



DETAILS AND PRINCIPLES REGARDING PROPOSED NEW AND REVISED SERVICE CHARGES

NOVEMBER 1999

GENERAL

This document (*"Details and Principles"*) provides additional detail to expand upon the *Notice of New and Revised Service Charges* issued on November 1, 1999 (the *"Notice"*). Under Section 36 of the *Civil Air Navigation Services Commercialization Act*, S.C. 1996, c. 20 (the *"ANS Act"*), NAV CANADA is required to produce a document containing more details in relation to the proposed new and revised charges set forth in the *Notice*, including a justification in relation to the charging principles set out in Section 35 of the *ANS Act*.

Except for the revisions proposed in this notice, all the provisions of the *Announcement of New and Revised Service Charges*, dated September 1998 and approved by the Minister of Transport pursuant to section 39 of the *ANS Act*, and the *Announcement of Reduced Service Charges*, dated August 16, 1999, and filed with the Canadian Transportation Agency pursuant to Section 36 of the *ANS Act*, remain in effect.

This document sets out the following: (1) a general overview of NAV CANADA, (2) the methodologies used in determining charges, (3) a justification of the proposed charges in relation to the charging principles, and (4) information regarding the *Notice* and how to make representations to NAV CANADA.

Section 36 of the ANS Act specifies that persons interested in making representations in writing to NAV CANADA with regard to the Notice may do so by forwarding their submissions to the address set out in the Notice. Submissions must be received by NAV CANADA not later than December 31, 1999.

1. NAV CANADA AND THE COMMERCIALIZATION OF THE CIVIL AIR NAVIGATION SYSTEM

NAV CANADA is a non-share capital, private corporation which acquired the civil air navigation system for a purchase price of \$1.5 billion from the Government of Canada on November 1, 1996.

NAV CANADA is responsible for the provision of civil air navigation facilities and services for aircraft in Canadian airspace or any other airspace for which Canada is responsible for providing air navigation services. Before November 1, 1996, air navigation services were provided by the Canadian government and funded mainly through the Air Transportation Tax (ATT), charged to airline passengers, which was rescinded on November 1, 1998. NAV CANADA now provides these services which are paid for solely by air navigation charges levied on aircraft operators.

The system of governance at NAV CANADA is the result of a unique corporate structure intended to make the company a self-sustaining commercial enterprise that is accountable to its stakeholders. The Corporation is governed by a 15-member Board of Directors consisting of 10 directors nominated by stakeholders representing aviation users, bargaining agents, the federal government, 4 independent directors and the President & CEO. NAV CANADA also has an Advisory Committee elected by associate members, empowered to analyze and make reports and recommendations to the Board of Directors on any matter affecting the air navigation system.

The fundamental elements governing the mandate conferred on NAV CANADA by the ANS Act include the exclusive right to provide certain air navigation services, the ability to set and collect charges for air navigation services provided or made available by NAV CANADA or a person acting under the authority of the Minister of National Defence, and the obligation of the Corporation to provide these services. Rates of charges are set at levels sufficient to recover all costs (including debt servicing requirements and the repayment of principal), as determined in accordance with generally accepted accounting principles, to develop a contingency reserve for unforeseen events, and to maintain appropriate credit ratings. To this end, NAV CANADA has the ability to set and collect charges for air navigation services in accordance with the charging principles set out in the ANS Act.

2. METHODOLOGIES USED IN DETERMINING THE PROPOSED CHARGES

2.1 PROPOSED DIFFERENTIATED INTERNATIONAL COMMUNICATION SERVICES CHARGES

The International Communication Services Charge (Int'l Comm Charge) will be \$46.33 except for a flight providing position reports via data link in which case the charge will be \$23.43 per flight.

These charges will be effective March 1, 2000.

The calculation of the charges is presented in Tables 1 and 2.

