



Service Charges Review: Results

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1. Introduction

In January 2005, NAV CANADA (the Company) initiated a review of its customer service charges. To assist in this review, a discussion paper was produced. The paper summarized the existing charges and explored various aspects of the underlying charging and cost allocation methodologies, the Rate Stabilization Account and charges for Aeronautical publications. The Discussion Paper was 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 at various locations between January and April 2005 to discuss the issues and written submissions were received from many stakeholders.

The scope of the review included the following areas:

- Charging Methodology;
- Rate Stabilization Account;
- Aeronautical Publications; and
- Cost Allocation Methodology.

Based on an analysis of the input received, the Company is proposing certain changes. This paper describes the results of the service charges review, or more specifically, what changes are being proposed, the plan to implement the changes and what will stay as is. There are some additional issues related to the administration of service charges that have arisen since the consultation which are also described in the paper.

The proposed changes are set out in a Notice of New and Revised Service Charges, in accordance with the provisions of the *Civil Air Navigation Services Commercialization Act* (ANS Act), providing customers and stakeholders with an opportunity to provide input on the specific proposals. The Notice is posted on the Company's website at www.navcanada.ca. As indicated in the Notice, any comments must be received in writing by February 3, 2006*.

The comments and suggestions received during the consultation indicate that the views and concerns of the different customer groups are as diverse as they were at the time the service charges were first developed and fully implemented on March 1, 1999. This is not surprising due to the inherently conflicting views among customer groups, such as between commercial and general aviation. The key challenge is to ensure a fee structure that maintains a reasonable balance within the framework of the charging principles of the ANS Act.

In general, the proposed changes would:

- better balance the charges between large and small aircraft;
- better reflect the impact of new ANS technology;

* Note: The date has been extended to February 10, 2006.

- permit the Company to better absorb the financial impact of fluctuations in air traffic; and
- ensure an updated cost allocation methodology.

We would like to thank all those who participated for their time, input and willingness to assist us with this process.

2. Charging Methodology

In reviewing the charging methodology, it is important to bear in mind that the proposed changes in existing charges would result in the same total amount of revenue for the Company as under the current charges, i.e., the proposed revisions are revenue neutral.

2.1 Role of Aircraft Weight in the Charging Formulae

Movement-based charges (Enroute and Terminal)

The aircraft weight measure utilized in the calculation of ANS charges is the maximum permissible take off weight (MTOW). The use of the MTOW is set out in section 35(4) of the ANS Act and is consistent with ICAO policy and international practice. The aircraft weight is included in the charging formulae as a practical parameter to reflect the value of the service. It should also be noted that, from a cost perspective, the majority of the infrastructure and operating costs of the ANS system are driven by commercial air carriers operating large transport aircraft.

NAV CANADA uses an exponent of 0.9 (i.e., close to proportional to weight) in calculating the Terminal Charge and the square root of the aircraft weight in the formula for calculating the Enroute Charge.

There are various views on this issue amongst stakeholders. Some are opposed to the inclusion of weight in the charging formulae, believing that weight is not a cost driver, while others support the status quo or a reduction in the role of weight, often depending on their fleet.

A review of international practice shows that, for en route charges, the use of the square root of the aircraft weight is virtually the norm. Consequently, **no change is proposed in the Enroute Charge.**

For terminal charges, international practice varies and the role of weight in NAV CANADA's charge falls in the middle to high end of the range. The NAV CANADA Terminal Charge for larger aircraft is among the highest, while the charge for smaller

aircraft is among the lowest. We therefore believe that moving to a lower weight exponent of 0.8 would be appropriate. This would be implemented gradually, starting with an exponent of 0.85, effective March 1, 2006 (Phase 1), then moving to 0.8 on September 1, 2008 (Phase 2).

A lower weight exponent means that larger aircraft would pay somewhat less than currently while smaller aircraft would pay somewhat more. In its June 2001 report, "Vision and Balance", the *Canada Transportation Act* Review Panel noted that "a review of the pricing structure is desirable, to determine whether the higher charges imposed on larger aircraft are excessive." NAV CANADA also notes that in Europe, there is a proposal to gradually harmonize terminal charges to an exponent of 0.7.

