



NOTICE OF REVISED SERVICE CHARGES

MAY 2004

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 revised charges and terms and conditions relating to such charges for air navigation services to become effective August 1, 2004, except as otherwise noted.** A document setting out additional details in relation to these proposals, including a justification in relation to the charging principles established under Section 35 of the ANS Act, 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 3 so as to be received by NAV CANADA not later than July 12, 2004.

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 three sections:

- (1) Proposed Increase in Service Charges;
- (2) Modification to Terms and Conditions; and
- (3) Additional Information Regarding the Notice and on Making Representations to NAV CANADA.

1. PROPOSED INCREASE IN SERVICE CHARGES

1.1 Background

Consistent with the mandate of NAV CANADA to provide safe air navigation services in the most cost-effective way, increases in charges to help offset shortfalls are only considered when all reasonable opportunities for cost control, productivity improvements and increased non-aeronautical revenues (e.g., sale or licensing of our technology) have been exhausted. Our initiatives in these areas are highlighted in the following points.

- The major multi-year restructuring program, completed in fiscal year 2001-02 and focused primarily on management and administrative functions, generates annual cost savings of approximately \$100 million on an ongoing basis.
- In addition, and in response to the worst crisis in the history of the aviation industry, the Company promptly developed and implemented mitigation plans. These resulted in operating and other cost savings of \$42 million in fiscal year 2001-02 and \$61 million in fiscal year 2002-03 compared to budget. The capital program was also reduced over these two years, by \$25 million and \$48 million, respectively, through cancellation and deferral of projects. For the first half of the current fiscal year, our continued tight cost management has resulted in \$40 million lower operating and other expenses than anticipated. Capital expenditures of \$37 million have been cancelled or deferred for the current fiscal year.
- Projected costs for fiscal 2004-05 reflect a number of additional cost reduction initiatives planned for the coming year.
- A comprehensive review of the level of service was commenced a year ago in consultation with the full range of stakeholders. Proposed changes, which have been identified and released, will be the subject of an aeronautical study, including formal consultation with all affected stakeholders. It is expected that this process will be completed this fall, following which Transport Canada must review and approve any proposal involving a material reduction in level of service.
- Gains of \$56 million were generated from leasing transactions. Sale of technology to our counterpart in the United Kingdom, UK NATS, are also generating new revenues.

The Company had anticipated substantial additional gains from further leasing transactions. However, it is unlikely that the Company will be able to complete any further transactions because legislation has been proposed in the United States to curtail or eliminate such leasing opportunities. This is the reason for the proposed increase in charges at this time.

- A number of projects have resulted in direct savings to customers in reduced aircraft operating costs as a result of less flight delays and more efficient flight profiles. Such savings are estimated to be over \$50 million per year on an ongoing basis.

The above-noted cost saving initiatives were accomplished while at the same time undertaking essential renewal of the ANS infrastructure and embarking on a major air traffic controller training program to eliminate operational understaffing, both major problems that existed when the ANS was acquired from the government.

Going forward, tight cost control will continue to be the order of the day. It should be noted though that, in light of the major cost reductions already achieved, the further potential is constrained by the mostly fixed cost nature of ANS.

It is recognized that, while recovery of air traffic is underway, the financial situation of the aviation industry as a whole is still difficult. However, the overriding responsibility of NAV CANADA is to ensure a continued safe and efficient air navigation system, which naturally requires a continued sound financial footing for the Company. Unfortunately, it is not possible to maintain this by cost control alone and an increase in charges is therefore also necessary.

1.2 Proposed Increase

The existing charges have two components, (1) the base rates to recover projected costs for the upcoming year and (2) a separate adjustment to recover the past shortfalls and rebuild the Rate Stabilization Account (RSA).

Total costs for fiscal year 2004-05 are projected at \$1105 million. Non-aeronautical revenues are estimated at \$20 million, leaving \$1085 million to be recovered from ANS charges. The revenues from the existing base rates are projected at \$1003 million, which would result in a shortfall of \$82 million.

To offset this shortfall and achieve breakeven for fiscal year 2004-05, an increase in base rates averaging 8.1% is proposed, with individual base rate increases as follows: 11.8% for the terminal service charge, 5.4% for the enroute charge, 6.7% for the North Atlantic charge, 6.4% for the International Voice Communication charge, 6.4 % for the International Data Link Communication charge and 10.8% (rounded to the nearest dollar) for the flat charges (daily, quarterly and annual).

The revised charges will be effective August 1, 2004, except for the annual and quarterly charges, which will be implemented March 1, 2005.

No increase is proposed in the separate adjustment in the ANS charges pertaining to the recovery of past shortfalls and the re-establishment of the RSA balance. It is estimated that the existing separate adjustment would be sufficient to recover the estimated cumulated shortfall to the end of the current fiscal year and to build up a balance in the RSA of \$50 million within the next four fiscal years.

With an average increase in the base rates of 8.1% and no increase in the separate adjustment, the overall increase in charges will average 7.9%.

