2009 Annual Report

Memphis Light, Gas and Water Division

1939 - 2009

70 Years

MLGW

MLGW

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MLGW is led by a president and a five-member Board of Commissioners who are appointed by the mayor of Memphis and approved by the Memphis City Council. The President is the Chief Executive Officer of the company. The Board of Commissioners sets the policies and guidelines that govern the activities of MLGW employees in supplying utility services to the people of Memphis and Shelby County. The Board of Commissioners conducts the business of MLGW at regularly scheduled open public meetings. Proposed agendas for those meetings are posted in the lobby of the MLGW David C. Hansen Administration Building and on www.MLGW.com at least 48 hours prior to each meeting. Any individual, public or private, may address the Board. The meetings are open to the public and to the media.

Dedication

The 2009 Memphis Light, Gas and Water Annual Report is dedicated to the true heroes of MLGW

There are many true heroes who have worked for MLGW. MLGW honors those who have given their lives in service to our nation, and honors all veterans of the armed forces of the United States. In the lobby of the MLGW Administration Building stands an obelisk dedicated to active employees who had been members of the armed forces of the United States.

MLGW also honors those members of the MLGW family who lost their lives while in service to the Division. Their names are still remembered. Engraved on a memorial in the MLGW museum are the names of 34 men who were killed while in service to the people of Memphis. The memorial was dedicated November 22, 1988. They did not die in war, yet their lives were dedicated to providing electricity, natural gas, and life-sustaining water to their fellow citizens. It can be a dangerous job. The deaths of these men are a testimony to how vigilant workers must be at MLGW.

Three names – Beaty, Laney and Poteet – are usually mentioned together. They were brothers on the job, and on one fateful St. Patrick's Day in 1967 became brothers in eternity. That day was the true dividing line between all safety practices before, and the religious fervor with which safety is treated today at MLGW. Listed below are the names of true MLGW heroes, and the year in which each man gave the ultimate sacrifice.

We hope and pray that to this list we never add another name.

1941—**Orville Kessner**, Electric Distribution; 1942—**Fred Hageman**, Electric Distribution; 1945—**Joe C. Gunn**, Gas Distribution; **Abbott M. Smith**, Gas Distribution; 1946—**J.B.Arnett**, Electric Distribution; 1949—**Arthur Grasso**, Electric Distribution; **Bonnie Mynat**t, Electric Distribution; **Leonard B. Robinson**, Electric Distribution; **Jack Downing**, Electric Operations; **Hugh M. Huffman**, Meter Reading; 1950—**J.C. Duncan**, Electric Distribution; 1952—**Robert C. Hamilton**, Electric Distribution; **Gene Atkins**, Electric Distribution; **Ira B. Turner**, Electric Distribution; **S.D. Neal**, Electric Distribution; 1954—**James D. Walker**, Electric Distribution; 1957—**H. Reed**, Water Distribution; 1961—**Walter Holmes Jr.**, Water Distribution; 1963—**Lawrence G. Young Jr.**, Electric Distribution; 1964—**Glen Massey**, Central Shops; 1965—**L.C. Grandberry**, Electric Distribution; 1967—**Dan L. Beaty**, Electric Distribution; **Doyle K. Laney**, Electric Distribution; **Robert J. Poteet**, Electric Distribution; 1970—**John W. Moore**, Electric Operations; 1972—**Bobby G. Lemmons**, Electric Distribution; **Clarence Weaver**, Electric Distribution; 1973—**B.F. Stallings**, Central Shops; 1974—**Leonard C. Williams**, Electric Distribution; 1975—**Harold W. Bingham**, Electric Distribution; 1976—**W.H. Grandberry**, Electric Distribution; 1985—**James A. Liberkowski**, Gas Distribution; 2000—**Darryl J. Adell**, Electric Distribution; 2002—**Taurus Black**, Distribution Support-Water.

MLGW Board of Commissioners

Darrell T. Cobbins, *Chair*
Mr. Cobbins established Universal Commercial Real Estate, LLC in 2007, as Memphis' first African-American owned commercial real estate and community development services firm. His term expires October 30, 2010.

Dedrick Brittenum, *Vice Chair*
Mr. Brittenum is a partner in the law firm of Brittenum Bruce, PLC. His term expires July 11, 2011.

V. Lynn Evans
Ms. Evans is owner of V. Lynn Evans, CPA, a certified public accounting and consulting firm. Her term expires October 30, 2010.

Rick Masson
For many years an executive administrator with city of Memphis government, Mr. Masson currently is the Director of Shelby Farms. His term expires June 30, 2010.