Daily Charge

The Daily Charge is a composite fee for terminal and enroute services. This review indicates that the split, which so far has been 85 per cent terminal and 15 per cent enroute, should be changed to 80 per cent and 20 per cent, respectively. This revised split has been reflected in the development of the proposed revisions in the Daily Charge.

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 weight exponent would result in an increase in the Terminal Charge for smaller aircraft, a similar increase is proposed for the terminal component of the Daily Charge.

Impact

The proposed changes would be implemented gradually in two phases, March 1, 2006 and September 1, 2008. Tables 1 to 3 illustrate the changes for Phase 1: The cost per passenger would increase in the 17 to 54 cents range for smaller aircraft, and decrease up to approximately \$1 for larger aircraft.

In terms of the impact on the total price for air travel, it has been estimated that this would typically represent approximately 0.2%, if passed on to the traveler.

The impact of Phase 2 would be similar to Phase 1.

Table 1
Illustration of Impact of Proposed Changes in Terminal and Daily Charges
Change in Cost per Passenger
March 1, 2006 (Phase 1)

Jet Aircraft subject to Movement Fees

Aircraft Type	Terminal Charge			Cost per Passenger per Flight		
	Current	March 1, 2006	Percent Change	Current	March 1, 2006	Change
B747-400	\$3,627	\$3,323	-8.4%	\$12.12	\$11.10	-\$1.02
A340-300	\$2,613	\$2,437	-6.7%	\$13.25	\$12.36	-\$0.89
B767-300	\$1,775	\$1,692	-4.7%	\$11.49	\$10.95	-\$0.54
A320	\$821	\$817	-0.5%	\$8.23	\$8.19	-\$0.04
A319	\$763	\$762	-0.1%	\$8.92	\$8.91	-\$0.01
B737-700	\$744	\$744	0.0%	\$7.87	\$7.87	\$0.00
B737-200	\$604	\$611	1.2%	\$7.12	\$7.21	\$0.08
CRJ-200	\$280	\$296	5.6%	\$7.47	\$7.89	\$0.42

Current Terminal Charge Unit Rate: \$16.66 (base rate of \$16.38 plus adjustment of \$0.28)

Terminal Charge Unit Rate on March 1, 2006: \$20.58

For Jet Aircraft a Load Factor of 75% is assumed.

Propeller Aircraft subject to the Daily Charge

Aircraft Type	Daily Charge			Cost per Passenger per Flight		
	Current	March 1, 2006	Percent Increase	Current	March 1, 2006	Increase
DH8-300	\$1,783	\$1,879	5.4%	\$7.77	\$8.19	\$0.42
DH8-100	\$1,303	\$1,383	6.1%	\$8.80	\$9.34	\$0.54
Beech 1900	\$295	\$322	9.2%	\$4.44	\$4.84	\$0.41
Metroliner IV	\$295	\$322	9.2%	\$3.45	\$3.77	\$0.32
Twin Otter	\$72	\$80	11.1%	\$2.12	\$2.35	\$0.24
Pilatus 12	\$36	\$40	11.1%	\$2.00	\$2.22	\$0.22

For Propeller Aircraft a Load Factor of 50% is assumed.

Charges include base rates plus adjustments.

Table 2
Proposed Daily Charge
March 1, 2006 (Phase 1)

	<u>Current</u>	<u>March 1, 2006</u>	<u>Percent Increase</u>	<u>Average Increase in Cost per Passenger per Flight</u>
Propeller Aircraft				
Over 3.0 to 5.0	\$36	\$40	11.1%	\$0.22
Over 5.0 to 6.2	\$72	\$80	11.1%	\$0.17
Over 6.2 to 8.6	\$295	\$322	9.2%	\$0.41
Over 8.6 to 12.3	\$712	\$764	7.3%	\$0.33
Over 12.3 to 15.0	\$1,069	\$1,143	6.9%	\$0.45
Over 15.0 to 18.0	\$1,303	\$1,383	6.1%	\$0.45
Over 18.0 to 21.4	\$1,783	\$1,879	5.4%	\$0.35
Over 21.4	\$2,398	\$2,483	3.5%	
Maximum for Helicopters	\$72	\$80	11.0%	
Small Jet Aircraft				
6.2 or less	\$178	\$196	10.1%	
Over 6.2 to 7.5	\$295	\$323	9.5%	

