

AEPTCo subsidiaries in PJM
Transmission Cost of Service Formula Rate
Utilizing Actual/Projected FERC Form 1 Data

For Twelve Months Ended

2018

AEP Kentucky Transmission Company

Line No.						Transmission Amount
1	REVENUE REQUIREMENT (w/o incentives)	(In 113)				\$9,773,684
			Total		Allocator	
2	REVENUE CREDITS	(Worksheet E, In 8) (Note A)	-	DA	1.00000	\$ -
3	Facility Credits under PJM OATT Section 30.9	Worksheet E, In 9) (Note X)				0
4	REVENUE REQUIREMENT For All Company Facilities	(In 1 less In 2 plus In 3)				\$ 9,773,684

MEMO: The Carrying Charge Calculations on lines 7 to 12 below are used in calculating project revenue requirements billed through PJM Schedule 12, Transmission Enhancement Charges. The total non-incentive revenue requirements for these projects shown on line 5 is included in the total on line 4.

5	Revenue Requirement for PJM Schedule 12 Facilities (w/o incentives) (Worksheet J/K)	4,431,301	DA	1.00000	\$ 4,431,301
6	NET PLANT CARRYING CHARGE w/o intra-AEP charges or credits or ROE incentives (Note B)				
7	Annual Rate	((In 1- In 80)/((In 33) x 100))			12.18%
8	Monthly Rate	(In 7 / 12)			1.01%
9	NET PLANT CARRYING CHARGE ON LINE 7 , w/o depreciation or ROE incentives (Note B)				
10	Annual Rate	((In 1- In 80 - In 83)/((In 33) x 100))			9.99%
11	NET PLANT CARRYING CHARGE ON LINE 10, w/o Return, income taxes or ROE incentives (Note B)				
12	Annual Rate	((In 1 - In 80 - In 83 - In 108 - In 109) /((In 33) x 100))			2.43%
13	ADDITIONAL REVENUE REQUIREMENT for projects w/ incentive ROE's (Note B) (Worksheet J/K)				-

REVENUE REQUIREMENT FOR SCHEDULE 1A CHARGES

14						
15	Total Load Dispatch & Scheduling (Account 561)	Line 63 Below				82,004
16	Less: Load Dispatch - Scheduling, System Control and Dispatch Services (321.88.b)					
17	Less: Load Dispatch - Reliability, Planning & Standards Development Services (321.92.b)					
18	Total 561 Internally Developed Costs	(Line 15 - Line 16 - Line 17)				82,004