Steven Wishnia
Mr. Wishnia is president and managing director of Highland Capital Management Corporation. His term expires November 1, 2010.

(from left) Dedrick Brittenum, Darrell T. Cobbins, V. Lynn Evans, Steven Wishnia, and Rick Masson.

Happy 70th Birthday, MLGW

By MLGW President and CEO Jerry R. Collins Jr.

Jerry R. Collins Jr.

The slogan found on the first MLGW logo said it all in terms of why the company was in business and who ran the place: "Public Service—Publicly Owned." Most people are surprised to learn that the highly successful Memphis Light, Gas and Water Division—often simply referred to as the "Division"—is not that old. It was only born in 1939, even though organized utility service in Memphis had been available for 87 years before MLGW came onto the scene. Maybe its success comes because it has never been "only" a utility company. Born from a novel idea, the Division has always been a company of ideas, a company unafraid to plan and equally unafraid to place novel ideas into practical action. During 2009, our great country has faced many major financial challenges. The recession has affected virtually all aspects of the local, state and national economy—MLGW has not been excluded from these challenges, but despite them, MLGW has continued to perform at a high level. I attribute this to the tremendous wealth of talent and knowledge that our 2,700 employees bring to work with them every day. The employees of MLGW are dedicated—to their jobs, to their co-workers, and to their customers.

The MLGW 2010 budget reflects that dedication. MLGW management representatives and representatives from the International Brotherhood of Electrical Workers negotiated a new, four-year contract in 2009. Both sides never strayed from an early agreement that MLGW employees, in doing their part in the economic recovery of our nation and city, would not take a pay increase in 2010. The prospect of no pay increases is not pleasant for most employees. But with many local and national businesses announcing layoffs of thousands of employees, this sacrifice was the very least we could do. We work hard to keep utility costs down for our customers, and the work has paid off. While many utilities across the nation are raising rates in an effort to recover from these challenging times, MLGW has promised its customers that rates will not increase in 2010.

We are not only starting to recover from the economic downturn that began in late 2008, we are starting to rebuild and plan for the future growth of our city and region. Smart Grid technology will soon cease to be a dream and will become a reality for our customers as we begin a pilot project to bring automated meters to 1,000 homes in our service area and significantly upgrade our electric system in the growing Downtown and Medical Center areas.

When MLGW was formed in 1939, we were still recovering from the effects of the Great Depression and would soon struggle to build a strong company as employees and customers alike were caught up in the events of World War II. MLGW met those challenges and prevailed in its early days, and I am convinced MLGW will conquer the challenges of today.

MLGW Executive Leadership

Jerry R. Collins Jr.
President and CEO

Christopher G. Bieber
Vice President of Customer Care

Von W. Goodloe
Vice President of Human Resources

John W. McCullough
Vice President, CFO and Secretary-Treasurer

Nicholas Newman
Vice President of Construction and Maintenance

Cheryl W. Patterson
Vice President and General Counsel

Linda K. Peppers
Vice President and Chief Technology Officer

Alonzo Weaver III
Vice President of Engineering and Operations

Gale Jones Carson
Director of Corporate Communications

Clifford M. DeBerry
Director of Analysis, Strategy and Performance

Lesa J. Walton
Director of Internal Audit

Dana J. Jeanes
Controller

Anderson D. Williams
Executive Analyst

Healthy and Strong at Seventy Years

Memphis was only 26 years old when Memphis Gas Light Company, the first of Memphis Light, Gas and Water Division's parent companies began operation in 1852. The area of the city was approximately three square miles and the population approached 10,000. The western boundary, of course, was the Mississippi River, and the eastern boundary of the city was Dunlap Street, a block or so east of MLGW's present Central Shops facility.
Like many cities, Memphis in its early history had neither publicly nor privately owned utilities. Gas service has been available in Memphis since 1852 when the Memphis Gas Light Company built a plant on Front Street. In 1868, the Memphis Gayoso Gas Company built a competing plant in Fort Pickering, which was ultimately absorbed by the older company. The Equitable Gas Light Company built a plant at Kansas and McLemore in 1886 and took over the Memphis Gas Light Company in 1898.

Electricity was introduced to the city by the Brush Electric Light and Power Company in 1882. The end of the first year's business showed 55 customers, all using series arc lights. But the "electric age" didn't become a reality in Memphis until 1887, when a visionary group of citizens incorporated the Memphis Light and Power Company to supply electricity to the city. The company built a power plant on Beale near Myrtle and installed multiple clay duct runs.