Table 3
Impact of Proposed Terminal Charge
on Corporate Jet Aircraft
March 1, 2006 (Phase 1)

<u>Aircraft Type</u>	<u>Current</u>	<u>March 1, 2006</u>	<u>Percent Increase</u>	<u>Increase</u>
Falcon 900	\$280.05	\$295.74	5.6%	\$15.69
Embraer 145	\$269.06	\$284.77	5.8%	\$15.71
Challenger 600	\$269.06	\$284.77	5.8%	\$15.71
Falcon 50	\$269.06	\$284.77	5.8%	\$15.71
Embraer 135	\$246.95	\$262.61	6.3%	\$15.67
Falcon 2000	\$213.34	\$228.73	7.2%	\$15.39
Jetstream 328	\$202.01	\$217.24	7.5%	\$15.23
Falcon 20	\$190.62	\$205.64	7.9%	\$15.03
LearJet 60	\$145.37	\$159.21	9.5%	\$13.84
LearJet 45	\$134.71	\$148.17	10.0%	\$13.45
Falcon 10	\$120.36	\$133.21	10.7%	\$12.85

NAV CANADA proposes to:

- **Reduce the exponent in the Terminal Charge formula gradually from 0.9 to 0.85, effective March 1, 2006 and to 0.8, effective September 1, 2008; and**
- **Increase the terminal component of the Daily Charge on the same dates by a percentage increase that is similar to the increase in the Terminal Charge for smaller aircraft (resulting from the change in the formula for this charge).**

2.2 Multiple Weights for the Same Aircraft

The aircraft weight (MTOW) can vary for the same aircraft model/series, and some air carriers obtain different MTOWs for the same aircraft by season. The MTOW can therefore vary by the nature of the operation of the aircraft. While some customers preferred the status quo, others 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.

Since variation in MTOWs is already in use (e.g., by season), it seems reasonable to accommodate, as far as practical, an option to vary the MTOW by flight stage length.

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.

NAV CANADA proposes to accommodate, effective June 1, 2006, the option of using multiple MTOWs for the same aircraft by flight distance on the basis of three fixed stage length ranges, 0-500, 501-1500 and over 1500 statute miles.

2.3 Time as a Charging Parameter

Distance is the parameter used for calculating the Enroute Charge. Some stakeholders suggested that applying time would better reflect the use of the services, resulting in higher charges for slower aircraft than for faster aircraft flying the same route.

Discussions and input received during the consultation uncovered a general agreement among most stakeholders that time in the system should not be included as a charging parameter. Delays due to congestion, the need to route around significant weather, or maintain separation with conflicting traffic all result in penalties to operational efficiency that impact customers. The inclusion of time in the system as a parameter in calculating en route charges would further exacerbate this penalty unfairly.

NAV CANADA does not propose to include time in the system as a charging parameter.

2.4 Peak/Off-Peak Charges

While most stakeholders supported the continuation of the status quo on the issue of peak/off-peak charging, some customers who operate at night expressed the belief that charges should be lower during off-peak periods. Internationally, peak/off-peak charges have so far not been used for ANS charges. In view of the wide support for status quo, NAV CANADA is not proposing any changes at this time.

Nevertheless, a fuller discussion with customers of whether peak/off-peak differentiation in charges could have some application in the future may be useful.

NAV CANADA does not propose to incorporate peak/off-peak charges in the charging methodology at this time.

2.5 Site-specific versus System-wide Charges

System-wide charges represent one of the core features of NAV CANADA's existing charging methodology. For example, the Terminal Charge for any particular aircraft is the same at each airport at which the Company has an Air Traffic Control tower or a Flight Service Station/Flight Information Centre.

