Posted 2005/12/02

Note 2005/12/10:
Due to a placement error by a newspaper in publishing a notice, the date for receiving representation on the proposals has been extended to close of business February 10, 2006.

NAV CANADA

NOTICE OF NEW AND REVISED SERVICE CHARGES

DECEMBER 2005

GENERAL

Pursuant to Section 36 of the *Civil Air Navigation Services Commercialization Act*, S.C. 1996, c. 20 (the "ANS Act"), the following document provides notice (the "Notice") of **NAV CANADA's proposed new and revised service charges and terms and conditions relating to charges for air navigation services to become effective on March 1, 2006, except as otherwise noted**. A document setting out additional details in relation to the proposal, including a justification in relation to the charging principles established under Section 35 of the ANS Act and an appendix providing the results of the Company's Service Charges Review, is available upon request from NAV CANADA.

Persons interested in making representations to NAV CANADA with regard to the proposals set out in this Notice may do so by writing to the address set out under section 9 so as to be received by NAV CANADA not later than February 3, 2006.

NAV CANADA applies service charges to the following categories of air navigation services: (i) terminal, (ii) enroute, and (iii) oceanic.

Except for the revisions proposed in this Notice, all the existing charges and related terms and conditions, as set out in earlier Announcements pertaining to charges, remain in effect.

This Notice consists of nine sections:

(1) Background;
(2) Proposed changes in Terminal Services Charge;
(3) Proposed changes in Daily Charge for aircraft weighing over three tonnes;
(4) Proposed new Daily Charge at eight international airports for aircraft weighing three tonnes or less;
(5) Proposed change in International Communication Services Charge;
(6) Proposed accommodation of multiple weights for the same aircraft in calculation of service charges;
(7) Proposed increase in the Rate Stabilization Account
(8) Proposed changes in Credit Terms and Conditions; and
(9) Additional information regarding the Notice and on making representations to NAV CANADA.

1. BACKGROUND

In January 2005, NAV CANADA (the Company) initiated a review of its customer service charges. This review included the charging methodology, the rate stabilization account, aeronautical publications and the cost allocation methodology. To assist in this review, a discussion paper was produced, posted on the Company's website www.navcanada.ca, and widely distributed to international and national air transport and general aviation associations, regional and provincial aviation organizations and many individual customers and stakeholders.

Consultation meetings were held between January and April 2005 to discuss the issues and written submissions were received from many stakeholders. Based on an analysis of the input received, the Company is proposing certain changes. The consultation process and the results of the service charges review are presented in the document entitled *Details and Principles Regarding Proposed New and Revised Service Charges* ("Details and Principles"), which is posted on the Company's website.

This Notice sets out the proposals for changes resulting from the service charges review. It is important to note that the proposed revisions represent *changes in methodology only* and are designed to result in the same total revenue for the Company as under the existing charges, i.e., the proposed revisions are revenue neutral. The Company also reviews its charges regularly in light of anticipated costs, traffic and other factors, and makes adjustments as necessary through separate Notices as required.

This Notice also includes two proposals on issues that have evolved since the consultation on the service charges review. One proposal pertains to the need for aircraft registration marks to be provided in flight plans, and – as this concerns the billing of daily charges - has been included among the changes proposed in sections 3 and 4 of the Notice. The other proposal pertains to changes in the Company's Credit Terms and Conditions, which are set out in section 8.

2. PROPOSED CHANGES IN TERMINAL SERVICES CHARGE

NAV CANADA currently uses a weight exponent of 0.9 in its Terminal Services Charge formula. The formula is:

$$\text{Charge} = \text{MTOW}^{0.9} \times \text{Rate}$$

Where:

- MTOW is the maximum permissible take-off weight of the aircraft, and
- Rate = the unit rate. The base rate is currently \$16.38. An additional rate adjustment of \$0.28 pertaining to the Rate Stabilization Account also applies.

The specific value of the weight exponent determines to what degree the cost to be recovered through the charge is borne by aircraft of varying weights. A higher weight exponent results in a higher proportion of the cost being absorbed by larger aircraft.

Internationally, the NAV CANADA terminal charge is among the highest for larger aircraft, and among the lowest for smaller aircraft. For this and other reasons, as discussed in the Appendix to the Details and Principles document, it is proposed to gradually reduce the terminal charge weight exponent from 0.9 to 0.85 on March 1, 2006 (Phase 1) and to 0.8 on September 1, 2008 (Phase 2).