An early facility of the Memphis Gas and Electric Co., around 1917.

City water service on an organized basis was nonexistent until 1870, when the privately owned Memphis Water Company was formed. The company went out of business in 1875 largely because of the yellow fever epidemic, but reorganized for business in 1880. Until 1887, Memphis drew most of its water from cisterns and the Wolf River. The Memphis Water Company had tried to find a new source of water for years, but to no avail. On March 18, 1887, while sinking a well for the Bohlen-Huse Machine and Lake Ice Company, the drillers tapped the artesian water supply underneath the city. The Artesian Water Company was formed that same year. The use of the Wolf River for Memphis' water supply was discontinued, and Memphians have been fortunate since that time to have artesian wells as their water source.

An artist's rendering of the Memphis Artesian Water Co.

From 1875 to 1880, Memphis suffered calamitous economic and public health events. The city suffered a disastrous yellow fever epidemic, the population shrank 17 percent, and the city lost its charter because of severe economic problems. Around 1880, Memphis entered its modern era. The city nearly doubled its population in the decade of the 1880s. The city had overcome the yellow fever epidemic and its economic woes, and Memphis' charter was restored in 1893. Business was on the rise and the city needed a reliable source for its utility needs.

The year 1902, however, saw a turning point for the city and its utilities. In 1902, the Memphis Light and Power Company merged with the Equitable Gas Light Company, which was at that time the only gas distributor in the city, to form the Memphis Consolidated Gas and Electric Company. A year later, in 1903, Memphis sold $3,500,000 in bonds to buy the

Some of the MLGW fleet are shown in the 1950s.

Artesian Water Company to form the Memphis Artesian Water Department, the first utility owned by the city of Memphis. Beginning in 1903 and continuing for more than a decade, the utility needs of Memphis continued to be served by a city-owned water department and privately owned gas and electric companies. While the Memphis Consolidated Gas and Electric Company was in the process of expanding, the Merchants Power Company of Maine secured a 25-year franchise in 1905 to supply the city with gas and electricity. It constructed a plant at Front and Keel in 1905. Many of the clay duct lines installed by the company were still in use by MLGW during the 1960s. In 1917, these privately owned companies consolidated to form the Memphis Gas and Electric Company, eventually to become Memphis Power and Light Company (MP&L). The city of Memphis was unable to buy either a gas or electric system during this time because of the financial commitments in purchasing the Artesian Water Company.

An MP&L meter reader's badge from the 1930s.

Except for the water system purchased in 1903, Memphis had no experience with publicly owned utilities until nearly the 1940s. In fact, most major cities in the United States in the early 1930s were served by privately owned utility companies, and Memphis was no exception. By 1917, Memphians seemed to favor the idea that one company could operate more efficiently and provide better service than two competitors. World War I, inflationary prices, and the shortage of manpower and materials helped bring about the demise of Memphis Gas and Electric in 1920. In 1922, most of the company's property and assets were turned over to Memphis Power and Light. Natural gas became available to Memphians on New Year's Day, 1929. Memphis Power and Light Company used its distribution system to deliver the natural gas, which was brought to Memphis by pipelines from gas fields in Louisiana. In 1923, Memphis Power and Light Company took over the Binghampton Light and Power Company, and in 1925 absorbed the South Memphis Light and Power Company.

Although MLGW has only been in existence since 1939, the "idea" of an MLGW had been around for at least 25 years before that. In the early days of the utility industry, the public believed that it was necessary to have two or more companies competing to ensure low rates and good service. For that kind of competitive atmosphere to exist, however, those companies had to be privately owned and operated.

For years, however, it had been the dream of prominent Memphians, such as the legendary Shelby County political leader and former Memphis Mayor E. H. Crump, to have all utilities in the city owned and operated by the city government and free of interference from far-off companies and non-local interests. He blamed what he termed the "power trust"—the privately owned utility companies—for his early removal from office.