Some stakeholders have expressed the view that charges should vary from site to site in order to recover the costs for terminal air navigation services at each airport from the traffic at that airport. Generally, this would result in an increase in the Terminal Charge at airports with lower traffic relative to the charge at higher traffic airports. However, the majority of stakeholders continue to support system-wide charges which recognize that the ANS is one integrated system, a key concept underlying the ANS commercialization in Canada.

NAV CANADA does not propose to incorporate site-specific charges in the charging methodology.

2.6 Differentiation in the International Communication Services Charge

In 2001, NAV CANADA introduced, as the first and so far the only ANS provider to do so, a fee differential to the International Communications Services Charge for operators using data link communication for position reporting. The purpose was to encourage the use of data link, given capacity constraints with HF voice communication.

The use of data link has since increased to over 40 per cent of flights on the North Atlantic, and is expected to continue to grow. The shift to data link would result in temporary excess voice capacity, and the question is whether such costs should be borne principally by voice communication aircraft or whether they should be equally shared with the data link aircraft. For this reason, further differentiation in the charge was frozen pending this review of charges.

Further differentiation now seems warranted for the following reasons:

- The consultation indicated a fair amount of support;
- Data link aircraft are subject to third party communication costs for their air-ground transmission of messages, which is not the case for aircraft using voice communication only. In view of this, there may be some justification for having those using voice communication only bear most of the cost of any temporary excess voice capacity; and
- Further differentiation would also provide added incentive for aircraft to become data link equipped.

NAV CANADA proposes to increase the differentiation in the International Communication Services Charge, effective March 1, 2006 as follows:

- **Increase the rate for flights using only voice communication from \$52.33 to \$61.00; and**
- **Reduce the rate for flights using data link communication from \$26.44 to \$22.96.**

2.7 Charges for General Aviation

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 plus separate adjustment) is currently \$72 for aircraft up to two tonnes and \$240 for aircraft between two and three tonnes.

Stakeholder views on the issue of charges for general aviation varied widely. Many air carriers believe that the charges should be substantially increased, while representatives of general aviation either supported the status quo or argued for decreased fees.

In analyzing this issue, it was recognized that the level of the existing Annual (and Quarterly) charges, which are applied nationally, reflects the fact that many small aircraft (three tonnes or less) do not operate at airports with an Air Traffic Control tower or a Flight Service Station/Flight Information Centre (FSS/FIC). For such aircraft, the main ANS services available are weather information, flight planning/notification, aeronautical information and assistance to DND in Search and Rescue operations. Since more ANS services are provided and available at airports with a tower or a FSS/FIC, an additional charge for small aircraft operating at such airports could be considered. This option was explored in the Discussion Paper released in January 2005.

The charging principles in the ANS Act require that charges not be structured in such a way that aviation safety could be adversely affected and that charges on recreational and private aircraft must not be unreasonable or undue. This has led the Company to propose a new Daily Charge as an additional charge for aircraft weighing three tonnes or less using the major international airports. In addition to being fair and reasonable on its own merit, such a charge would 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.

Due to changes required in the billing system, it is proposed to implement the first phase of the new Daily Charge on September 1, 2006.

NAV CANADA proposes to:

- **Retain the existing Annual and Quarterly charges;**
- **Gradually implement a new, additional charge at Vancouver (including the water aerodrome), Calgary, Edmonton, Winnipeg, Toronto (Pearson), Ottawa, Montréal (Trudeau) and Halifax international airports for aircraft weighing three tonnes or less (MTOW) as follows:**
 - **A Daily Charge of \$5, effective September 1, 2006, increasing to \$10, effective March 1, 2008; with**
 - **An annual maximum per aircraft, the annual period running from March 1 to February 28 (or 29). The maximum will be:**
 - **\$ 300, for the period September 1, 2006 to February 28, 2007;**
 - **\$ 600, effective March 1, 2007; and**
 - **\$ 1200, effective March 1, 2008.**

2.8 Exemptions

Currently, the Company provides exemptions from charges for a limited number of activities such as fire fighting, air ambulance and registered charities. Under the ANS Act, aircraft operating under the authority of the Minister of National Defence are also exempted, as are foreign state aircraft in the absence of a Governor in Council (GIC) authorization to charge.