This change will result in a decrease in the charge for larger aircraft and an increase for smaller aircraft. For example, the additional cost per passenger for a CRJ-200 would be in the order of 42 cents for Phase 1. If passed on to the traveling public, this additional cost would represent approximately 0.2% of the total price of a trip. For larger aircraft, the reduction in cost per passenger would be in the 0 to $1 range for Phase 1.

The impact of Phase 2, planned for September 1, 2008, would be similar to Phase 1.

The reduction of the weight exponent will also result in a significant reduction in the total number of charging units calculated. As such, the unit rate must be increased to generate the same level of total revenue. The same is true for the rate adjustment component of the charge.

This Notice sets out the Phase 1 changes. A separate Notice will be issued in advance of September 1, 2008, for Phase 2.

Proposal

Effective March 1, 2006:

- The Terminal Services Charge formula will be:

Charge = $\text{MTOW}^{0.85}$ x Rate

- The rate will be $20.23, and
- The rate adjustment will be $0.35.

3. PROPOSED CHANGES IN DAILY CHARGE FOR AIRCRAFT WEIGHING OVER THREE TONNES

The Daily Charge represents a composite fee for terminal and enroute services. The existing charges (base rate + adjustment) are presented in Table 2 of the Appendix to the Details and Principles Document. The Daily Charge applies mainly to propeller aircraft, which typically represent smaller aircraft. A change in the *Terminal Charge* affecting smaller aircraft would also mean a similar change in the *terminal component of the Daily Charge*. As the proposed reduction in the aircraft weight exponent for the Terminal Charge, set out in section 2 of this Notice, will result in an increase in this charge for smaller aircraft, a similar increase is proposed for the terminal component of the Daily Charge.

The reasons for and the impact of this change are provided in the Appendix to the Details and Principles document. The additional cost per passenger for smaller aircraft would be in the 17 to 54 cents range for Phase 1. If passed on to the traveling public, this additional cost would represent approximately 0.2% of the total price of a trip.

The impact of Phase 2, planned for September 1, 2008, would be similar to Phase 1.

It is also proposed to require that the application of the Daily Charge be made conditional on the inclusion of the aircraft registration marks in flight plans. Many regional and local air carriers utilizing propeller aircraft are charged daily fees given the nature of their operations (i.e., short haul multi-leg flights with a high daily flight frequency per aircraft). Flight planning procedures allow air carriers to centrally store their flight plans without aircraft registration marks. This complicates NAV CANADA's billing procedures, as it is necessary to identify the specific aircraft used for each flight to bill the Daily Charges.

In order to ensure efficient and accurate invoicing of the Daily Charge it is proposed that inclusion of aircraft registration marks in the flight plans be required.

Proposal

Effective March 1, 2006, the Daily Charge will be:

Category and Weight Group* (in metric tonnes)	Base Rates Effective March 1, 2006	Additional Rate Adjustments[1)] Effective March 1, 2006
Propeller Aircraft		
Over 3.0 up to 5.0	$ 39	$ 1
Over 5.0 up to 6.2	$ 79	$ 1
Over 6.2 up to 8.6	$ 317	$ 5
Over 8.6 up to 12.3	$ 751	$ 13
Over 12.3 up to 15.0	$ 1,124	$ 19
Over 15.0 up to 18.0	$ 1,360	$ 23
Over 18.0 up to 21.4	$ 1,847	$ 32
Over 21.4	$ 2,441	$ 42
Maximum for Helicopters	$ 79	$ 1
Small Jet Aircraft		
Over 3.0 up to 6.2	$ 193	$ 3
Over 6.2 up to 7.5	$ 318	$ 5

1) Pertain to overall adjustment in charges of 2% introduced in August 1, 2003, to rebuild the Rate Stabilization Account

* Maximum permissible take-off weight.

Effective March 1, 2006:

- Aircraft registration marks must be included in flight plans for the application of the Daily Charge; and
- Movement based charges will apply to all flights missing the aircraft registration marks in the flight plan.