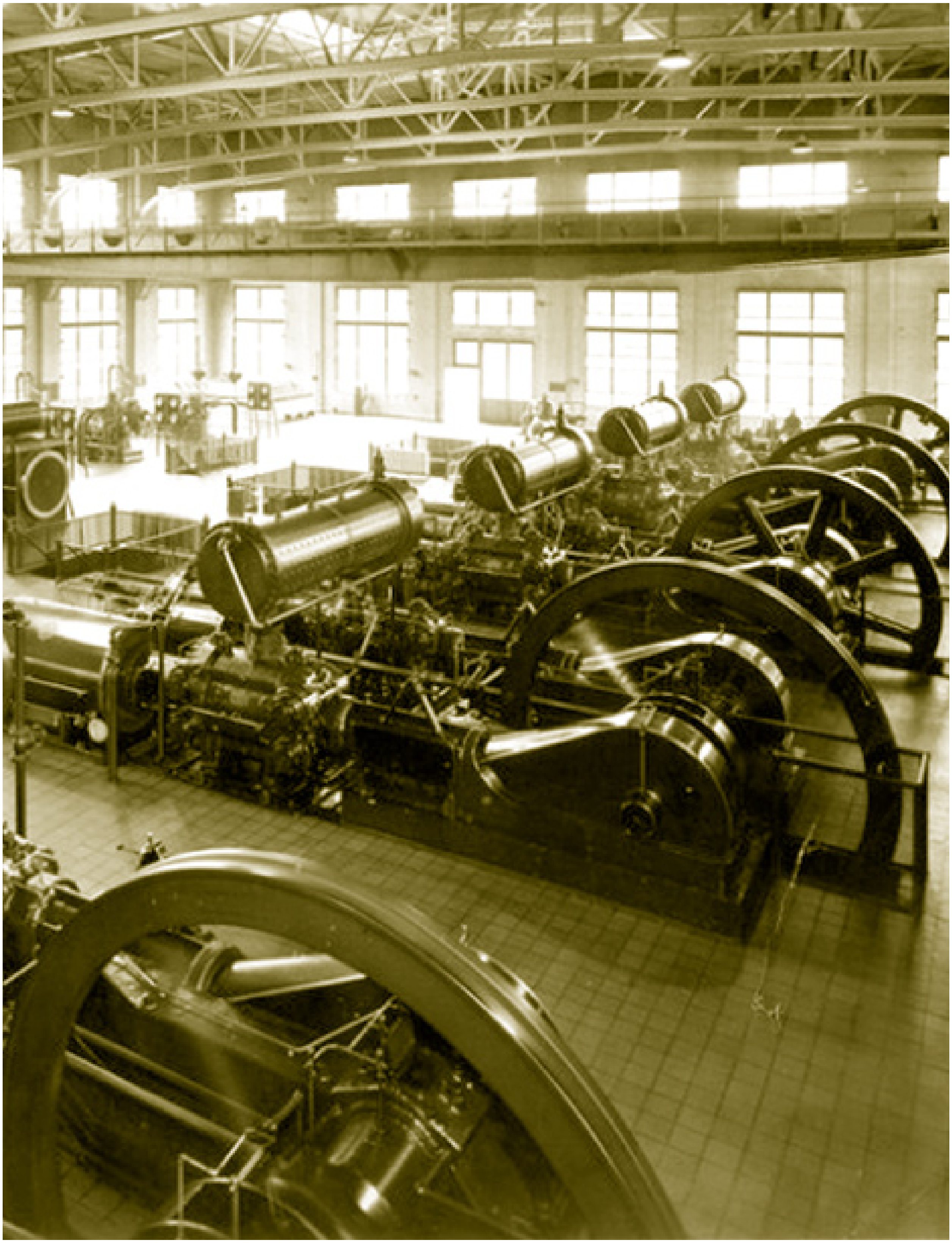
Crump never gave up his resentment of the privately owned utility companies. His private political battle gave rise to the idea of bringing all utilities under one organization, municipally owned and locally run. By 1919, public opinion had definitely changed toward competing utility companies. Public opinion had swung to the side of single-source, publicly owned utilities. Competition had actually increased rates because of duplicate operating expenses and duplicate investment, resulting in duplicate carrying charges.

In 1919, the state of Tennessee formed the Railroad and Public Utility Commission, which had the authority to supervise rates, financing and expenditures to keep the best interests of the public—not the utility owners—in mind. Crump wanted to capitalize on this swing in public opinion to go one step further: have the public own the utility company, eliminate the private-interest owner, and ensure that the public would take care of its own interests directly. It was a novel idea, and one which would take years to come to fruition.

When the Tennessee Valley Authority (TVA) was formed in 1933, many felt the opportunity had arrived for Memphis to obtain cheap electric power. On November 6, 1934, Memphians voted 32,735 to 1,868 to authorize a bond issue to acquire or construct an electric distribution system. The unified Memphis Light and Water Division was formed in 1935 to oversee power and water systems, and a contract with TVA was signed in 1935.