The existing exemptions and reductions seem reasonable and no changes are planned at this time, except for the following:

- There is a strong view among customers that foreign state aircraft should not be exempted from charges. **Given that the ANS Act provides for the GIC to authorize the charging of foreign state aircraft, NAV CANADA will write to the Minister of Transport seeking such approval;**

- **Additionally, the Company intends to expand the application of the Enroute Charge to sightseeing and other flights leaving the terminal control area but returning to the same airport, except aborted flights due to weather or training flights, provided that the additional revenue warrants the cost of related system changes; and**
- **The existing exemptions for ultralights, gliders, balloons and aircraft weighing less than 617 kg would not apply to the proposed new Daily Charge.**

For smaller aircraft, representation has been received for expanded exemptions or reductions in charges with respect to the current weight exemption limit, aircraft operating in areas without communication coverage or from small airstrips, and for certain aerial agricultural spraying operations. Recognizing the imperative of aviation safety, the ANS Act provides the authority to charge based on the availability of service regardless of whether the service is actually used or not. There are basic services available to aircraft operators regardless of where they operate, such as weather information, aeronautical information or Search and Rescue assistance. The basic safety oriented charging provisions in the ANS Act recognize that part of the ANS is available and of some value to any aircraft. This supports a broad application of a modest annual charge. On this basis, the status quo would be retained.

2.9 Service Charge Administration

Billing

Many regional and local air operators utilizing propeller aircraft are charged the Daily Charge 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 operators 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 Charge.

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.

NAV CANADA proposes to:

- **Require aircraft registration marks to be included in flight plans for the application of the Daily Charge, effective March 1, 2006;**
- **Apply movement based charges to all flights missing aircraft registration marks in the flight plan for aircraft over 3 tonnes (MTOW), effective March 1, 2006; and**

- **Apply the amount of the new Daily Charge for aircraft weighing 3 tonnes or less (MTOW) using one or more of the eight major airports to each departure if the aircraft registration mark is missing from the flight plan, effective September 1, 2006.**

Credit Terms and Conditions

As a not-for-profit company that recovers its costs on a break-even basis from its customers, NAV CANADA has little ability to absorb bad debt losses. The Company has an excellent collection record. However, when credit losses occur, these must be recovered through customer service charges.

During the consultation, customers generally agreed with a further tightening of credit terms on a risk basis.

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

3. 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.

Customer views regarding the retention of or the appropriate balance for the RSA vary, from elimination, retention at the current target balance to an increase in the target balance. Some stakeholders expressed concern regarding the potential for abuse of a rate stabilization mechanism. However, for NAV CANADA, the governance structure and legislated charging principles effectively protect against this.

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.

The Company believes that the target balance of the RSA should be increased to \$75 million. However, recognizing the difficult financial situation of the aviation industry at this time, this target would not be achieved through a fee increase but through positive variances in operating results.

Also, to provide for an automatic inflation adjustment, it is proposed to set the target balance at 7.5% of the Company's total annual expenses once the \$75 million target balance has been reached.

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.

4. Aeronautical Publications

Due to the current comprehensive review by the Company of the production and delivery system for aeronautical publications, there is broad consensus among customers that the development of a new charging policy for aeronautical products should be held off pending the completion of this review.

NAV CANADA proposes to:

- **Await the review of the production and delivery system for aeronautical publications before developing the new policy for recovering the cost of such products; and**
- **Retain the existing charges in the interim.**

5. Cost Allocation Methodology

International air carriers and their associations believe that the allocation of costs for charging purposes should extend beyond the current allocation to services (terminal, enroute, International Communication and North Atlantic), to individual customer groups, such as general aviation. As an example, in their view the Flight Service Stations (FSS) and Flight Information Centres (FICs) principally serve general aviation and not international air carriers.

Many other customers support retention of status quo.

The current scope of the cost allocation is consistent with common international practice. With respect to FSSs and FICs, one of the main activities is weather observations and briefings. Weather observations are of critical importance to aviation weather forecasts, whether developed by Meteorological Services of Canada (MSC) or World Area Forecasting centres. Weather observations are also distributed to meteorological authorities and flight dispatchers world wide.