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(1)		(2)	(3)	(4)	(5)
<u>RATE BASE CALCULATION</u>		<u>Data Sources</u> <u>(See "General Notes")</u>	<u>TO Total</u> <u>NOTE C</u>	<u>Allocator</u>	<u>Total</u> <u>Transmission</u>
Line No.					
19	GROSS PLANT IN SERVICE				
19	Transmission	(Worksheet A In 14.(d) & Ln 117)	83,655,743	DA 1.00000	83,655,743
20	Less: Transmission ARO (Enter Negative)	(Worksheet A In 14.(e))	-	TP 1.00000	-
21	General Plant	(Worksheet A In 14.(h))	10,622	W/S 1.00000	10,622
22	Less: General Plant ARO (Enter Negative)	(Worksheet A In 14.(i))	-	W/S 1.00000	-
23	Intangible Plant	(Worksheet A In 14.(j))	764,500	W/S 1.00000	764,500
24	TOTAL GROSS PLANT	(Sum of Lines: 19 to 23)	84,430,865	GP= 1.000000 GTD= 1.00000	84,430,865
25	ACCUMULATED DEPRECIATION AND AMORTIZATION				
26	Transmission	(Worksheet A In 28.(d) & Ln 43.(b))	3,384,478	TP1= 1.00000	3,384,478
27	Less: Transmission ARO (Enter Negative)	(Worksheet A In 28.(e))	-	TP1= 1.00000	-
28	General Plant	(Worksheet A In 28.(h))	74	W/S 1.00000	74
29	Less: General Plant ARO (Enter Negative)	(Worksheet A In 28.(i))	-	W/S 1.00000	-
30	Intangible Plant	(Worksheet A In 28.(j))	184,709	W/S 1.00000	184,709.27
31	TOTAL ACCUMULATED DEPRECIATION	(Sum of Lines: 26 to 30)	3,569,262		3,569,262
32	NET PLANT IN SERVICE				
33	Transmission	(In 19 + In 20 - In 26 - In 27)	80,271,265		80,271,265
34	General Plant	(In 21 + In 22 - In 28 - In 29)	10,547		10,547
35	Intangible Plant	(In 23 - In 30)	579,790		579,790
36	TOTAL NET PLANT IN SERVICE	(Sum of Lines: 33 to 35)	80,861,603	NP= 1.000000	80,861,603
37	DEFERRED TAX ADJUSTMENTS TO RATE BASE	(Note D)			
38	Account No. 281.1 (enter negative)	(Worksheet B, In 2 & In 5.E)	-	NA	-
39	Account No. 282.1 (enter negative)	(Worksheet B, In 7 & In 10.E)	(15,262,485)	DA	(15,262,485)
40	Account No. 283.1 (enter negative)	(Worksheet B, In 12 & In 15.E)	(961,315)	DA	(961,315)
41	Account No. 190.1	(Worksheet B, In 17 & In 20.E)	463,721	DA	463,721
42	Account No. 255 (enter negative)	(Worksheet B, In 24 & In 25.E)	-	DA	-
43	TOTAL ADJUSTMENTS	(sum Ins 38 to 42)	(15,760,080)		(15,760,080)
44	PLANT HELD FOR FUTURE USE	(Worksheet A In 44.(e)) In 45.(e))	676,525	DA	676,525
45	REGULATORY ASSETS	(Worksheet A In 51.(e))	-	DA	-
46	UNFUNDED RESERVES (ENTER NEGATIVE) (NOTE Y)	(Worksheet A In 54.(e))		W/S 1.00000	
47	WORKING CAPITAL	(Note E)			
48	Cash Working Capital	(1/8 * In 66)	127,791		127,791
49	Transmission Materials & Supplies	(Worksheet C, In 2.(F))	-	TP 1.00000	-
50	A&G Materials & Supplies	(Worksheet C, In 3.(F))	-	W/S 1.00000	-
51	Stores Expense	(Worksheet C, In 4.(F))	-	GP 1.00000	-
52	Prepayments (Account 165) - Labor Allocated	(Worksheet C, In 8.(G))	-	W/S 1.00000	-
53	Prepayments (Account 165) - Gross Plant	(Worksheet C, In 8.(F))	16,494	GP 1.00000	16,494
54	Prepayments (Account 165) - Transmission Only	(Worksheet C, In 8.(E))	-	DA 1.00000	-
55	Prepayments (Account 165) - Unallocable	(Worksheet C, In 8.(D))	-	NA 0.00000	-
56	TOTAL WORKING CAPITAL	(sum Ins 48 to 55)	144,285		144,285
57	IPP CONTRIBUTIONS FOR CONSTRUCTION	(Note F) (Worksheet D, In 8.B)	-	DA 1.00000	-
58	RATE BASE (sum Ins 36, 43, 44, 45, 46, 56, 57)		65,922,332		65,922,332