4. PROPOSED NEW DAILY CHARGE AT EIGHT INTERNATIONAL AIRPORTS FOR AIRCRAFT WEIGHING THREE TONNES OR LESS

Small aircraft weighing three tonnes or less are subject to Annual (Canadian-registered aircraft) or Quarterly Charges (foreign registered aircraft). The Annual Charge (base rate + separate adjustment) is currently $72 for aircraft up to two tonnes and $240 for aircraft between two and three tonnes. The Quarterly Charge is 25% of the Annual Charge.

As indicated in the Appendix to the Details and Principles document, the stakeholder views on the issue of charges for general aviation varied widely. Many commercial operators believe that the charges should be substantially increased, while private aircraft operators either supported the status quo or argued for decreased fees.

Based on the service charges review, the Company believes that an additional charge - over and above the annual and quarterly charges - is warranted at the eight major international airports representing the top Canadian airports in terms of air carrier flights by jet aircraft. It seems fair and reasonable that aircraft weighing three tonnes or less using the major international airports should contribute more than the Annual and Quarterly charges. An additional charge would also serve as an incentive for small aircraft to use reliever airports, which are available at nearly all locations. This would have an efficiency benefit for air carrier traffic using the major international airports.

Proposal

Effective September 1, 2006, a new Daily Charge will be applied to aircraft weighing 3.0 tonnes or less (MTOW) that depart from Vancouver, Calgary, Edmonton, Winnipeg, Toronto (Pearson), Ottawa, Montréal (Trudeau) or Halifax international airports. With respect to Vancouver International Airport, the new and the existing daily charges will also apply at the water aerodrome. The charge will apply to an aircraft each day it departs from one or more of these airports, where a day is defined as each 24 hour period that commences at 0800 GMT.

An annual maximum limit per aircraft will be in place for the new Daily Charge, where the annual period will run from March 1 to February 28 (or 29). The annual limit will apply to both Canadian-registered aircraft and foreign-registered aircraft. Since this change is to be implemented on September 1, 2006, a reduced limit will apply for the period September 1, 2006 to February 28, 2007.

The implementation of the new Daily Charge and the related annual maximum limits will be phased in as set out in the following tables. Due to changes required in the billing system, the first phase will be implemented on September 1, 2006.

Daily Charge for Aircraft Weighing Three Tonnes or Less*

Effective Date	Daily Charge
September 1, 2006	$ 5 per day
March 1, 2008	$10 per day

* Applicable at Vancouver, Calgary, Edmonton, Winnipeg, Toronto (Pearson), Ottawa, Montréal (Trudeau) and Halifax international airports.

Annual Maximum Limit for Daily Charge for Aircraft Weighing Three Tonnes of Less

Effective Date	Maximum Charge
September 1, 2006	$ 300 per aircraft for period September 1, 2006 to February 28, 2007
March 1, 2007	$ 600 per year per aircraft
March 1, 2008	$1200 per year per aircraft

In order to apply this charge correctly, the aircraft registration mark must be provided in each flight plan. If the aircraft registration mark is not provided, each flight departing from one of the eight specified airports will be charged at the daily rate. Also, in the absence of the aircraft registration mark, it will not be possible to apply the annual maximum to an aircraft since the specific aircraft cannot be identified.

The new Daily Charge will apply in addition to the existing Annual and Quarterly charges. The Annual and Quarterly charges do not count towards the annual maximum pertaining to the new Daily Charge.

Existing exemptions from charges for ultralights, gliders, balloons and aircraft weighing less than 617 kg will not apply to the new Daily Charge. The Daily Charge will also apply to aircraft over 3.0 tonnes that have been declared to NAV CANADA as dedicated to recreational use.

5. PROPOSED CHANGE IN INTERNATIONAL COMMUNICATION SERVICES CHARGE

NAV CANADA has a differentiated rate structure for the International Communication Services Charge. Flights where voice communication is used for position reporting are charged $52.33 per flight while flights where data link communication is used for this purpose are charged $26.44 per flight.

The differentiated rate calculation includes many factors including cost, percent of flights using data link and the number of voice contacts per flight with NAV CANADA. With an average of six contacts per flight, a voice-only flight would have six voice contacts. For a data link flight, two voice contacts and four data link contacts were assumed in the original calculation. An average of 1.5 voice contacts for a data link flight now seems more appropriate. Calculating the rates using this revised average, and 50% data link flights, results in a rate of $61.00 for voice and $22.96 for data link flights.

