

certificate of net property additions, the amount of such unapplied half share of net property additions shall be deemed to be the amount first utilized for the purpose for which such certificate shall be executed and delivered, before the amount of the other property additions included in such certificate shall be deemed to be utilized for such purpose.

The term "property retirement" shall mean (a) the cost of all mortgaged property of the character of property additions as herein defined, owned by the Company on June 30, 1919, and (b) the cost of all funded property additions except property additions the fair value of which at the time the same became funded property was less than the cost, in which latter case such fair value shall be used in lieu of cost, which, in either case, shall prevail to the date of the particular computation and otherwise until no June 30, 1919, have been either retired or abandoned. Property retirement shall include any write down or write off or amortization, thereof, of the amount by which the book value of any of the Company's property owned on June 30, 1919, may exceed the original cost thereof.

The term "cost" has used herein shall mean:

(a) As to any property owned by the Company on June 30, 1919, the book value thereof as of that date (or the estimated book value as of that date in the case of property the book value of which is not specifically shown by the books of the Company), without deducting therefrom applicable reserves for depreciation and/or retirements as of that date; provided, however, that in the event any regulatory body having jurisdiction shall require or approve a change in the book value of any such property as shall not have, as or prior to the first of such changes, previously agreed to be used or used in the business of the Company, the value as so changed shall be treated as the book value as of June 30, 1919, not less, however, than the cash cost of such property to the person or corporation (or their affiliates) first dedicating such property to public use;

(b) As to any property acquired after June 30, 1919, the cost to the Company, which shall be deemed to be the sum of

(1) any cost forming a part of such cost, (2) an amount equivalent to the fair value (during the time market value, if there be the date of delivery of any certificate or the fair value of any other property, if there be less) of the value of the interest or the acquisition thereof, and (3) any other cost, the lesser of either of which is equivalent to the principal amount of any indebtedness, whether or not assumed by the Company, incurred for prior to the acquisition of such property, outstanding at the time of or reserved by the vendor or created by the Company at the time of the acquisition of such property, or (4) the amortization of the cost, if any, expended by the Company, in the purchase of the property, and (5) the principal amount of any indebtedness assumed by the Company as a part of the consideration for the acquisition thereof, or, if the amount be less, the amount actually expended by the Company to secure the same, shall be used.

In determining cost in cases in which property acquired consists partly of property additions and partly of other property or in cases in which cost is not allocated between various kinds of property, cost may be allocated to the various parts and items of property in any manner which the signer of the engineer's certificate in which the cost of such parts or items of property is required to be stated deems reasonable and in accordance with good accounting practice. For the purpose of making such allocation, the signer of the engineer's certificate may rely on and accept, if such signer deems it proper to do, any action taken by the Board of Directors of the Company with respect to such allocation and any valuation and other reports available to them with respect to the property concerned, including the independent engineer's certificate (if any) filed with the Principal Trustee with respect to the fair value of the property so acquired.

1204. The term "net earnings certificate" shall mean a certificate signed and verified by an accountant or an independent public accountant as provided in subdivision (c) of § 1203, stating (subject to the provisions of § 1201):

(A) The net earnings of the Company for any period of twelve (12) consecutive calendar months within the fifteen (15) calendar months immediately preceding the first day of the month in which the application in connection with which a net earnings certificate is required under this Indenture is made, showing how the same have been calculated, and to that end specifying:

(1) The aggregate of the gross operating revenues derived from the gas business of the Company;

(2) The aggregate of the operating expenses of such business, including therein (a) administration expenses other than those charged to capital account or surplus, (b) taxes other than income, profits and other taxes measured by or dependent on net income in respect of which the amount payable by way of interest is a deductible item, (c) assessments, rentals, license charges and insurance, (d) expenses for contract repairs and maintenance, and (e) provision for reserves for renewals, replacements, depreciation or retirement of property (which provision shall aggregate not less than the Standard of Expenditure, as defined in § 4.10, for such period); but excluding therefrom any expenses or provisions for interest on any indebtedness or for any sinking or similar fund for the retirement of any indebtedness or provisions for the amortization of debt discount and expense;

(3) The net non-operating income of the Company; and

(4) The net operating revenue derived from all sources other than the gas business of the Company.

The net earnings of the Company shall be the sum obtained by deducting the amount stated in Clause (2) above from the amount stated in Clause (1) and adding to the balance so obtained the sum of the amounts stated in Clauses (3) and (4); provided, however, that profits or losses resulting from the sale, abandonment or other disposition of capital assets or securities, or any amortization or elimination of intangibles, shall not be taken into account in the calculation of net earnings; and provided further, that of the net earnings of the Company not more than fifteen per centum (15%) in the aggregate may consist

of (a) net non-operating income, and (b) net operating revenue from all sources other than the gas business of the Company; and in the event that such income and revenue referred to in (a) and (b) shall in the aggregate exceed fifteen per centum (15%) of such net earnings, then the amount of any such excess shall be separately stated and shall, for the purposes of any net earnings certificate under this Indenture, be excluded from the computation of net earnings; and

(B) The annual interest requirements upon (1) all bonds outstanding hereunder at the date of such certificate, except any bonds for the payment, retirement or redemption of which the bonds then applied for are to be issued, (2) bonds then applied for in the application in connection with which such certificate is made and those applied for in any other pending application, and (3) the principal amount of all other indebtedness (except indebtedness secured by prepaid time) outstanding on the date of such certificate and secured by a prior lien, except any indebtedness for the payment, retirement or redemption of which the bonds then applied for are to be issued. In case any bonds or prior lien bonds at the time outstanding or any of the bonds applied for, shall be convertible into or exchangeable for other bonds or prior lien bonds, bearing a higher rate of interest, then for the purposes of this subdivision (B) all such bonds and prior lien bonds so convertible into or exchangeable for bonds or prior lien bonds, bearing a higher rate of interest, shall be deemed to bear interest at such higher rate.

If any of the property of the Company owned by it at the time of the making of any net earnings certificate shall consist of a plant or system (including any property used in connection therewith) which shall have been acquired during or after any period for which net earnings are to be computed, the actual net earnings or net losses of such property (computed in the manner specified in this Section for the computation of the net earnings of the Company, but eliminating all intercompany items, if any) during such period or such part of such period as shall have preceded the acquisition thereof, to the extent that the same are ascertainable and have not otherwise been included, and unless such property shall have been acquired in exchange or substitution for property the earnings of which have been included, shall be treated as net earnings or net losses of the Company for all purposes of this Indenture. The net