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(1)		(2)	(3)	(4)		(5)
EXPENSE, TAXES, RETURN & REVENUE REQUIREMENTS CALCULATION		Data Sources (See "General Notes")	TO Total	Allocator	Total Transmission	
Line	No.					
	59	OPERATION & MAINTENANCE EXPENSE				
	60	Customer Related Expense	322 & 323.164,171,178.b			
	61	Regional Marketing Expenses	322.131.b			
	62	Transmission	321.112.b			
	63	TOTAL O&M EXPENSES	(sum Ins 59 to 61)			
	64	Less: Total Account 561	(Note G) (Worksheet F, In 14.C)			
	65	Less: Account 565	(Note H) 321.96.b			
	66	Less: Regulatory Deferrals & Amortizations	(Note I) (Worksheet F, In 4.C)			
	67	Total O&M Allocable to Transmission	(Ins 61 - 63 - 64 - 65)	TP 1.00000	1,022,329	
	68	Administrative and General	323.197.b (Notes J & M)			
	69	Less: Acct 924, Property Insurance	323.185.b			
	70	Acct. 928, Reg. Com. Exp.	323.189.b			
	71	Acct. 930.1, Gen. Advert. Exp.	323.191.b			
	72	Acct. 930.2, Misc. Gen. Exp.	323.192.b			
	73	Balance of A & G	(In 67 - sum In 68 to In 71)			
	74	Plus: Acct. 924, Property Insurance	(In 68)	W/S 1.00000	578,554	
	75	Acct. 928 - Transmission Specific	Worksheet F In 21.(E) (Note L)	GP(h) 1.00000	24,807	
	76	Acct 930.1 - Only safety related ads -Direct	Worksheet F In 38.(E) (Note L)	TP 1.00000	3,217	
	77	Acct 930.2 - Misc Gen. Exp. - Trans	Worksheet F In 43.(E) (Note L)	TP 1.00000	-	
	78	PBOP Adjustment	Worksheet O Ln 16.(B), (Note K & M)	DA 1.00000	51	
	79	A & G Subtotal	(sum Ins 72 to 77)	W/S 1.00000	59,492	
	80	O & M EXPENSE SUBTOTAL	(In 66 + In 78)		666,121	
	81	Plus: Transmission Lease Payments To Affiliates in Acct 565 (Company Records) (Note H)	1,688,451	DA 1.00000	1,688,451	
	82	TOTAL O & M EXPENSE	(In 79 + In 80)		1,688,451	
	83	DEPRECIATION AND AMORTIZATION EXPENSE				
	84	Transmission	336.7.f	TP1 1.00000	1,756,634	
	85	General	336.10.f	W/S 1.00000	486	
	86	Intangible	336.1.f	W/S 1.00000	136,706	
	87	TOTAL DEPRECIATION AND AMORTIZATION	(Ln 83+84+85)		1,893,826	
	88	TAXES OTHER THAN INCOME	(Note N)			
	89	Labor Related				
	90	Payroll	Worksheet H In 23.(D)	W/S 1.00000	-	
	91	Plant Related				
	92	Property	Worksheet H-p2 In 3.(C) & In 3.(G)	DA 1.00000	123,593	
	93	Gross Receipts/Sales & Use	Worksheet H In 23.(F)	NA 0.00000	-	
	94	Other	Worksheet H In 23.(E)	GP 1.00000	190	
	95	TOTAL OTHER TAXES	(sum Ins 89 to 93)		123,783	
	96	INCOME TAXES	(Note O)			
	97	$T=1 - ((1 - SIT) * (1 - FIT)) / (1 - SIT * FIT * p) =$	24.94%			
	98	$EIT=(T/(1-T)) * (1-(WCLTD/WACC)) =$	25.23%			
	99	where WCLTD=(In 136) and WACC = (In 139)				
	100	and FIT, SIT & p are as given in Note O.				
	101	$GRCF=1 / (1 - T) =$ (from In 96)	1.3323			
	102	Amortized Investment Tax Credit (enter negative)	(FF1 p.114, In 19.c)			
	103	Excess Deferred Income Tax	(Note T)	NP(h) 1.00000	3,963	
	104	Tax Effect of Permanent and Flow-Through Differences	(Note T)	NP(h) 1.00000	12,626	
	105	Income Tax Calculation	(In 97 * In 109)		1,218,013	
	106	ITC adjustment	(In 100 * In 101)	NP(h) 1.00000	-	
	107	Excess Deferred Income Tax	(In 100 * In 102)		5,280	
	108	Tax Effect of Permanent and Flow-Through Differences	(In 100 * In 103)		16,822	
	109	TOTAL INCOME TAXES	(sum Ins 104 to 107)		1,240,114	
	110	RETURN ON RATE BASE (Rate Base*WACC)	(In 58 * In 139)		4,827,511	
	111	INTEREST ON IPP CONTRIBUTION FOR CONST. (Note F) (Worksheet D, In 2.(B))	-	DA 1.00000	-	
	112	(Gains) / Losses on Sales of Plant Held for Future Use (Worksheet N, In 4, Cols. ((F) & (H))	-		-	
	113	Tax Impact on Net Loss / (Gain) on Sales of Plant Held for Future Use (In 111 * In97)	-		-	
	114	TOTAL REVENUE REQUIREMENT	9,773,684		9,773,684	
	115	(sum Ins 81, 86, 94, 108, 109, 110, 111, 112)				

