quick follow-up. I think you said that the 2023 revenue impact seems to be isolated at Jan and Feb. What was the driver of that? Is that just kind of recovering the schedule to normal? Or did you see a buyer strike?

And do you have any indication that, from a reputational standpoint -- because, obviously, we know that Southwest is one of the most beloved like airline brand in the country. Kind of are you seeing any eroding of that in customer confidence?

Robert E. Jordan
CEO, President & Director

Yes, sir. I'll have Ryan jump in here, too. But I think we had, yes, a couple of things. You had, obviously, the return portion of trips that were affected during the holiday period that were then canceled that led into January. You have -- it's a low period of the year to start with. And so bookings and travel are generally low. I think you had a period of time there where we weren't -- just weren't taking as many bookings as we would typically.

I'm sure you had some Bookaway. The good thing is our customers are very loyal, and it's -- we're seeing that. Our March and forward booking trends in leisure look really strong. They look normal. They look in line with the plan that we presented at Investor Day. Our managed business looks like it will roughly -- currently get -- current trends will be roughly in line with 2019 and restored to 2019.

We had a sale recently. That sale went really well. We gave our customers affected over 2 million, basically, codes or 25,000 Rapid Rewards points. And we're seeing our customers redeem those quickly at an even faster-than-typical rate for something like that -- this gesture of goodwill.

So while we disrupted our customers, and I'm very sorry for that, we are seeing our customers be loyal to Southwest Airlines. And we're seeing kind of normal trends March and beyond. Ryan?

Ryan C. Green
Executive VP & Chief Commercial Officer

Yes. I'll just give some additional color here. The first quarter is a tale of 2 halves. In the first quarter -- the first half of the quarter is very low-demand time period, and that was impacted by the cancellations like Bob mentioned. And then it's just very tough with the hangover from the operational event kind of the first couple of weeks in January to get real traction.

We did not want -- if you go out and look at the fares that we have published for this time period, there are regular kind of routine promotional fares. We didn't think it would help to be overly promotional in this time period. But then when you get into the second half of the quarter and President's Day and beyond and kind of into March, as Bob mentioned, both loads and yields look like we're on plan.

March right now is roughly 40% booked. So that's enough to give us a good read on the month. And if you just kind of take the load in yields where they sit today and project that out forward and kind of what we would expect from here and what that implies for March overall, I think we're going to be very pleased with the performance in the month of March.

So we're not seeing any sort of elevated cancellation rates for March. As Bob mentioned, March performed very well, responded very well to the sale. And so it just feels like it's -- we're kind of back on plan here in March. And then if you look at managed business travels, it's very early in the managed business travel booking curve, but those -- what we can see, those also look encouraging.

So yes, so the second half of the quarter, I think we're going to hopefully get back to the momentum we were seeing in the fourth quarter before the event. And we'll continue to monitor customer sentiment as we go forward here. But yes, the customers expect us to do the right thing here, but largely, they're loyal and sticking with us.

Operator

The next question will be from Scott Group from Wolfe Research.

Scott H. Group
Wolfe Research, LLC

So I know you guys don't have revenue or RASM guidance for the year. But it seems like the industry is sort of moving at this flattish RASM metric for the year. Would you expect to keep pace with the industry? Or as you sort of rebuild credibility, customer loyalty, whatever -- however you want to call it, do you approach pricing any differently than maybe the overall market this year?

Ryan C. Green
Executive VP & Chief Commercial Officer

It was a little hard to hear. It was a little hard to hear there, but I think that the question was really relative to the industry and performance. Do we expect to price any differently? I think we're not going to comment on forward pricing here beyond what's kind of out there on the shelf and what you all can see. But what I will say is that the go-to-market and promotional plan that we have executed thus far and thus far in this year is the exact same go-to-market and promotional plan that we had relative to before the event.

So we're approaching things kind of per normal here. And I would expect, as we kind of get back on the plan in March and beyond, I expect that it will be just a normal year here in terms of how we manage things going forward.

Yields -- loads and yields have been very strong. Going back to the post-Omicron environment last year. We had record yields in the fourth quarter even despite the event, and those yields would have been higher without the event. So we're -- it's a strong fare environment now, and I expect that to continue.

Robert E. Jordan
CEO, President & Director

And you know, obviously, we have the -- one of our strategic initiatives is the new Chase agreement. And we're seeing strong Rapid Rewards redemptions here right now as well, which is helping.

Scott H. Group
Wolfe Research, LLC

Okay. And then, hopefully, this sounds better, but I understand you don't think you need to cut capacity. But as you talk about kind of reduced risk, why not be a little bit maybe more prudent and cut some capacity and get through a period of better operations where you really ramp up the capacity?

Robert E. Jordan
CEO, President & Director

Yes, Scott, I think the -- I mean, you would do that if you felt like there was a reason that it helps. So we actually feel the opposite. Number one, the event in December really had nothing to do with staffing. We were fully staffed. In fact, we hit our -- we beat our hiring goals in 2022. A lot of that is set up for our 2023 capacity.

We're having no trouble hiring, including having no trouble hiring pilots. The -- almost all of the capacity in 2023 is going into restoring the network. It's going into existing city pairs, adding depth and breadth. And all that is not just good for our customers, it's good for the operation and operational reliability. So we actually feel the reverse, which is the restoration of capacity will be helpful in terms of operational reliability, not hurtful.