Represented on a cost per passenger basis, the proposed increase varies by stage length, aircraft size and sector. For example, the cost per boarded passenger on a Calgary-Edmonton flight with a Boeing 737-200 aircraft would be \$0.74, assuming a load factor of 70%, while the cost on a Toronto-Vancouver flight with an Airbus 340-300 aircraft would be \$1.89 per passenger.

The proposed charges are still substantially lower – by approximately 20% - than the previous passenger Air Transportation Tax used to help pay for the air navigation system when it was operated by the government.

It is also noted that, compared to the ANS charges on March 1, 1999, when the Company implemented its first set of full cost recovery charges, the proposed rates represent an increase since 1999 of approximately 12% (2.5% annualized) which is less than the growth in inflation over this period of approximately 14%.

The following tables set out the current and proposed base rates. The current separate adjustments are also included for completeness, although no changes are proposed in this component of the charges.

Movement-Based Charges

Charge	Base Rates Prior to August 1, 2004	Base Rates Effective August 1, 2004	Additional Rate Adjustments[†]
Terminal	\$ 14.65	\$ 16.38	\$ 0.28
Enroute	\$ 0.03406	\$ 0.03589	\$ 0.00065
North Atlantic	\$ 91.00	\$ 97.12	\$ 3.35
International Communication			
Data Link	\$ 24.85	\$ 26.44	Nil
Voice	\$ 49.18	\$ 52.33	Nil

[†] These rate adjustments are currently in place, and no change is proposed.

Daily Charges

Category and Weight Group* (in metric tonnes)	Base Rates Prior to August 1, 2004	Base Rates Effective August 1, 2004	Additional Rate Adjustments[†]
Propeller Aircraft			
Over 3.0 up to 5.0	\$ 32	\$ 35	\$ 1
Over 5.0 up to 6.2	\$ 64	\$ 71	\$ 1
Over 6.2 up to 8.6	\$ 262	\$ 290	\$ 5
Over 8.6 up to 12.3	\$ 632	\$ 700	\$ 12
Over 12.3 up to 15.0	\$ 949	\$ 1,051	\$ 18
Over 15.0 up to 18.0	\$ 1,156	\$ 1,281	\$ 22
Over 18.0 up to 21.4	\$ 1,582	\$ 1,753	\$ 30
Over 21.4	\$ 2,128	\$ 2,358	\$ 40
Maximum for Helicopters	\$ 64	\$ 71	\$ 1
<i>Small Jet Aircraft</i>			
Over 3.0 up to 6.2	\$ 158	\$ 175	\$ 3
Over 6.2 up to 7.5	\$ 262	\$ 290	\$ 5

* Maximum permissible take-off weight.

[†] These rate adjustments are currently in place, and no change is proposed.

Annual Charges*

Weight Group** (in metric tonnes)	Base Rates Prior to March 1, 2005	Base Rates Effective March 1, 2005	Additional Rate Adjustments[†]
0.617 up to 2.0	\$ 64	\$ 71	\$ 1
Over 2.0 up to 3.0***	\$ 213	\$ 236	\$ 4

* For foreign-registered aircraft, the corresponding Quarterly Charge is equal to 25% of the Annual Charge.

** Maximum permissible take-off weight.

*** The existing provisions regarding private aircraft used exclusively for recreational purposes (regardless of aircraft weight) and for aircraft restricted to aerial agricultural spraying remain with the exception of the increased rates.

[†] These rate adjustments are currently in place, and no change is proposed.

Annual Minimum Charges*

Aircraft Category	Base Rates Prior to March 1, 2005	Base Rates Effective March 1, 2005	Additional Rate Adjustments[†]
Annual Minimum for Aircraft over 3.0 Metric Tonnes **	\$ 213	\$ 236	\$ 4

* Applicable to aircraft not subject to the Annual Charge or the Quarterly Charge. For foreign-registered aircraft, the corresponding Quarterly Minimum Charge is equal to 25% of the Annual Minimum Charge.

** Except for aircraft over 3 metric tonnes (maximum permissible take-off weight) restricted to Agricultural Spraying, for which the existing provisions remain with the exception of the increased rates.

† These rate adjustments are currently in place, and no change is proposed.

2. MODIFICATION TO TERMS AND CONDITIONS

It is proposed to include the following provision in the Terms and Conditions, effective August 1, 2004:

“Without limiting NAV CANADA's general discretion to require security arrangements, where a customer has not been invoiced previously by NAV CANADA for ANS services, or has not been invoiced within the previous 6 months, and where monthly charges are expected to exceed \$1000, the customer will be required to make a pre-payment in an amount equal to twice the estimated monthly charges. The pre-payment amount will be subject to adjustments based on changes in the level of the estimated monthly charges.”

3. 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 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 proposals 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: 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 July 12, 2004.

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Caution Concerning Forward-looking information

Certain statements made in this document are of a forward-looking nature and are subject to risks and uncertainties. The results indicated in these statements may differ materially from actual results. The forward-looking information contained in this document represents NAV CANADA's expectations as of May 10, 2004, and are subject to change after such date. However, NAV CANADA disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.