Proposal

Effective March 1, 2006, the rates for the International Communication Services Charge will be:

- $61.00 per flight for flights providing position reports using voice communication; and
- $22.96 per flight for flights providing position reports using data link communication.

6. PROPOSED ACCOMMODATION OF MULTIPLE WEIGHTS FOR SAME AIRCRAFT IN CALCULATION OF SERVICE CHARGES

The application of Maximum Permissible Take-off Weight (MTOW) of aircraft is a fundamental component of NAV CANADA's charging structure. The MTOW can vary for the same aircraft model/series. Some air carriers also obtain different MTOWs for the same aircraft by season. During the consultation on the review of service charges, some customers proposed that the option of applying more than one MTOW for the same aircraft (multiple MTOWs) should be broadened to accommodate different MTOWs by flight stage length. As indicated in the Appendix to the Details and Principles document, this proposal seems reasonable.

Proposal

It is proposed that, for the *Terminal and Enroute* (including overflight) *charges*, customers be given the option of applying different MTOWs based on the following flight stage length ranges:

- 0 up to 805 km (0 to 500 statute miles);
- over 805 up to 2414 km (over 500 up to 1500 statute miles); and
- over 2414 km (over 1500 statute miles).

The stage length will be determined based on the great circle distance between the point of departure and point of arrival of a flight leg (whether domestic, international or overflight). It is noted that the distance used in the calculation of the Enroute Charge does not change under this proposal. This proposal uses the full stage length of the flight leg only to determine the appropriate aircraft weight to be used in calculating service charges.

The weight of an aircraft, as declared by a customer, for a given stage length range shall be the highest MTOW at which the aircraft will operate in that stage length range for the period June 1, to September 30, 2006, and quarterly thereafter. For an aircraft that is eligible for *the Daily Charge,* the weight used in the calculation of this charge will be the highest MTOW assigned to any of the chargeable flights of that aircraft on that day. The weights assigned to each of those flights will be based on the MTOWs by flight stage length ranges, as outlined above.

A customer currently has the option to be invoiced movement base charges on the basis of the specific MTOW of the aircraft flown or on the basis of the average weight of that aircraft type in the customer’s fleet. Under the multiple MTOW option, a customer will only be invoiced based on the specific MTOW of each aircraft in the customers entire fleet.

Should an aircraft have two or more MTOWs, where one or more of them is three tonnes or less, the highest MTOW will always be used by NAV CANADA in calculating the charges for that aircraft.

With respect to informing NAV CANADA of aircraft MTOWs and their application by flight stage length ranges, this will be reported by the customers in their fleet report submitted to the Company.

All MTOWs of an aircraft must have the approval of the civil aviation authority in the country of aircraft registry.

The multiple MTOW option will be accommodated on the following conditions:

- Any customer using this option will allow NAV CANADA access upon request to the flight log of an aircraft containing the actual take-off weight of each flight to verify that the actual take-off weight did not exceed the declared MTOW.

- In the event that a customer operates an aircraft at a higher MTOW than that declared to NAV CANADA for the applicable flight stage length range, the customer will:

    - be re-billed at the highest MTOW for each aircraft concerned for the full billing period under review;
    - no longer be allowed to use the multiple MTOW option; and
    - be billed for each aircraft at its highest MTOW in the customer’s fleet going forward.

- Customers using this option will bear the additional costs incurred by NAV CANADA for periodic auditing necessary to ensure that a customer is operating within the declared MTOWs.

The proposed effective date for this change is June 1st, 2006, to allow sufficient lead time to make the necessary changes required in the billing system.

7. PROPOSED INCREASE IN THE RATE STABILIZATION ACCOUNT

In order to mitigate the effect on its operations of unpredictable and uncontrollable factors, principally unanticipated fluctuations in air traffic volumes, the Company maintains a rate stabilization account (RSA) with a target balance of $50 million. The RSA permits the Company to maintain lower charges following a downturn, such as during the post September 11, 2001 (9/11) period, than otherwise would have been possible.

As a result of the down-turn in traffic post 9/11, the Company incurred a shortfall which reached $116 million in fiscal year 2003. To help recover this shortfall and replenish the RSA, a separate rate adjustment of 2% was implemented on August 1, 2003, which will remain until the existing target balance of $50 million has been reached.