Because the privately owned Memphis Power and Light Company already had an electric distribution system in place, the city requested MP&L to open formal negotiations to sell their properties to the city. No quick agreement could be reached, so the city decided to build a competing electric distribution system. The first pole in that distribution system was placed at Person and Rozelle. After nearly three years of litigation and negotiations, a sale agreement for the purchase of MP&L properties was reached on February 16, 1939. Under the provisions of the sale, the city received all electric distribution facilities, the MP&L administration building on Madison Avenue, a central shops facility, an electric service building, some other miscellaneous property, and as had been insisted upon by Mr. Crump, all gas properties. A complete utility system for the price of $17,360,000, which included $2,110,000 paid by TVA. Arguably, it is the best investment the city of Memphis has ever made.

In 1939, the administration building of MP&L became the MLGW administration building.



The engine room floor at Mallory Electric Substation during the steam-engine era of the 1940s.

The 1940s

A New Company with a Big Challenge

W.W. Mallory was appointed to the Memphis Board of Water Commissioners in 1925. He became vice chairman of the expanded Memphis Light and Water Division and was selected MLGW's first president in 1939. Mallory's untimely death in 1940 left the mantle of the presidency to Thomas H. Allen. From a utility family, Allen's father, Colonel R.H. Allen, served as Secretary-Treasurer of the Memphis Power and Light Company. Thomas Allen graduated from the University of Tennessee in 1903 before taking his first professional position with Allis Chalmers of Milwaukee. He moved back to Memphis in 1908 and founded the Allen Engineering Co. in 1910 (renamed Allen and Hoshall in 1915). Allen acquired his title of Major for his service during WWI.

Each decade seems to give new meaning and purpose to MLGW. The 1940s taught the Division how to take on large tasks with tight budgets and labor shortages. Of course, the early 1940s were challenging years faced by the fledgling utility company. Pledging to provide plentiful power to the people as inexpensively as possible, MLGW had to work fast and smart in order to provide more and more electricity for essential war industries.

Thomas H. "Major" Allen
MLGW President
1940-1958

The eyes of Memphis ratepayers were upon the new, experimental organization which combined all utilities under a single management structure to see if such an entity could deliver on the promise of lower rates. MLGW didn't let the people down. The company immediately reduced residential gas rates 10 percent in 1940. At the helm of this new company, essentially an experiment in municipal utility organization, was the indefatigable Major Thomas H. Allen. The old adage, "the right man at the right time," was never more appropriate than at this juncture. He was determined not to let the same factors (war, inflation, manpower and supply shortages) that led to the demise of Memphis Gas and Electric Co. adversely affect operations of this new Memphis Light, Gas and Water Division. He had significant public and private engineering experience—37 years in fact—before he became president. Plus, his experience as an Army officer served the division well when it had to operate like a small army during the WWII years. Major Allen set the standard for employee dedication. Allen served for 18 years as president, dying in office.

Memphis Light, Gas and Water Division gradually assumed a more streamlined shape in the 1940s after having swallowed the huge Memphis Power & Light Company. Besides putting finishing touches on newly built electric substations, the Division had to construct underground and overhead tie lines between the new and old systems. It was necessary to remove the duplicating distribution circuits built in South Memphis, which were cluttering the streets. General offices (MLGW offices were originally in the Goodwyn Institute Building) were combined at 179 Madison.

Major ice storms during the 1950s wreaked havoc on overhead electric lines.

The 1950s
Growth and Expansion

The decade began with one of the most severe ice storms in Memphis history. But this was not an omen, for the 1950s proved to be a decade of growth and construction. The growth of the nation in the 1950s saw growth in the city of Memphis, as well. This decade saw MLGW hone its planning skills, which is why strategic planning is second nature at MLGW today. The Division had already anticipated post-war distribution expansion, planning for the 1950s before WWII had ended.

By 1955, the Division had 2,918 employees and the population of the city had swelled to 554,310. The national growth years of the 1950s also saw the growth of MLGW, as the Division struggled to stay ahead of the construction boom and the expansion of the city.

Crews depart from the Beale and Walnut operations center for a long day of construction during the 1950s.

No city can successfully grow faster than its utilities, and MLGW learned that lesson early as the Division learned to anticipate population shifts and building patterns. Throughout the 1950s, the division expanded its facilities and built new ones to ensure that utility services and supplies were in place even before they were needed. As early as 1952, Presidents' Island was dedicated as a site for industry, and the Federal Power Commission authorized Texas Gas Transmission Corporation to build necessary pipelines to provide Memphis with a maximum daily capacity of 280 million cubic feet of natural gas.

