



DETAILS AND PRINCIPLES REGARDING PROPOSED REVISED SERVICE CHARGES

MAY 2006

GENERAL

This document ("Details and Principles") provides additional details to expand upon the *Notice of Revised Service Charges* dated May 2006 (the "Notice"). Under Section 36 of the *Civil Air Navigation Services Commercialization Act*, S.C. 1996, c. 20 (the "ANS Act"), NAV CANADA (the Corporation) is required to produce a document containing more details in relation to the proposed 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 the Notice, all the existing charges and related terms and conditions, as set out in earlier Announcements pertaining to charges, remain in effect.

This document sets out the following: (1) General Overview of NAV CANADA, (2) Traffic Outlook, (3) Forecast Costs for Fiscal 2007, (4) Rate Analysis, (5) Principles Governing NAV CANADA's Service Charges, and (6) Information Regarding the Notice and on Making Representations to NAV CANADA.

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 the close of business on July 7, 2006.

1. GENERAL OVERVIEW OF NAV CANADA

NAV CANADA is a non-share capital, private sector corporation that is responsible for the provision of civil air navigation facilities and services for aircraft in Canadian airspace and any other airspace for which Canada is responsible for providing air navigation services.

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 and 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.

The financial statements and Management's Discussion and Analysis (MD&A), issued quarterly and annually, and the Annual Information Form provide extensive information on the revenues and expenses of NAV CANADA. These documents are available electronically at www.navcanada.ca.

2. TRAFFIC OUTLOOK

In developing the traffic outlook for fiscal 2006 and fiscal 2007, consideration was given to results to-date, airline schedules (as reported in the Official Airline Guide) and information and analyses from the aviation industry and government organizations. NAV CANADA has prepared the outlook presented below based on the above-noted information and on reasonable assumptions about general economic conditions.

The following table shows the traffic outlook for movement-based charging units expressed on the basis of year-over-year percent change.

**CHARGING UNIT OUTLOOK FOR FISCAL YEARS 2006 AND 2007
EXPRESSED AS YEAR-OVER-YEAR PERCENT CHANGE**

	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>
Overflight	2.9%	5.1%
Terminal	3.5%	2.5%
Enroute	4.4%	3.3%
North Atlantic	5.4%	4.9%
Int'l Com	5.1%	4.9%
Weighted	3.5%	3.7%

Overall, year-over-year traffic growth of 3.5% and 3.7% is forecast for fiscal years 2006 and 2007, respectively.

3. FORECAST COSTS FOR FISCAL 2007

NAV CANADA's costs for fiscal 2007 are currently forecast at \$1,225 million. A breakdown of the costs is provided in the following table:

**NAV CANADA FORECAST COSTS - FISCAL 2007
(\$ MILLIONS)**

	Forecast Costs
Operating Costs:	
Salaries, benefits, and allowances	\$ 754
Other Operating	\$ 227
	<hr/> \$ 981 <hr/>
Other Costs:	
Interest	\$ 112
Depreciation and amortization	\$ 132
	<hr/> \$ 244 <hr/>
Total Costs	<hr/> \$ 1,225 <hr/>

4. RATE ANALYSIS

Pursuant to the ANS Act, service charges are set at a level that, based on reasonable and prudent projections, will generate sufficient revenues to meet the Corporation's current and future financial requirements, i.e. to recover all costs (including debt servicing requirements and the repayment of principal), as determined in accordance with generally accepted accounting principles, and to maintain a contingency reserve for unforeseen events. In determining the rates, revenues from non-aeronautical sources must be taken into account.

The forecast revenues for fiscal year 2007 from the proposed revised base rates, as set out in the Notice, are shown in the following table.

**FORECAST REVENUES FOR FISCAL 2007
FROM THE PROPOSED REVISED BASE RATES
(\$ MILLIONS)**

	Forecast Revenues
Overflight	\$ 428
Terminal	\$ 457
Enroute	\$ 208
North Atlantic	\$ 37
Int'l Com	\$ 16
Daily and Annual Charges	\$ 41
Total Revenues from Proposed Revised Base Rates	\$ 1,187
Revenue from Non-aeronautical Sources	\$ 30
Total Revenue	\$ 1,217

The Company plans to recover its forecast \$1,225 million costs in fiscal year 2007 from the above-noted revenues of \$1,217 million and a drawdown of the Rate Stabilization Account for the remaining \$8 million.

Under the proposal set out in the Notice, the Company would achieve breakeven for fiscal year 2007 without any net change in the rates that customers would pay. It is planned to consider any further revisions that may be necessary to ensure break even by service category when changes in service charges for fiscal year 2008 are addressed. To accommodate gradual changes, such revisions are not contemplated at this time, as the Company recently announced modifications resulting from a review of its charging methodology that became effective May 1, 2006.

5. 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 that would be 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 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) is 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 charges between domestic and international flights of air carriers.

- 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 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;*

NAV CANADA's charges are based on an allocation of costs among the enroute, terminal and oceanic services. The rules for the attribution of costs to the services were arrived at by considering work loads, statistics based on activity reports, management judgment and ICAO guidelines.

The Company's auditors, KPMG, have provided an opinion that the allocation methodology adopted by NAV CANADA reasonably reflects the way in which services are provided, is consistent with approaches used by other air navigation service providers, and is appropriate for use as a basis for establishing the costs of these services. A copy of this opinion is available upon request from NAV CANADA.

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

The 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 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 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 charges are 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. The charges do not generate revenues exceeding the Corporation's current and future financial requirements in relation to the provision of civil air navigation services.

- 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, e.g., charges that vary with aircraft weight.

- 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 International Communication Services Charge and the North Atlantic Enroute Facilities and Services Charge are levied on a per flight basis and do not take weight into account.

The Enroute and Terminal Services charges take weight into account, but less than proportionally. The Enroute Charge is based on a unit rate multiplied by the square root of aircraft weight multiplied by distance. The Terminal Services Charge is based on a unit rate multiplied by aircraft weight raised to the 0.85 power.

Pursuant to Subsection 35(7), Subsection 35(3) does not apply to flat fees. The Annual, Quarterly 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 are 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 *Customer Guide to Charges*.

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

The Notice and this document are 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 NAV CANADA’s announcements on service charges and *Customer Guide to Charges*, which are also posted 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 in writing to NAV CANADA with regard to the 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 July 7, 2006.



Caution Concerning Forward-looking information

This document contains certain statements about our future expectations. Because forward-looking statements involve future risks and uncertainties, actual results may be quite different from those expressed or implied in these statements. Examples include terrorist attacks, war, health epidemics or pandemics, natural disasters, weather patterns, labour negotiations, arbitrations, workforce recruitment, training and retention, general industry conditions, capital market and economic conditions, the ability to collect customer service charges and reduce operating costs, changes in interest rates, changes in laws, tax changes, adverse regulatory developments or proceedings and lawsuits. The forward-looking statements contained in this document represent our expectations as of May 4, 2006, and are subject to change after this date. We disclaim any intention or obligation to update or revise any forward-looking statements included in this document whether as a result of new information, future events or for any other reason.