The RSA has proven its importance to the Company and its customers and will continue to be retained as a key element of NAV CANADA's financial management to ensure the provision of an essential service on a long-term sustainable basis. With respect to the level of the RSA, an increase in the target balance seems necessary for the following reasons:

- The risk of downturns in traffic has increased materially in the post 9/11 global environment of terrorist activities and related fears, health scares and natural disasters.

- Considering inflation, the current target balance has decreased in real terms since it was established.

NAV CANADA proposes to increase the target balance of the Rate Stabilization Account (RSA) from $50 million to $75 million and then set the RSA target balance at 7.5% of total annual expenses, excluding one-time non-recurring items, on an ongoing basis. The Company intends to achieve this increase of $25 million only through positive variances in operating results if and when they occur rather than through any increase in fees.

8. PROPOSED CHANGES IN CREDIT TERMS AND CONDITIONS

It is proposed to tighten the Company's existing credit terms and conditions to reduce the risk of exposure to bad debts, by including the following provision:

> "A customer shall be required to pay for the provision or availability of air navigation services in advance or provide satisfactory security for such payment on the basis of an estimate of charges to be incurred, if any one of the following circumstances exists:
>
> - A customer fails to make a payment or any part of a payment in accordance with NAV CANADA's payment terms and conditions on three occasions or more;
> - The customer's Dun & Bradstreet Financial Stress Score Risk Class is a 3, 4 or 5, or Dun & Bradstreet equivalent failure score as amended from time to time;
> - A customer's credit is rated and its credit rating is below or falls to below B as determined by Standard & Poors' and/or B2 as determined by Moodys; or
> - The customer has not provided NAV CANADA, upon request, with financial information such as credit ratings, credit reports, analyst reports, current audited financial statements, etc. which NAV CANADA deems sufficient to enable it to assess and conclude that the credit worthiness of the customer is satisfactory."

The following paragraphs in the existing terms and conditions have become redundant, and will therefore be deleted:

> "If a customer's credit is rated and its credit rating is below or falls to below B as determined by Standard & Poors' and/or B2 as determined by Moodys', or if it is not rated and NAV CANADA otherwise determines that the customer's financial position and/or payment history require more frequent billing and payment, the customer shall be placed on weekly billing and payment terms, such that payment will be received on the basis of estimates of charges based on prior period usage levels."
>
> "Where NAV CANADA provides its customers with a fee adjustment as a result of prior revenues in excess of the company's financial requirements, it may withhold that adjustment to any customer who has not fully paid two or more previous consecutive invoices. However, when a customer brings his account back up to current status, the accumulated adjustments will be credited to the customer."

The proposed effective date for these changes is March 1, 2006.

9. ADDITIONAL INFORMATION REGARDING THE NOTICE AND ON MAKING REPRESENTATIONS TO NAV CANADA

Further details of this proposal, including a justification for the proposal in relation to the charging principles, are provided in a document entitled *Details and Principles Regarding Proposed New and Revised Service Charges* ("Details and Principles") which is available on request. The Notice and the Details and Principles documents are posted on NAV CANADA's Internet site (www.navcanada.ca).

Information on the existing charges is provided in NAV CANADA's announcements on service charges and *Customer Guide to Charges*, which are also available on the Internet site.

A hard copy of the Details and Principles document may be obtained by contacting NAV CANADA:

in writing:	NAV CANADA P.O. Box 3411, Station "D" Ottawa, Ontario Canada K1P 5L6 Attention: Director, Customer Relations
by e-mail:	service@navcanada.ca
by facsimile:	1 - 613 - 563 - 3426
by telephone:	1 - 800 - 876 - 46934 (within North America, disregard the last digit)

Pursuant to Section 36 of the ANS Act, persons interested in making representations to NAV CANADA with regard to the proposal contained in this Notice may do so in writing to the following address:

NAV CANADA
P.O. Box 3411, Station “D”
Ottawa, Ontario
Canada K1P 5L6
Attention: Assistant Vice-President,
Revenue and Performance Indicators

by e-mail: andreaa@navcanada.ca
by facsimile 1 - 613 - 563 - 7994

Note: Representations must be received by NAV CANADA not later than the close of business on February 3, 2006.