So then the only other reason would be because you don't believe you can execute your hiring plans, which we are having no issue executing our hiring plans. We're actually a little ahead here in terms of staffing up for 2023. Andrew, do you want to add anything?

Andrew M. Watterson
Chief Operating Officer

I'd also say if you -- if one was worried about, can you operate this level of capacity, you would expect that to show up in your operating performance. And I mentioned that we were #2 through Monday. I just got -- rather seeing here the updated numbers through yesterday, and we're #1 in the industry in OTP for the month of January.

For the month of December, we were #5 out of 10 airlines even with the disruption, and we're #4 going into the disruption, and we were #3 during Thanksgiving, #3 for the month of November. So it's obvious that we're able to operate the capacity that we have out there. It's not sending out warning signs. In fact, we're above average in the industry with regard to that.

So not showing that as a root cause. We're hesitant to make adjustments given that we think it could also be helpful as we go forward. But once again, we're going to get down to the root causes. And then when they show up, we will take actions based on the root causes.

There's lots of solutions that people want to throw out there to us. But when you kind of take action on a potential solution and you don't understand if it addresses the problem, all you're doing is wasting resources and not necessarily addressing the problem. So we want to bottom out the problem, even though it takes a little bit longer than people would like, and then address those problems so it doesn't happen again.

Operator

The next question will be from Brandon Oglenski with Barclays.

Brandon Robert Oglenski
Barclays Bank PLC, Research Division

So Andrew, maybe if I can follow up there. I mean if I listen to this call, it sounds like you guys were properly staffed. The technology really wasn't the problem, apart from this GE Digital issue. And you guys are talking about the network not being the issue. Cost guidance, CapEx guidance, all that really hasn't changed this year. So the outlook just kind of missed a beat but keeps going on.

The problem is you guys did cancel a lot more flights than your competitors. And if I look at your completion factor this month, I think you will be trailing your competitors. Just look at yesterday, I think about a 6% cancel rate. So I guess, what confidence can you give investors and your customers and your other stakeholders here that this was really just a one-off issue and not something that is more structural within the company?

Andrew M. Watterson
Chief Operating Officer

Yes. I wouldn't call it a GE Digital issue. That software they sold to us and others performs well in normal times. This is a use case that nobody defined for them. So in their defense, the software works fine. Now we did get to a bad spot there.

With regards to our cancellation percentages, yesterday was 6%, there was snow in Midway. So Midway has specific operational restrictions. It's very tight quarters. And so when you have de-icing and winds coming from the wrong direction, it's prudent to be a little more cautious. And we cancel a little bit more because it was a low time of season, as Ryan talked about, a low time of year. So we could reaccommodate all those customers that were canceled out of Midway on the subsequent flights because we canceled them the day before.

So we ended up beating our competitors by 20 points of OTP yesterday. They canceled less, but they delayed then hundreds of thousands of customers by canceling fewer. We made hundreds of thousands of customers on time and a handful had their flight canceled but were reaccommodated. So overall, we believe we gave a superior customer service yesterday.

The day before that, that same storm system generated severe thunderstorms in Houston, including tornadoes near Houston Hobby that even put the ATC tower down for a while. We had 0% cancels in Houston for that and Hobby for that day because we have the infrastructure there to handle it.

Up North, the carrier that operates out of Intercontinental canceled 20% of their flights in that day to handle it. So in that situation, a very flattering compare. But once again, I imagine they would say they have infrastructure issues. They're different than Hobby. So a lot of times, those percentages look deceiving if it's about a specific airport in particular.

And so you have to look at the environment that's caused you to cancel. You have to be safe and understand how you accommodate your customers. Net-net, it resulted in a very flattering on-time performance for us yesterday and pushed us over the edge to be #1 for the industry. So I think that's a quality product. The customers loved it. NPS score is good for that kind of stuff. And so I think that's what our customers want to see.

Robert E. Jordan
CEO, President & Director

Yes. And if you take the data in January is very way down the weeds here, but it's very polluted by the January 11 NOTAM issue, where there were all kinds of issues as well. For most of -- prior to the day you're talking about here, most of the days, I think the 15 days or so prior to that, we were 99 -- in the 99-plus, a couple of several days in the 99.9% completion factor range, several days canceling 1 flight. So you just have to watch the aggregate because if you have an anomaly in a day that's very different, like the day Andrew described or the NOTAM day, it will throw that -- it will throw it off. Obviously, you know that.

Andrew M. Watterson
Chief Operating Officer

I'd say in the NOTAM day, as I mentioned in my remarks, we didn't push before the ground stop. So basically, that means we got a much later start because we were being safe, and we wanted the FAA to tell us that, that was validated before we pushed because that's how we read the regulations. Therefore, we ended up with more cancellations that day, a significant number more than some of our competitors there. And so that inflates the numbers for January overall.

But once again, it was safe, and we ended up being set up nicely for the next day. And then lastly, when you look at our competitors, don't forget, they outsource 40% to 50% of the departures to some low-wage regionals on behalf. The customer doesn't realize that. So when they give you a number that says, we canceled this many, make sure you're including all of their branded operations, not just their main line.