While the scope would be retained, the Company will update the existing cost allocation to ensure that changes in operation and activity levels are appropriately reflected. The allocation of costs provides a key foundation for the service charges. As was the case for the existing methodology, the Company will engage an independent expert to examine and opine on the updated methodology.

NAV CANADA proposes to:

- **Retain the current scope of the cost allocation to services and not expand it to individual customer groups;**

- **Continue to base the allocation of costs between the services on a reasonable allocation of costs between terminal and en route services;**
- **Update the existing cost allocation methodology to ensure it reflects current operations and activity data;**
- **Develop and assess the suggested alternative methodology for allocating Depreciation, Amortization and Interest; and**
- **Engage an independent expert to examine and opine on the updating of and any change in the existing cost allocation methodology.**

6. Summary of Proposed Changes

6.1 Charging Methodology

- a) Reduce the exponent in the Terminal Charge formula gradually from 0.9 to 0.85, effective March 1, 2006 and to 0.8, effective September 1, 2008.
- b) Increase the terminal component of the Daily Charge on the same dates by a percentage increase that is similar to the increase in the Terminal Charge for smaller aircraft (resulting from the change in the formula for this charge).
- c) Accommodate, effective June 1, 2006, the option of using multiple MTOWs for the same aircraft by flight distance on the basis of three fixed stage length ranges, 0-500, 501-1500 and over 1500 statute miles.
- d) Increase the International Communication Services Charge for flights using only voice communication from \$52.33 to \$61.00 per flight, effective March 1, 2006.
- e) Reduce the International Communication Services Charge for flights using data link communication from \$26.44 to \$22.96 per flight, effective March 1, 2006.
- f) Retain the existing Annual and Quarterly charges.
- g) Gradually implement a new, additional charge at Vancouver (including the water aerodrome), Calgary, Edmonton, Winnipeg, Toronto (Pearson), Ottawa, Montréal (Trudeau) and Halifax international airports for aircraft weighing three tonnes or less (MTOW) as follows:
 - A Daily Charge of \$5, effective September 1, 2006, increasing to \$10, effective March 1, 2008; with

- An annual maximum per aircraft, the annual period running from March 1 to February 28 (or 29). The maximum will be:
 - \$ 300, for the period September 1, 2006 to February 28, 2007;
 - \$ 600, effective March 1, 2007; and
 - \$1200, effective March 1, 2008.
- h) Request authorization from the government, in accordance with the ANS Act, to charge foreign state aircraft.
- i) Expand the application of the Enroute Charge to sightseeing and other flights leaving the terminal control area but returning to the same airport, except aborted flights due to weather or training flights, provided that the additional revenue warrants the cost of related system changes.
- j) The existing exemptions for ultralights, gliders, balloons and aircraft weighing less than 617 kg would not apply to the proposed new Daily Charge.
- k) Require aircraft registration marks to be included in flight plans for the application of the Daily Charge, effective March 1, 2006.
- l) Apply movement based charges to all flights missing aircraft registration marks in the flight plan for aircraft over 3 tonnes (MTOW), effective March 1, 2006.
- m) Apply the amount of the new Daily Charge for aircraft weighting 3 tonnes or less (MTOW) using one or more of the eight major airports to each departure if the aircraft registration mark is missing from the flight plan, effective September 1, 2006.
- n) 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 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 proposed effective date for these changes is March 1, 2006.

6.2 Rate Stabilization Account

- o) 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.

6.3 Aeronautical Publications

- p) Await the review of the production and delivery system for aeronautical publications before developing the new policy for recovering the cost of such products.
- q) Retain the existing charges in the interim.

6.4 Cost Allocation Methodology

- r) Retain the current scope of the cost allocation to services and do not expand it to individual customer groups.
- s) Continue to base the allocation of costs between the services on a reasonable allocation of costs between terminal and en route services.
- t) Update the existing cost allocation methodology to ensure it reflects current operations and activity data.
- u) Develop and assess the suggested alternative methodology for allocating Depreciation, Amortization and Interest.
- v) Engage an independent expert to examine and opine on the updating of and any change in the existing cost allocation methodology.