SUPPORTING CALCULATIONS

No.	TRANSMISSION PLANT INCLUDED IN PJM TARIFF					
114	Total transmission plant	(In 19)				83,655,743
115	Less transmission plant excluded from PJM Tariff (Worksheet A, In 42.(d)) (Note P)					-
116	Less transmission plant included in OATT Ancillary Services (Worksheet A, In 42, Col. (b)) (Note Q)					-
117	Transmission plant included in PJM Tariff	(In 114 - In 115 - In 116)				83,655,743
118	Percent of transmission plant in PJM Tariff	(In 117 / In 114)			TP=	1.00000
119	WAGES & SALARY ALLOCATOR (W/S)	(Note R)	Direct Payroll	Payroll Billed from AEP Service Corp.	Total	
120	Line Deliberately Left Blank					
121	Transmission	354,21.b	-	441,702	441,702	TP 1.00000 441,702
122	Regional Market Expenses	354,22.b	-	-	-	NA 0.00000 -
123	Line Deliberately Left Blank					
124	Other (Excludes A&G)	354,24,25,26.b	-	-	-	NA 0.00000 -
125	Total	(sum ins 121, 122, & 124)	-	441,702	441,702	441,702
126	Transmission related amount					W/S= 1.00000
127	<u>Actual (Unapped) Capital Structure</u>					\$
128	WEIGHTED AVERAGE COST OF CAPITAL (WACC)					1,638,011
129	Long Term Interest	(Worksheet M, In.36, col.(d))				-
130	Preferred Dividends	(Worksheet M, In. 45, col.(d))				-
131	Development of Common Stock:					
132	Proprietary Capital	(Worksheet M, In. 14, col.(b))				49,914,259
133	Less: Preferred Stock	(Worksheet M, In. 14, col.(c))				-
134	Less: Account 216.1	(Worksheet M, In. 14, col.(d))				-
135	Less: Account 219	(Worksheet M, In. 14, col.(e))				-
	Common Stock	(In 131 - In 132 - In 133 - In 134)				49,914,259
			<u>Capital Structure Percentages</u>			Cost
			\$	Actual	Cap Limit	(Note S)
136	Long Term Debt (Note S) Worksheet M, In 28, col. (g), In 37, col. (d))		43,000,000	46.28%	46.28%	3.81%
137	Prefred Stock (In 132)		-	0.00%	0.00%	0.0000
138	Common Stock (In 135)		49,914,259	53.72%	53.72%	10.35%
139	Total (Sum Ins 136 to 138)		92,914,259	100.00%		
						WACC= 0.0732
140	Capital Structure Equity Limit (Note Z)		55.00%			

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Letter

Notes

General Notes: a) References to data from Worksheets are indicated as: Worksheet X, Line#, Column X.