Brandon Robert Oglenski
Barclays Bank PLC, Research Division

And for sure, we do look at seats and flights impacted. But I guess, coming off this call, where is the urgency to ensure that, specific to you guys, this doesn't happen again? I mean does it come in the form of more urgency on the pilot contract? Do you need to look at more non-aircraft CapEx? I mean just help investors get their arms around it, please.

Robert E. Jordan
CEO, President & Director

I think the urgency is across the board. There's nothing -- everything is on the table. And as Andrew pointed out, we went through in his remarks, we have things that we're doing right now, early warning dashboards, staffing up, crew scheduling. We're looking at de-icing procedures top to bottom. We're buying more engine covers for extremely cold weather. We're looking at fuel mixes for ground equipment when you have subzero temperatures on and on and on.

We're also waiting patiently here, and it will be weeks, not months, to get the Oliver Wyman report to understand root causes and what we need to do there. But we will do everything that it takes, whether that is buying engine covers, technology changes, whatever that list may be, to ensure that this kind of event doesn't happen again.

I disconnect contracts because the -- we've had -- we've made great progress. We've got -- we've gotten 5 agreements here in the last couple of months with our unions. I'm very, very proud of that, our negotiators, and I'm very proud of our union partners.

We have a couple more to go. We're making, I think, really good progress. We have 2 of those that are in mediation, pilots and flight attendants. That mediation process is a defined process controlled by the mediator. The mediator controls the schedule, the meeting times, the meeting dates, but we're making progress in both of those as well.

We're eager to finish those up. Our employees are terrific. We're going to -- well, we've always paid well, and we're going to pay well. We're going to have market-competitive compensation. You know that, we know that, and our employees know that. So I am eager to wrap those up, but mediation is a process.

Andrew M. Watterson
Chief Operating Officer

I'd say that we know what happened to the last under the fall, as I call it, we've put in place with urgency. And that was the urgency we had, make sure the same thing doesn't repeat itself. So we have the safeguards for that, same thing, not to repeat itself, but we think there could be common root causes. That's why when we take the time between the weather starting and us getting to that kind of position with our crew scheduling software.

Lots of decisions were made, lots of coordination between our ground operations, our control center, our crew scheduling. Lots of equipment that was used to handle cold weather. Something in there, in that sequence of events, led us to the spot we were at the end. And so immediately protect that situation to not happen again and then follow the string upstream to find the series of actions that led us to there and resolve those.

And so that's what we're taking the time to do. It's a couple of weeks. I think it's worthwhile to take a few weeks since we have the kind of emergency stuff done to find those root causes that you can address, and that may require incremental spending or maybe require incremental management effort. And we shall see, but we certainly have intention and plans to have that start up right away after that report is done.

Robert E. Jordan
CEO, President & Director

And then I know we're going on and on. It's just so important. The last thing I would add is that we -- while this event was something significant and something we are absolutely not proud of, we've got a 51-year history of operating really, really well. We were operating really well prior to this event. We had good performance in '22 leading up to December 21, good performance at the holidays, Thanksgiving, Labor Day, et cetera. So never forget that we are -- we haven't always -- always will be a terrific operator.

The main point here is we will attack this head-on. Whatever we need to work on here, especially once we understand the OW report, we will attack it with a sense of urgency. We will boost our spending if that's technology, if we need to, but we will do everything to double down to make sure that this does not happen again. It's critical.

Operator

And the next question will be from Jamie Baker with JPMorgan.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

Is interlining off the table?

Andrew M. Watterson
Chief Operating Officer

No. I don't think interlining changes. If we had interlining there, then there may be some subset of customers that we could have reaccommodated. But other airlines were full this time of year as well. So we would have still had the same event. We still would be having this discussion even if we had interlining.

Now domestic interlining is prohibited in the scope agreement with our pilots, so we have to get scope relief to do that. But should they accommodate us there when we put an interline, that made the margin help with some level of disruption. But you would still have the large, large majority of people would not have been accommodated through a direct interline.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

And second, Tammy, thanks for including the fact that you've updated your labor cost accruals. Just to clarify, the industry convention seems to be to exclude any planned retro pay or signing bonuses. I assume that's also true for Southwest?

Tammy Romo
Executive VP & CFO

Jamie, we're doing our best to include the total cost to get these labor agreements over the finish line here. So as we shared back in December, the environment is dynamic, and we're continuously evaluating that. But our estimates include the total cost, I guess, is a better way to say that, to wrap up our contracts as well as recently, of course, ratified contracts.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

Got it. I'm sure you're looking forward to locking down the contracts. So I'll stop hounding you about it.

Robert E. Jordan
CEO, President & Director

Thanks, Jamie.

Tammy Romo
Executive VP & CFO

Thanks, Jamie.

Andrew M. Watterson
Chief Operating Officer

Thank you.

Operator

And our next question is from Duane Pfennigwerth from Evercore ISI.

Duane Thomas Pfennigwerth
Evercore ISI Institutional Equities, Research Division

I wanted to ask you about work rules and if they are modernized and aligned with operational recovery. There's been so much written about technology gaps fairly or unfairly. The media is really run with those talking points.

I'm not sure if you're willing to go there, but for example, do your pilots need to call into a call center to verbally confirm reassignment? It seems like the numbers that would have been required in this event would overwhelm any call center, and it feels like maybe there could be an app for that. Any thoughts on that would be great.