In 1955, the Memphis City Commission authorized MLGW to begin construction of an electric generating plant (which would later be named the Allen Electric Generating Plant), the first step in a plan to wean MLGW from TVA Power. On November 16, 1958, Unit No. 1 at the new plant was rotated for the first time. Five days later the test run was delivering 30,000 kilowatts of power to Memphis, the first time Memphians had received power from a source which they owned. The decade ended with the full completion of the Allen Steam Plant and the celebration of MLGW's 20th birthday.

The employee memorial is located in the lobby of the David C. Hansen Administration Building on Main Street.

The 1960s

Maintaining Stability During Turbulent Years

James Ray Morton
MLGW President
1959-1969

It is hard to spotlight one decade as being particularly outstanding in the eventful history of MLGW, but the 1960s come close. In order to stabilize rates and save money, measures were taken to return MLGW to the TVA fold as a distributor of TVA power. Negotiations were concluded and contracts signed on January 10, 1963 for a 20-year power contract with TVA. The Allen Electric Generating Plant would transfer to TVA ownership through a lease-purchase plan.

During the early years of the 1960s, Memphis became the 22nd largest city in the United States. The cost of residential electricity was 26 percent less than the national average. To further enhance distribution capabilities, two additional water pumping stations were completed: the Lichterman Water Pumping Station (1965) and the pumping station at the newly constructed Liquefied Natural Gas Plant (1967). The Liquefied Natural Gas Plant was constructed outside Arlington in Shelby County for the purpose of stabilizing gas rates and maintaining a surplus supply of natural gas for MLGW customers.

An emphasis on customer service was begun during the 1960s, and customer relations and public relations divisions were added to the company. In mid-decade, customers saw a new look for Division vehicles. Gone were the green trucks, now painted "sunset yellow." The end of the decade saw the planning for a new administration building downtown. Visionary planners at the division saw a rebirth for downtown and decided to become a trendsetter and anchor for the redevelopment of Beale Street. The decade ended on a successful note. The year 1969 saw MLGW celebrate 30 years as a successful company.

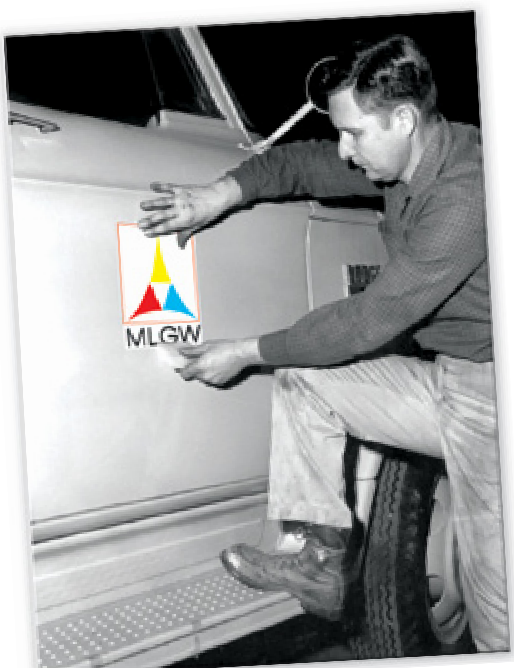
MLGW would end the decade of the 1960s with the construction of a new administration building.

The 1970s
Environmental Awareness

The decade of the 1970s was a reorganization time for the country after the frenzied activities of the 1960s. Concern was directed toward the environment, toward the less fortunate, and toward programs seeking justice and equality. Likewise, the Division implemented programs that would address those humanistic concerns.

In 1970, the city government required MLGW to begin fluoridation of the Memphis water supply. A growing concern for the atmosphere and the air we breathe led TVA to spend $8,000,000 to achieve 99 percent efficiency in removing particulates of pollution at the Allen Electric Generating Plant.

In 1972, MLGW examined its safety procedures to ensure compliance with the Tennessee Safety and Health Act. A 1967 accident that left three MLGW employees dead and two more severely injured spurred development of a safety services Error-Free Performance Program. This decade would see massive safety regulations and procedures initiated by the Division, and these procedures would pay off. The decade of the 1940s saw 10 MLGW employees lose their lives in service. The 1950s, 1960s and 1970s would have seven employees in each decade lose their lives. But after 1976, it would be 1985 before another MLGW employee was killed on the job. The 1990s saw no on-the-job deaths.



A new MLGW logo was introduced in the 1970s.