Table 1 Calculating the Int'l Comm Charge for Aircraft Providing Position Reports via Data Link	
Rate Base:	
Air/Ground Communications:	\$505,200
Ground/Ground Communications:	\$285,600
Centralized ADS Processor:	\$120,000
Total:	\$910,800
Estimated Traffic (Data Link Flights)	38,880
Charge per Flight:	\$23.43

Table 2 Calculating the Int'l Comm Charge for Aircraft Providing Position Reports via Voice Communication	
Rate Base:	
Air/Ground Communications:	\$11,114,800
Ground/Ground Communications:	\$2,094,400
Total:	\$13,209,200
Estimated Traffic (Non Data Link Flights)	285,120
Charge per Flight:	\$46.33

The sum of the rate bases in Table 1 (\$910,800) and Table 2 (\$13,209,200) add up to a total cost of \$14,120,000 which is the projected total cost of the services pertaining to the Int'l Comm Charges.

2.2 PROPOSED AIRPORT SURFACE DETECTION EQUIPMENT (ASDE) CHARGE AT L. B. PEARSON INTERNATIONAL AIRPORT (LBPIA)

A new charge is proposed for ASDE at LBPIA, effective March 1, 2000.

The formula for the ASDE Charge will be the same as for the Terminal Services Charge with a Unit Rate of \$0.45.

The ASDE Charge will apply to each departure from LBPIA by aircraft with maximum permissible take-off weight over 3 metric tonnes. The charge will apply in addition to existing charges relative to terminal or enroute services (including daily charges).

The calculation of the ASDE charge is presented in Table 3.

Table 3					
Calculating the ASDE Charge at LBPIA (000's)					
	2000	2001	2002	2003	
Charging Units	8,355	8,355	8,355	8,355	
					Total
Charging Units at 1999 NPV @ 7%	7,808.6	7,297.8	6,820.4	6,374.2	28,301
Estimated Total Project Costs (1999 dollars)					\$12,700
Estimated Terminal Services Unit Rate Surcharge over 4 year period					\$0.45

NOTE: For purpose of this proposal, zero growth was assumed for charging units at LBPIA.

The ASDE Charge will be in effect until the capital costs, including interest, related to the ASDE project have been recovered. At that time, NAV CANADA will make the appropriate notice and announcement to remove the Charge. The cost recovery period is currently estimated at approximately 4 years.

3. PRINCIPLES GOVERNING NAV CANADA'S SERVICE CHARGES

The principles governing the establishment of new charges or the revision of existing charges by NAV CANADA are set out in Section 35 of the ANS Act. Each of the principles is presented below in italics, followed by an explanation of how the *Notice* complies with that particular principle.

- 35 (1) (a) *Charges must be in accordance with a methodology established and published by the Corporation that is explicit and that also includes the terms and conditions affecting charges;*

The *Notice*, required under Section 36 of the ANS Act, has been placed on the Internet and sent to aviation associations. On the basis of this information, any person subject to NAV CANADA's charges can calculate the amount payable for a given flight.

- 35 (1) (b) *Charges must not be structured in such a way that a user would be encouraged to engage in practices that diminish safety for the purpose of avoiding a charge;*

For any given flight, NAV CANADA's proposed new and revised charges are not structured in such a manner that safety may be affected. For example, any flight involving a jet aircraft of a given weight between two points (e.g., Ottawa and Québec City) will be subject to the same Terminal Services Charge and Enroute Charge, regardless of whether the flight is IFR or VFR.

- 35 (1) (c) *Charges for the same services must not differentiate between domestic and international flights of air carriers;*

There is no differentiation in the proposed new and revised charges between domestic and international flights.

- 35 (1) (d) *Charges for the same services must not differentiate among Canadian air carriers or among foreign air carriers;*

There is no differentiation in the proposed new and revised charges for a flight based on which domestic or foreign carrier provides the flight.

- 35 (1) (e) *Charges must differentiate between the provision of services in relation to the landing and take-off of aircraft and the provision of services in relation to aircraft in flight, and must reflect a reasonable allocation of the costs of providing the services in those circumstances;*

The ASDE charge pertains only to terminal air navigation services.