Robert E. Jordan
CEO, President & Director

Duane, this is Bob. I'll just start and then Andrew has got a lot more detail than I do, but I think I'd break it into 2 pieces. We have electronic notification in place for our crews. And there's more work to do there in terms of there's all kinds of things that you use electronic notification for. But that's -- yes, there's been some report that that's not in place. It's absolutely in place.

What we need to work on is the -- and it's a contractual change, electronic acknowledgment. So that's -- which I believe Andrew does not require. In other words, to know that, that has been acknowledged, for example, accepting a crew reroute. That's a contractual change to do that. But obviously, to -- for the operation, you have to know not simply that it was delivered electronically, but it was acknowledged, and it's going to happen.

So there is work to do. There is some work to do on the electronic notification, but we do have that capability. But there's also, I think, even more work to do on the contractual piece of this, which is the acknowledgment. And obviously, those 2 contracts are open, and that's a piece of what our negotiators and teams are working on.

But Andrew, if you want to add?

Andrew M. Watterson
Chief Operating Officer

Yes. I think crew communication was a problem during the event, not the problem. So we definitely want to improve that. We have some means, consistent with the current contracts, to have some level of electronic communication with our flight crews. Both have learned from this, and I think we will incorporate that in our negotiations.

And I think we will wait till we finish the negotiations before we kind of design the next generation of electronic communication tool with our crews because it must respect the contractual agreement. So I think this event will get us all aligned on the need for improving that. And once we get that ironed out in the open contracts, then we'll go and develop the next generation of that electronic communication.

Duane Thomas Pfennigwerth
Evercore ISI Institutional Equities, Research Division

That's helpful. And then just on my follow-up, I'll stick with you, Andrew. Can you comment on what percent of your network is out and back flying? And I know it's too early to prescribe the medicine here. But any thoughts on your ability to increase out and back, or if that might be a potential solution?

Andrew M. Watterson
Chief Operating Officer

I can't recall off the top of my head. I don't want to give you a number for fear of being wrong. We have, in the past -- this comes up a lot. We've put into our schedules in like test areas of the region out and back. So we did this in Midway, I think, 3 years ago or 4 years ago. And so we put this around the system to see if that improves anything by increasing out and back to certain percentages, and we haven't found that to be the case.

We found other things we can put into our schedule to help with on-time performance. And part of the move actually with the moving network planning and our control center under one roof is because it is difficult to nail down how to incorporate recoverability into your schedule, even though everyone seems to have an opinion.

We know we can incorporate crew needs overall. We've gotten very good at that, maintenance needs, ground ops needs. We can model to a good level of detail the predicted overall on-time performance for a schedule. But how does one define what's a recoverable schedule is actually more difficult to [contract] the design than you might imagine.

So bringing the 2 groups together, we can create a tighter feedback loop through smaller continuous improvement efforts to test and learn smaller iterations of recoverability built into the network is the design -- the desire behind this idea of moving them under one organization, and they've already started that. We'll see cross-pollination of people who work on our control center now, working in our network planning to help design schedules, people who design schedules, doing a tour in the control center to learn what's like to operate it.

And so we think that tighter linkage should help us incrementally improve recoverability into the schedules. But we're definitely all ears about doing that, but they kind of out and back is something that gets thrown around. And really, we haven't seen how that can have a direct cause and effect improvement.

Operator

And the next question will come from Savi Syth from Raymond James.

Savanthi Nipunika Prelis-Syth
Raymond James & Associates, Inc., Research Division

Just on the hiring, you talked about staffing was not the issue. I was kind of curious if you could provide a little bit more color on the hiring plans this year and the cadence. Because if you look at your capacity growth, there's a lot more capacity growth in the second half. And I think that's something that kind of causes some concern given just a lot of growth coming in and given having to address some of these operational issues. So could you talk a little bit about the hiring cadence here?

Robert E. Jordan
CEO, President & Director

Savi, it's Bob. Absolutely. And then, Andrew, if you want to chime in, just in terms of where. But the -- yes, there's obviously timing to hire and there's timing to train and become proficient, especially in certain areas like the ramp. And so it's a piece of why we actually came in above our targeted hiring for '22 is to get ahead of that for '23. So some of that will be front loaded a bit in '23 as we prepare for capacity in the back half.

Our hiring in '23, the plans right now, I think we hired just over 11,000 in '22 net. It's roughly 7,000 net in '23. So it actually falls roughly 40%, again, because there's a piece of the '22 hiring that was a setup for '23. And again, we don't -- there's no evidence that we were not staffed for the holidays or that we're not currently staffed. We are well staffed.

The one exception in terms of the change from year-over-year pilots, we hired net, roughly, I think, just under 1,000 pilots in '22. The plan is to hire net, roughly 1,700, I think, in '23. So that actually is increasing. Our classes, we'll watch them every single day. We're just down meeting with potential new hires earlier this week. We're having no trouble attracting terrific pilots to Southwest Airlines, no trouble filling classes.

There's been some discussion of attrition. Are you seeing higher attrition in our pilot area? Our attrition last year, I think, in our flight ops group was under 1%. We've got a lot more new hires, which you would expect it to be a little bit elevated there. But it's, again, under 1% and roughly normal. So we're not seeing any issue attracting pilots to Southwest Airlines.

But Andrew, I don't know if you want to talk any more detail about just where.