Several new employee concerns were also addressed during the 1970s. The International Brotherhood of Electrical Workers became the recognized negotiating body for MLGW bargaining unit employees in January 1970. In 1972, the first Affirmative Action program was begun at the Division. Also during the decade of the 1970s, a Coal Gasification Plant was planned for construction. MLGW took over operation of the Bayou Galion gas field in Louisiana as the decade drew to a close and the Division celebrated its 40th anniversary.

It is odd to see pictures of MLGW workers without their customary safety equipment, but the requirement of safety helmets did not become mandatory until 1973.

The 1980s

Commitments to Training and Strategic Planning

Experimentation with new technology and the search for new energy sources occupied much of the early years in the 1980s at MLGW. A new bill format was developed in 1980, work began on a new training facility on Covington Pike in 1981, and in 1982 the Ray Morton Water Pumping Station was completed. In 1983, a new computer disk system replaced the outmoded Burroughs magnetic tape system. The Coal Gasification plant, a $700,000,000 project, prompted a reorganization with a new vice presidency created to oversee all energy systems and other projects such as the Bayou Galion gas field. Also that year a program called Plus-1 began, in which customers could add $1 or more to their utility bill payments to help the less fortunate in the community pay their utility costs.

The Division saluted its veterans with celebrations throughout the 1980s.

The year 1984 didn't prove Orwellian at all at MLGW. In fact, the Division began discussions on a concept of decentralization. New president Larry Papasan sought a return to what he called the primary mission of MLGW: the distribution of utility services to the people of Memphis and Shelby County. Projects that kept the Division from staying to that course were discontinued, such as the Coal Gasification Plant. The Bayou Galion gas field was sold, and the lease-purchase by TVA of the Allen Electric Generating Plant was completed at the end of 1984.

USA Today reported in 1984 that Memphis had the lowest total monthly residential utility bill among the 25 largest cities in the United States. In 1985, total quality management was implemented and MLGW—always a forward-looking, planning company— formally introduced strategic planning. More commitment was given to

A future lineman learns some skills during Family Safety Day.

community affairs and volunteerism, and for the first time the MLGW Board of Commissioners held meetings throughout the community. The Division began decentralization and went to a work center concept, with four satellite service centers operating as small versions of the Division.

Since its beginning in 1986, the Spot Market Gas Purchase Program, in which MLGW buys natural gas directly from markets, has allowed the Division to save millions of dollars for its customers. Also in 1986, MLGW joined forces with the University of Memphis to create a community-based consortium known as Energy Vision to study a broad range of urban energy issues, including groundwater purity and expanded social services for the disadvantaged. Finally, programming was completed for MLGW's computer network known as RISE (Resource Information Systems for Efficiency) and in 1987, RISE began operation.

The Safety Lab ensures the reliability of all safety and protective equipment.

The 1990s
Toward a New Century

As the decade of the 1990s commenced, MLGW began an intense assessment of its operations, planning and fiscal stability to ensure that it was prepared to meet the challenges of the coming 21st century. In 1990, the Patricia Walker Shaw Pumping Station came on line, bringing the utility's number of water pumping stations to ten, and guaranteeing a plentiful supply of artesian water to the citizens of eastern Shelby County. Four years later, construction was completed on a modern $1.2 million water laboratory located on the grounds of Sheahan Pumping Station. "Pure Memphis" bottled water was introduced to the city which placed Memphis water on the same shelves as other nationally and internationally known brands.

In 1997, the Division completed construction of its second Liquefied Natural Gas (LNG) plant in Capleville. In an effort to decrease risk and reach additional supply basins, MLGW reached an agreement with Trunkline Gas Company in 1993 to share the cost of constructing a new pipeline. Also during 1993, MLGW added a "Purchased Gas Adjustment"(PGA) to customers' bills to counter the effects of the continuing deregulation of the gas industry. The PGA is based on the variable price of natural gas each month and appears as either a charge or a credit on a customer's utility bill, depending on MLGW's cost of gas for the month.

Memphis' water has long been recognized for its purity and taste.

Strenuous budget cuts and a reduction in the company's work force through attrition and reorganization underscored the utility's firm response to its toughest challenge of the decade: keeping rates low despite rising operating costs and an ever-changing environment.

With this task in mind, innovative technology and increased efficiency have found their way into every area of the Division. For instance, the Division's new radio and CARES II (Computer Aided Restoration of Electric System) system came on-line, garnering both national and international attention for the company's innovation. In 1992, the GridPad field computer system was introduced, saving the company more than $600,000 each year, and DAP replaced the Roadrunner as an even faster meter-reading tool. To take advantage of technological advances within its telecommunications system and improve customer service, the Information Center's telephone number was changed to 544-MLGW, and an outage hotline was added during 1993.