The revision to the International Communications Services Charge involves only oceanic services.

- 35 (1) (f) *Charges in respect of recreational and private aircraft must not be unreasonable or undue;*

The proposed new and revised charges reflect the need for recreational and private aircraft to contribute, along with other users, to the costs of operating the Canadian civil air navigation system. NAV CANADA believes the charges are neither unreasonable nor undue.

- 35 (1) (g) *Charges for designated northern or remote services and for services directed to be provided under subsection 24(1) must not be higher than charges for similar services utilized to a similar extent elsewhere in Canada;*

Since NAV CANADA's charges are uniform throughout Canada, northern or remote services are subject to the same charges as services utilized elsewhere in Canada.

- 35 (1) (h) *Charges must be consistent with the international obligations of the Government of Canada;*

The most relevant international obligations are the Convention on International Civil Aviation of 1944 (the "Chicago Convention") and bilateral air services agreements between Canada and other states.

Article 15 of the Chicago Convention deals with charges for air navigation facilities, and establishes the principle that fees charged for the use of airport and air navigation services not be higher for foreign compared to domestic users engaged in similar international air services. The proposed new and revised charges comply with Article 15 because: (i) the charges in respect of international air services are not higher for foreign air carriers than they are for

Canadian carriers engaged in similar international air services (i.e., the charges do not differentiate according to the flag of the carrier), and (ii) the charges relate to the availability or provision of air navigation services and are not imposed for the right of entry into Canadian airspace.

The proposed new and revised charges are also consistent with bilateral air services agreements between Canada and other states.

- 35 (1) (i) *Charges must not be set at a level that, based on reasonable and prudent projections, would generate revenues exceeding the Corporation's current and future financial requirements in relation to the provision of civil air navigation services.*

NAV CANADA's proposed new and revised charges have been set to recover the corporation's costs, including expenses determined according to Generally Accepted Accounting Principles (GAAP) and the costs of complying with certain financial requirements, as described in detail in Subsection 35(5) of the *ANS Act*.

- 35 (2) *The charging methodology may recognize that the value of the services differs among users.*

NAV CANADA's charging methodology does recognize that the value of the services differs among users.

- 35 (3) *Where the Corporation's charging methodology recognizes the value of the services and aircraft weight is used as a measure of the value of the services, the principle referred to in paragraph (1)(a) is deemed not to have been observed if aircraft weight is taken into account either directly proportionally or greater than directly proportionally.*

The Int'l Comm Charges are levied on a per flight basis and do not take weight into account.

The ASDE Charge takes weight into account, but less than proportionally. The ASDE Charge is based on a unit rate multiplied by aircraft weight raised to the 0.9 power.

Pursuant to Subsection 35(7), Subsection 35(3) does not apply to flat fees. The Annual and Daily Charges represent flat fees.

- 35 (4) *For the purpose of subsection (3), “weight”, in relation to an aircraft, means the maximum permissible take-off weight specified in the aircraft’s certificate of airworthiness or in a document referred to in that certificate.*

Weight calculations will be based on the maximum permissible take-off weight specified in the aircraft’s certificate of airworthiness or in a document referred to in that certificate. For more information, please refer to the September 1999 *Customer Guide to Charges*.

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

This document is available on-line and a copy may be downloaded from NAV CANADA’s Internet Site (www.navcanada.ca).

Information on the existing charges is provided in the *Customer Guide to Charges*, which is also available on the Internet.

Additional copies of the *Details and Principles* document may be obtained by contacting NAV CANADA:

in writing: NAV CANADA
P.O. Box 3411, Station “D”
Ottawa, ON, 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 in writing to NAV CANADA with regard to the *Notice* may do so by writing to the following address:

NAV CANADA
P.O. Box 3411, Station “D”
Ottawa, ON, CANADA
K1P 5L6
Attention: Director, Rates and Revenues

By facsimile 1 - 613 - 563 - 7994.

Note: Representations must be received by NAV CANADA not later than the close of business on December 31, 1999.