Andrew M. Watterson
Chief Operating Officer

So in aggregate, we'll have less hiring this year than last year. And that's true for every work group, except for pilots. And so as we've mentioned before, we are pilot constrained in our flights. We're not flying all of the aircraft where we could. Or producing all the ASMs we could right now because of the number of pilots, not the productivity of pilots.

And so as we run our training plan here this year, by the end of next -- excuse me, the back half of this year, we've told you before that we will no longer be pilot-constrained. And that's when we'll start using our full fleet, which is why you see the kind of pop-up in capacity there in the back half of the year.

The groups we've kind of pre-hired, they don't have as long as the training footprint as pilots do. So therefore, the proficiency they get is on the job, so to speak, for some of them. And that's why you see if you ever look out the window in an airport, you'll see different-colored vests. And those are people who are still in training, but OJT trainings, those who are fully proficient.

And so you want them to be out in the network now taking some repetitions, if you will, so that when the capacity comes later in the year, they've had more experience. So that's why you'll see the numbers coming down as capacity goes up later in the year.

Savanthi Nipunika Prelis-Syth
Raymond James & Associates, Inc., Research Division

That's super helpful. And if I may, just on the -- it sounded like from a CapEx standpoint, if you needed to kind of increase in spend on some systems to kind of expedite some of the changes, it would fall within that CapEx. But I was kind of curious, from a resource standpoint, do you have that ability to kind of -- would you kind of pivot? Or would you be able to kind of increase the amount of tech activity that you do this year?

Robert E. Jordan
CEO, President & Director

Yes. We have -- for your first question, yes, I think that's captured in the ranges that we provided, number one. And then two, the technology spend in total was already increasing from 2022. And then three, your technology support is always a mix of employees and contractors and third parties that we use in terms of development. So yes, we have the ability to flex as needed.

Andrew M. Watterson
Chief Operating Officer

It may not just be IT. It could be equipment. So we're not prejudging all the extra spend would be IT. It could be the case that we need new or different de-icing trucks or some other infrastructure at the airport. So there is nontech work that is likely to come out of this. It's not just tech. There was some tech shortcomings that we've addressed, and there could be more tech we do to get ourselves even better. But I think, undoubtedly, there will also be some other equipment and other kind of operating changes we make that don't fall in the technology realm.

Robert E. Jordan
CEO, President & Director

And again, I think the range is wide. I think all of that would be captured in the CapEx range that we provided.

Operator

Ladies and gentlemen, we have time for one more question, and we will take our last question from Conor Cunningham from Melius Research.

Conor T. Cunningham
Melius Research LLC

Just on the Bookaway estimate that you gave for the first quarter, curious if you could parse out just how the corporate side of that's doing. When I think about you selling your network and what Southwest does great domestically, the operations are obviously going to be a big debate there. So just curious on how that commentary has gone so far or that conversation has gone so far.

Ryan C. Green
Executive VP & Chief Commercial Officer

Yes, Conor, it's Ryan. Of course, immediately following the events, in the days following the event, we were out there talking to kind of general consumers, but also talking to corporate travel managers, to make sure we had a really good handle on sentiment and what they were needing to hear from us. And so -- and those conversations have continued. We're getting direct feedback from them as well.

And from a corporate travel standpoint, as you would expect, they outlined the need for us to be open and transparent about our mitigation plans, what we're doing to ensure that this doesn't happen again, making sure that we have plans in place to take care of customers and that we keep them regularly updated. And of course, we're doing all of those things. We're out in the field talking to them all of the time to making sure that they understand what we're doing.

So when we asked them about their plans for 2023, the vast majority of those corporate travel managers say that they do not plan to reduce the level of flying on Southwest this year, which I think is a positive sign there. And then when you just look at the bookings from the managed business side as they've come in here in the first quarter, for sure, there was an impact in January. It was -- those first couple of weeks of the year, those are big booking months. The hangover was real given the proximity to the event. So there was definitely a hangover or there was an impact in January and some into the first part of February as well.

But when I look at February bookings and kind of where we're -- what we're trending towards here, and we're kind of getting into the meat of the booking curve for managed business travel so we've got a good look at it, February is much better than January. In fact, I think February is sequentially better. It will likely turn out that February is going to be sequentially better than where we ended in the fourth quarter.

And then, of course, as we get to March, we're expecting that we're roughly back to pre-pandemic levels on the managed business side. So we've got -- we're certainly focused on that market. That's a big part of our plans for the year, and we'll keep after it. But as we get further into the quarter here, I'm encouraged by how resilient they've been.

Conor T. Cunningham
Melius Research LLC

Okay. And then just on the -- you talked about the crew network issue in your prepared remarks and that you're rolling out a new system in the next couple of weeks. Just curious on how much collaboration you have with your pilots and maybe your other in-flight crew members when looking for a fix there. Did they have an influence at all? Or were you not allowed to talk? Like can you just maybe talk a little bit about the overall culture there with them and talking about the fixes?

Andrew M. Watterson
Chief Operating Officer

Well, I think I'm not quite sure if I'm getting your question, but if I don't, please redirect me. So the system is -- that what we call SkySolver, it's called something else by the manufacturer. It had a -- this functional gap I talked about. We are putting in a fix to that, as we call it, patch and upgrade. You will now have the functionality to be able to solve the past crew member problems such that they don't hamper us in the future.

