

The net retirements shall be the gross retirements, calculated as hereinafter provided, minus the sum of all cash, if any, received by the Corporate Trustee representing the proceeds of insurance on, or the release or other disposition of, the properties retired and the principal amount of all purchase money obligations, if any, secured by purchase money mortgages, received by the Corporate Trustee upon the release of any such retired properties. The gross retirements in respect of any retired property, other than gas production property, shall be (a) in the case of bondable additions which shall have been made the basis of the issuance of bonds or the withdrawal of cash or the release of property hereunder, the cost or fair value to the Company, whichever is less, of such bondable additions at the time the same were made the basis of such issuance or withdrawal or release, and (b) in the case of any other property, exclusive of gas production property, the cost thereof to the Company. The gross retirements in respect of any gas well or other gas production property retired shall be an amount equal to any gas production expenditures made by the Company in respect of such property to the extent that such gas production expenditures shall have been made the basis for the issuance of bonds or the withdrawal of cash pursuant to Section 4.03 or Section 4.06 or the withdrawal of cash from any construction fund established pursuant to any provision of this Indenture, or the basis of any other credit on account of the cost of any special project established under this Indenture. No deduction need be made under this paragraph and the second next preceding paragraph in respect of the retirement of (i) any property which constitutes Excepted Property as defined in the Granting Clauses of this Indenture or which is specifically excepted from the lien of this Indenture by any indenture supplemental hereto duly executed by the Company and the Trustees in accordance with the provisions of Article Thirteen hereof, or (ii) any proven gas acreage, to the gas production expenditures in respect of which no bondable value has been or at the time of such retirement may be attributed by reason of the provisions of the third paragraph of Section 1.13B.

For the purposes of the deductions for retirements required by the foregoing provisions of this Section, the cost of retired property shall be, in the case of property owned by the Company at December