- A Revenue credits include:
1) Forfeited Discounts.
2) Miscellaneous Service Revenues.
3) Rental revenues earned on assets included in the rate base.
4) Revenues for associated business projects provided by employees whose labor and overhead costs are in the transmission cost of service.
5) Other electric revenues.
6) Revenues for grandfathered PTP contracts included in the load divisor.
7) If AEP Transmission Companies have any directly assigned transmission facilities, the revenue credits in the formula rate shall include all revenues associated with those directly assigned transmission facilities, irrespective of whether the loads of the customer are included in the formula rate divisor; provided however, such addition to revenue credits shall not be reflected if the costs of such directly assigned transmission facilities are not included in the transmission plant balances on which the formula rate ATRR is based.
See Worksheet E for details.
- B The annual and monthly net plant carrying charges on page 1 are used to compute the revenue requirement for RTEP sponsored upgrades or those projects receiving approved incentive-ROE's. Interest will be calculated based on Worksheet R and any over under recovery will be filed and posted as part of the informational filing.
- C Transmission Plant Balances in this study are projected or actual average 13 month balances.
- D The total-company balances shown for Accounts 281, 282, 283, 190 only reflect ADIT that relates to utility operations. The balance of Account 255 is reduced by prior flow throughs and is completely excluded if the utility chose to utilize amortization of tax credits against FIT expense. An exception to this is pre-1971 ITC balances, which are required to be taken as an offset to rate base. Account 281 is not allocated. In compliance with FERC Rulemaking RM02-7-000, Asset Retirement Obligation deferrals have been removed from ratebase. Transmission ADIT allocations are shown on WS B.
In compliance with FERC Rulemaking the calculation of ADIT in the annual projection will be performed in accordance with IRS regulation Section 1.167(l)-(h)(6)(i). Detailed balances for the projected or actual period, distinguished between utility and non-utility balances, will be filed and posted as part of the informational filing.
The company will not include the ADIT portion of deferred hedge gains and losses in rate base.
- E Cash Working Capital assigned to transmission is one-eighth of O&M allocated to transmission, as shown on line 66. It excludes:
1) Load Scheduling & Dispatch Charges in account 561 that are collected in the OATT Ancillary Services Revenue, as shown on line 63.
2) Costs of Transmission of Electricity by Others, as described in Note H.
3) The impact of state regulatory deferrals and amortizations, as shown on line 65
4) All A&G Expenses, as shown on line 78.
- F Consistent with Paragraph 657 of Order 2003-A, the amount on line 57 is equal to the balance of IPP System Upgrade Credits owed to transmission customers that made contributions toward the construction of System upgrades, and includes accrued interest and unreturned balance of contributions. The annual interest expense is included on line 110.
- G Removes from the cost of service the Load Scheduling and Dispatch expenses booked to accounts 561.1 through 561.8. Expenses recorded in these accounts, with the exception of 561.4 & 561.8 (lines 16 & 17 above) are recovered in Schedule 1A, OATT ancillary services rates. See Worksheet F, lines 5 through 14, for descriptions and the Form 1 Source of these accounts' balances.
- H Removes cost of transmission service provided by others to determine the basis of cash working capital on line 66. To the extent such service is incurred to provide the PJM service at issue, e.g. lease payments to affiliates, such costs are added back on line 80 to determine the total O&M collected in the formula. The amounts on line 80 is also excluded in the calculation of the FCR percentage calculated on lines 6 through 12.

The addbacks on line 80 of activity recorded in 565 represents inter-company sales or purchases of transmission capacity necessary to meet each AEP company's transmission load relative to their available transmission capacity.

The company records referenced on line 80 is the AEP Kentucky Transmission Company general ledger.
- I Removes the impact of state regulatory deferrals or their amortization from Transmission O&M expense.
- J General Plant and Administrative & General expenses, other than in accounts 924, 928, and 930, will be functionalized based on the Wages & Salaries "W/S" allocator. The allocation basis for accounts 924, 928 and 930 are separately presented in the formula. A change in the allocation method for an account must be approved via a 205 filing with the FERC.
- K The Post-employment Benefit Other than Pension (PBOP) expense is fixed based on an approved ratio of PBOP expense to direct labor expense.
- L Expenses reported for these A&G accounts will be included in the cost of service only to the extent they are directly assignable to transmission service. Worksheet F allocates these expense items. Acct 928 Includes Regulatory Commission expenses itemized in FERC Form-1 at page 351, column H. FERC Assessment Fees and Annual Charges shall not be allocated to transmission. Only safety-related and educational advertising costs in Account 930.1 are included in the TCOS. Account 930.2 includes the expenses incurred by the transmission function for Associated Business Development revenues given as a credit to the TCOS on Worksheet E.
- M See note K above. Recoverable PBOP expense is based on a rate of \$(0.058) cents per dollar of direct labor. This rate may be adjusted up or down every four years based on a comparison of the Allowable TransCo PBOP Expense and the Actual PBOP Expense for a four year Historic and four year Projected period. If the over or under collection is greater than plus or minus 20% of the recoverable amount, an adjustment will be proposed in a Section 205 rate filing.
- N Includes only FICA, unemployment, highway, property and other assessments. Gross receipts, sales & use and taxes related to income are excluded.
- O The currently effective income tax rate, where FIT is the Federal income tax rate; SIT is the State income tax rate, and p = the percentage of federal income tax deductible for state income taxes. See Worksheet G for the development of the Company's composite SIT.
A utility that elected to utilize amortization of tax credits against taxable income, rather than book tax credits to Account No. 255 and reduce rate base, must reduce its income tax expense by the amount of the Amortized Investment Tax Credit (Form 1, 266.8.f)
(in 101) multiplied by (1/(1-T)). If the applicable tax rates are zero enter 0.