Now this is not something that we -- our crew members would be -- and their unions would be happy that we fixed this problem because they didn't like the result of not having a fix in there. And so I think from that perspective, they would like -- they want us to get the job done, so to speak.

As far as the culture, we're in mediation. We're in negotiations in the final stages. And so that's always noisy, if you will. They would like certain changes. And where it's coming down to is a lot of the changes they're asking for on the scheduling side, and this was a scheduling issue. And so it kind of dovetailed nicely for them to be able to kind of give input on it.

And I think those things we can improve upon, and we're happy to take those suggestions. And we actually have a big confab with them coming up here in a couple of weeks, where they're going to come in and get our subject matter experts together and talk about how we can improve on the scheduling front.

And I even sat down at one of the other unions yesterday, the day before, for the same reason. So we welcome their input. We want to establish a good professional relationship for them of how we can jointly improve. And so maybe this is a silver lining as we can start down that path.

Robert E. Jordan
CEO, President & Director

And I just -- just to add. Yes, you've seen a lot in the news that there are things that our unions have said that we have asked for, "for years" and things like to work on notification. And we agree, there's work to do on notification. I just want you to know, yes, we agree with them, and that work is going on in negotiations here. And I'm optimistic that we'll get there.

Second, we've got this Oliver Wyman report that we'll wrap up here quickly. And it's a comprehensive review, and it's a wide-ranging collaborative review with a lot of parties, parties that were involved, including the frontline in Denver, for example, and the NOC and leaders that were involved. But we're also including our union leadership in that work to gather their feedback as well because they're valued partners, and we want to listen and understand.

And then as Andrew said, you've got things that are more wrapped up in negotiation like scheduling rules, that I don't know that I attached to the event, and the operational disruption. That's a normal part of negotiations, just like compensation. But -- and we'll be moving through that as we continue to move through mediation. But no, we value our union partners, and we're listening to them certainly in terms of their viewpoints of what happened in our December issues.

Andrew M. Watterson
Chief Operating Officer

Yes. And we've already said for this, once a report comes out and that will identify areas we need to improve upon, we will work with them to jointly develop solutions in the applicable areas for them. So I think we're committed to them being part of the solution as we look to take advantage of the lessons learned reported.

Ryan Martinez
Vice President of Investor Relations

Okay. Well, that wraps up the analyst portion of our call today. I appreciate everyone joining, and hope you all have a great day.

Operator

Thank you. Ladies and gentlemen, we will now begin with our media portion of today's call. I'd like to first introduce Ms. Linda Rutherford, Chief Administration and Communications Officer.

Linda Burke Rutherford
Chief Administration & Communications Officer

Thank you, Chad, and welcome to the members of the media on today's call. We can go ahead and get started for the Q&A portion. Chad, if you'll get them queued up for us.

Operator

[Operator Instructions] And our first question will be from Dawn Gilbertson from The Wall Street Journal.

Dawn Gilbertson

I have 2 questions. The first one is for Bob or Andrew or both, and the second one is for Ryan. The first one is, you guys seem to be sending some mixed messages here. You clearly state the staffing is not an issue. Andrew just said crew communication was a problem, but not the problem. And then you mentioned this functional gap and said other airlines didn't -- also didn't have this gap addressed. But isn't it because the scope of your issues here were so large, that's why it exposed this thing in the system?

So I guess, what I'm asking here is, how much of the -- without waiting for the Oliver Wyman report how much of this was bad decision-making on Southwest Airlines? Or what was the problem, please?

Andrew M. Watterson
Chief Operating Officer

Well, the reason we do the work is to find the problem. I know we'd like to know it now and not later, but that's the point of it, respectfully. But we know that the -- when this kind of functional gap showed up was because you had a lot of close-in cancels. As I mentioned earlier, we frequently -- if we're seeing a storm come in, you do cancels in advance. So I cancel today for tomorrow, just like we did, yes, recently with Midway. And so that we had done for the storm. Then we got ourselves in a position where we're making lots of cancels close in.

And as Bob mentioned, from the 23rd, which was still a weather event and towards the 24th, towards a transition to a crew event, sometime in that time frame, this level of close-in cancels led us to get behind and then we lost the use of the automation. And when we lose use of the automation, there's just not enough hours in the day for the crew schedules to catch up manually. They almost did a couple of times, but we know, ultimately, we didn't.

And so then the question becomes, well, what were the sequence of events that led you to that point where we've had a lot of these close-in cancels? That is what we're trying to get to the bottom of so we can address that. And so we don't know that right now. So that's why we don't give you a very clear answer on that specific thing, even though we understand where ultimately that led to.

Dawn Gilbertson

Okay. That's helpful. So you're saying that you guys had, obviously, a lot more last-minute cancellations than others since they recovered much more quickly, even though you don't know why that was at this point? Is that correct?

Andrew M. Watterson
Chief Operating Officer

I'm not necessarily saying versus others. I mean for ourselves, we have a lot of close-in cancels, and that's what led to our problem is what we believe at this point in time. I've not done a comparative that I have in front of me that I can tell you that -- what the others did at the same time. That will also be part of the work that we'll look at as well.

But as far as what I can see right now, what I'm suspecting at this point in time is that was the sequence. But once again, you need to kind of dig into it with both interviewing people to understand who did what, when, so to speak, with the interviews, and then also with the data to corroborate that, that was actually what happened.

So it's -- I wouldn't call it tedious, but it's detailed work to fit that picture all together and come up with a time line that shows with good fidelity and backed up with data of what happened and what that led to.

Dawn Gilbertson

Okay. The second question is for Ryan or somebody or maybe Tammy. Can you guys attach them -- I know you've given the total dollar figure, but can you attach some dollar figures to the dollar figure of refunds, the dollar number? I know you're only 80% through on reimbursements. And also on reimbursements, I'm curious, did you guys, because of the scale and scope of this and the damage to your reputation, did you broaden the definition of reasonable as you're going through all these expenses?

Ryan C. Green
Executive VP & Chief Commercial Officer

Yes, I'll take the first part and then let Tammy take the financials. Throughout the event, right away, we promised. We knew it was the right thing to do that we had significantly impacted holiday travel plans here. We knew it was the right thing to do to offer refunds and then to offer reasonable -- to reimburse for reasonable expenses related to alternative transportation.

And the direction that we gave the teams were to be generous in that regard and lean towards the customer. And so I think a lot of these decisions are subjective, but I think the team did a really good job of balancing, understanding what is reasonable and leaning towards the customer in order to do the right thing by them. So I think it was -- admittedly, it's a subjective element that you've got to kind of find where the line is there, but I think our teams leaned into the customer and largely did the right thing there.

Tammy?

Tammy Romo
Executive VP & CFO

Yes. And on the financial impact, as we shared in the release, the total cost impact was $390 million for the fourth quarter. And the lion's share of that was the customer reimbursements and the Rapid Reward points that we offer to our employees and that we expect to be redeemed. So there was a much smaller portion that related to premium pay that we paid to our employees. So the lion's share of that was the customer reimbursements and Rapid Reward points. We haven't given the specific dollar amount of that, but it was probably roughly 50-50 between those 2 categories.

Ryan C. Green
Executive VP & Chief Commercial Officer

And Dawn, I'll just add one more thing here. The -- and those customers that were most severely impacted that we issued the gesture of goodwill for, we issued those Rapid Reward points roughly 3 weeks ago. And when we look at those customers today, 25% of them already have future travel booked on Southwest Airlines. So -- and in 3 weeks, that's really pretty good.

So I think that it is a -- I take that as a sign of confidence that customers understand. They understand that we messed up there. We did everything that we could to make it right, and that 1/4 of them already have future travel booked on Southwest.

Robert E. Jordan
CEO, President & Director

And Dawn, just...

Dawn Gilbertson

With those points?

Ryan C. Green
Executive VP & Chief Commercial Officer

Not necessarily with those points, some of them with those points and some of them paying cash, just future travel.

Robert E. Jordan
CEO, President & Director

Dawn, just the fact -- I think it changes day to day, but on the reimbursements, which are obviously the most complicated thing around, I think our goal -- we're tracking to be 95% complete by tomorrow and then have them all wrapped up by next -- probably early next week. So we're moving through them very quickly.

Operator

And the next question is from Kyle Arnold with Dallas Morning News.

Kyle Arnold

I was curious, could you talk a little bit more about that $1.3 billion in technology spending? Is that back-end infrastructure? And does that include things like the upgrades to WiFi and the in-flight improvements that you're making this year?

Tammy Romo
Executive VP & CFO

The technology spend, yes, it would include all -- everything that you referenced. And again, the $1.3 billion includes technology, the upgrades and the ongoing maintenance of the system. But the WiFi piece of that, it does not include, so that would be incremental.

Robert E. Jordan
CEO, President & Director

Yes. It's really our investment and ongoing support of the -- of our technology infrastructure, including all investments, but it's not the customer investments like the WiFi on the aircraft.

Kyle Arnold

And are there any specific upgrades like you guys have worked on the maintenance systems, anything that you are actively working on? It was probably in place before the December event, but any other systems that will get an upgrade this year as part of your plans?

Andrew M. Watterson
Chief Operating Officer

We have a couple that are ongoing at different levels of maturation, if you will. So we just finished up with the maintenance replacement just recently. That was a big event. We're in the middle of upgrading our ground ops infrastructure. So one of our efforts, you may have seen it from Investor Day, it's called paperless turn.

So we're upgrading -- and that comes in so many releases, some of which have already deployed. And that will allow us to eliminate all of our paper in our turn. That's part of our modernizing operation within our control center. And we have an operation system and a flight planning system, both of those have RFPs that have already been completed and the work has been awarded.

And then in our crew system, we have just completed an RFI, which is what you do before you exit and do an RFP. And so we'll get the results of that and great lessons learned from this event and then proceed with the next step on the crew stuff. So each of the big operating areas has tech workers underway. And as you would expect, some are further ahead than others.

Ryan C. Green
Executive VP & Chief Commercial Officer

And Kyle, that $1.3 billion is across the enterprise. There's a lot of commercial systems that are being upgraded and invested in as well. So it's across the enterprise.

Operator

The next question is from Lori Aratani with Washington Post.

Lori Aratani

I know that the DOT yesterday had announced a little more detail about some of the issues that they're looking into in regards to your December issues, and they mentioned that they are examining whether your schedules may have been unrealistic. I wondered if you guys had any comment on that.