Inputs Required:	FIT =	21.00%
	SIT =	4.99% (State Income Tax Rate or Composite SIT. Worksheet G)
	p =	0.00% (percent of federal income tax deductible for state purposes)
- The formula rate shall reflect the applicable state and federal statutory tax rates in effect during the period the calculated estimated unit charges are applicable. If the statutory tax rates change during such period, the effective tax rates used in the formula shall be weighted by the number of days the pre-change rate and post-change rate each is in effect.
- P Removes plant excluded from the OATT because it does not meet the PJM's definition of Transmission Facilities or is otherwise ineligible to be recovered under the OATT.
- Q Removes transmission plant (e.g. step-up transformers) included in the development of OATT ancillary service rates and not already removed for reasons indicated in Note P.
- R Includes functional wages & salaries billed by AEP Service Corporation for support of the operating company.
- S Long Term Debt cost rate = long-term interest (Ln 128)/average long term debt (Ln 136). Preferred Stock cost rate = preferred dividends (Ln 129)/preferred outstanding (Ln 137).
Common Stock cost rate (ROE) = 10.35%, per the Settlement in FERC Docket No. EL17-13. It includes an additional 50 basis points for PJM RTO membership. All Transmission Companies other than AEP Appalachian Transmission Company utilize their own capital structure and costs as shown on Worksheet M. The calculations on Worksheet M will use the projected or actual 13 month average balances of long-term debt, common and preferred equity and calendar year long term debt interest expenses, preferred dividends and approved ROE. The long term debt balances and long term debt cost rate shall not include any amounts related to hedging activity. As shown on Worksheet Q, the AEP Appalachian Transmission Company capital structure and weighted cost of capital (WACC) shall be based on the weighted composite of the AEP East Operating Companies beginning and ending average outstanding LTD and PS issuances with the common equity portion in Docket No. ER08-1329, and (2) the weighted composite LTD and PS cost using projected or actual calendar year LTD expense and PS dividends of the AEP East Operating Companies excluding all interest rate hedging costs and/or gains, until the Company establishes its own actual capital structure.
- Excess / (Deficit) Deferred Income Taxes will be amortized over the average remaining life of the assets to which it relates, unless the Commission requires a different amortization period. The Tax Effect of Permanent Differences captures the differences in the income taxes due under the Federal and State tax calculations that are not the result of a timing difference, including but not limited to depreciation related to capitalized AFUDC equity and meals and entertainment deductions. The Tax Effect of Flow-Through differences captures current tax expense related to timing differences on items for which tax deductions were used to reduce customer rates through the use of flow-through accounting in a prior period. Transmission balances for the projected or actual period, will be filed and posted as part of the informational filing.
- T
- U Cash investment in prepaid pension and benefits recorded in FERC Account 165 is permitted to be included in the formula. A labor expense allocation factor will be used to allocate total company costs. All other
- V The formula rate shall allocate property tax expense based on the as filed net plant cost allocation method detailed on Worksheet H.
- W AEP Transmission Companies will record depreciation expense using composites of the depreciation rates shown on Worksheet P which rates will not be changed absent a Section 205 or 206 filing at FERC to seek a change in depreciation rates. No other changes to the formula rate may be included in that filing.

Under Section 30.9 of the PJM OATT, a network customer that owns existing transmission facilities that are integrated with the Transmission Provider's Transmission System may be eligible to receive consideration either through a billing credit or some other mechanism. Calculation of any credit under this subsection, pursuant to approval by FERC for inclusion in this formula rate for collection on behalf of the network customer, shall be addressed in either the Network Customer's Service Agreement or any other agreement between the parties.
- X The cost of service will make a rate base adjustment to remove unfunded reserves associated with contingent liabilities recorded to Accounts 228.1-228.4 from rate base.
- Y Per the settlement in EL17-13, equity is limited to 55% in of the Company's capital structure. If the percentage of actual equity exceeds the cap, the excess is included as long term debt in the capital structure.
- Z