Andrew M. Watterson
Chief Operating Officer

Yes, we saw that. And we know, as Bob said, we messed up, and that will include scrutiny from regulators and elected officials. So we understand that, and we'll cooperate fully. As I mentioned in one of the analyst reviews, if you -- if one were worried about with your schedule operable, then you'd expect to see poor on-time performance, poor reliability.

And to the contrary, really, well before the Christmas vacation, including Thanksgiving vacation in November, we've been running above average in the industry, culminating being #1 this month. So you don't see the signs of a schedule that is out of whack with the resources' ability to operate given our strong operating performance over the last 3 months.

Robert E. Jordan
CEO, President & Director

And just generally, there's a lot of talk about hearings and, obviously, the coordination with the DOT. And we're obviously coordinating and cooperating with our oversight committees. And I mean, we welcome the discussion. We welcome the focus on the resiliency of the aviation system. We've had several personal conversations with the Secretary just in terms of how we're doing and our focus on our customers and his focus on customers as well, and we're aligned, obviously there. So we would -- we'll support all of this, as you would expect.

Operator

The next question is from Chris Isidore with CNN.

Chris Isidore

So I'm wondering if you think that the computer system used for crew scheduling can be repaired? Or if your intention is to replace it entirely as part of this process? And whichever solution is used, do you have any estimate for how much it will cost to either fix or repair it? And how long it will take before the repaired or new system is fully in place?

Andrew M. Watterson
Chief Operating Officer

Thank you. As we mentioned earlier, there's an upgrade already in our test system from GE Digital. So the upgrades in there. Goodness, we haven't even talked costs, so I'm not sure if it's going to cost us anything or not. But it will be upgraded here and the production in a few weeks' time, and we think this addresses the shortcoming we have for this specific instance.

Robert E. Jordan
CEO, President & Director

And just to get a reminder that this GE system, SkySolver, it's an industry tool that many airlines use. It performs well, and it performed as it should. And even in our event, what was revealed was this requirement that no one has ever seen, we had never seen, where the -- you have this need to solve past problems because there are so many problems coming and just volume coming out of the system.

And working with GE, they have put a fix in place and now in test in weeks, I mean, a record time. So the software, again, it's industry-standard crew scheduling or rescheduling software that we and others use. And it did perform, as intended, during the event.

Chris Isidore

So just to be clear, the problems with crew members letting you know where they were and where things stood, having to call in rather than having an app to notify, you don't see a need to change the system fundamentally to have a more electronic form of notification?

Robert E. Jordan
CEO, President & Director

Yes, that's different. Andrew?

Andrew M. Watterson
Chief Operating Officer

Yes. And as I mentioned earlier, that was a problem. We have been this a problem, it wasn't the problem for this situation. It was a symptom of the problem. And so our contracts with our crews right now require telephone calls in these situations. In other situations, we have some level of electronic communication available now. We will make incremental improvements to that. Some have already been deployed now and some will be deployed in the next few months.

But to have a more comprehensive electronic communication requires changes to the contract with the crew members. Those are open right now. We're discussing it with our unions. And should they agree, then we will develop new crew communication tools, consistent with the contract, for development as soon as practical.

Chris Isidore

Have you raised the possibility of opening the contract for that one issue and having to -- because as we understand it from the statements from the unions during December, they were not fans of the current system. Having an agreement on a new notification and new electronic crew notification system now before you get to the entire contract itself because the entire contract itself could obviously take months.

Andrew M. Watterson
Chief Operating Officer

Well, the entire contract's been open for a while, we're in mediation, which, hopefully, as Bob said, means we're towards the tail end of it, and it's not -- we would certainly be open to that if they want to do that. They've not told us that they want to do that. But if they want a side agreement before based on just communications, we will certainly do that. But right now, the approach has been to have that incorporated into this final push of the current contracts, and I think that's wise and practical for us to work on. So we're happy either way. But right now, we've seen no indication than the current path.

Operator

And at this time, we have time for one more additional question, and that question will be from Richard Velotta from Las Vegas Review Journal.

Richard Velotta

You indicated that added capacity by Southwest to several destinations will not be curtailed despite what happened in December. But we're hearing that Harry Reid International is starting to have internal capacity problems, and that airlines might not have much choice in terms of when their operations occur. Has Southwest had any problem scheduling their times of operations as the airline schedule grows in Las Vegas? And do you think the future capacity issues in Las Vegas could curtail flights in the future?

Andrew M. Watterson
Chief Operating Officer

Right now, we've seen no general capacity constraints to our operation and -- at Harry Reid International. It's normal as an airline -- an airport grows that you work on expanding capacity in different areas. You work on taxiways, you work on bag systems. These are all normal course of business and Harry Reid seems to have a good plan and execute upon that in coordination with the airline.

So we're happy about that. I will note that Las Vegas has been so successful in attracting new attractions. We do see a lot of general aviation or private aircraft in the weekends that kind of add a surge of demand. But other than that, we see no changes to the environment.

Richard Velotta

And this is Andrew?

Andrew M. Watterson
Chief Operating Officer

Yes, sir.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Ms. Rutherford for any closing remarks.

Linda Burke Rutherford
Chief Administration & Communications Officer

Thank you, Chad. If you all have any other questions or follow up, our communications group is standing by at (214) 792-4847 or, of course, through our media newsroom at www.swamedia.com. Thank you all very much for joining us.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.