For its long commitment to its community, MLGW won the National Points of Light Award for Corporate Community Service in 1995. MLGW celebrated 60 years of service to the people of Memphis in 1999.

A new, state-of-the-art water laboratory opened on the grounds of Sheahan Water Pumping Station in 1994.

MLGW Enters the 21st Century

MLGW began the 21st century having earned the status as the largest three-service municipally owned utility in the nation, a utility company with a national reputation for excellent rates, superior service, sound financial footing, and prepared to meet whatever challenges the future might bring. The first few years of the new century have presented many challenges, such as recovering from the worst national economic crisis since the Great Depression, which began with the stock market crash on Wall Street in October 1929.

The start of the decade saw the Division begin a total process of security self-examination as it readied its equipment and facilities for anticipated problems from the "Y2K" computer crisis. Thankfully, only minor disturbances occurred. In 2001, the Division tightened security at all facilities in response to the terrorist attacks of 9/11. As in past wars, the Division girded itself to secure the utility services so essential to the survival of the city and its citizens, and prepared to support those employees who may be called to defend the nation. Employees began to develop a heightened security awareness in all matters, including protection of equipment,

MLGW has fully embraced online communications with its customers.

Employees continually compete to improve their skills.

facilities, resources (such as storage of water and natural gas), and customer identities. Providing quality service for its customers has become the key mission and is at the core of all activities at the Division. Mission 2000, MLGW's Strategic Plan, was unveiled in 2000, which outlined the future environment in which MLGW would operate and compete. As evidence that effective planning would help its customers, the first electric rate decrease in MLGW history would be implemented for its customers in 2000.

MLGW employees' commitment to community service projects was recognized in 2000 by the Memphis Chapter of the National Society of Fund Raising Executives (NSFRE), which presented MLGW with the Partners in Philanthropy Award. MLGW also builds community strength for tomorrow by working hand in hand with the Memphis Area Chamber of Commerce to bring major businesses to the community. Maintaining an office inside the chamber's headquarters, MLGW spends significant time and money each year on recruiting new business and encouraging expansion. MLGW's critical role in these economic development efforts earned it designations in 1999 and 2000 as one of the nation's top 10 utilities by Site Selection magazine.

Jerry Collins Jr. became the tenth president of MLGW in 2007 and has continued the emphasis on customer care, protection of resources, and planning for future growth. Significant events from 2009 illustrate this commitment.

As his wife, Diane, holds the Bible, Jerry R. Collins Jr. is sworn in by Mayor Willie W. Herenton as MLGW's tenth president in 2007.

Significant Events of 2009

On Jan. 30, 2009, a convoy of 12 MLGW trucks left the MLGW North Service Center and began the three-hour drive to Mayfield, KY, a city rendered powerless by snow and ice storms. "There are people who need our help," said Ricky Howse, Electric Distribution (and crew foreman on the rescue mission). "When we need help, [other utilities] come and help us. So, when they call us, we're ready to go."

The Memphis City Council unanimously approved an ordinance proposed by MLGW President and CEO Jerry Collins Jr. that would require landlords to protect their tenants against major energy-wasting defects such as leaky pipes and holes in walls. There was no opposition at the meeting by area landlords, as the Division had worked with landlord representatives to reach a mutual agreement on the language of the ordinance. Dexter Muller, senior vice president for community development at the Greater Memphis Chamber, which represented some of the city's landlords, had high praise for the MLGW-led effort. "I think it shows the way government

Snow is beautiful, but large amounts of snow and ice can disrupt customers' power. MLGW responds swiftly.

is supposed to work," said Muller. When seven of our friends and neighbors died from heat-related illnesses in July, MLGW hosted a Heat Summit with local health and political officials on July 28, 2009. The goal was to ensure available resources and actions that could be taken to protect Shelby County residents during the intense heat of late-summer 2009.


Employees volunteer to install donated cooling appliances for MLGW customers.

Smart Grid is a combination of equipment, communications and processes that utilities use to enhance their operations and help their customers save both energy and money. Smart Grid includes smart meters, distribution system automation, and other features that provide information for customers to lower their energy use. In 2009, MLGW received a matching grant of $5 million from the U.S. Dept. of Energy, resulting in a $10 million project for digital upgrades to the medical center and downtown areas. A high-speed data communication and control system will be created that will enhance power quality in those areas, reduce maintenance costs, and will serve as a platform for future electric-system enhancements. The Memphis City Council approved $1 million from the MLGW budget to create a three-year demonstration project of 1,000 smart meters among volunteer customers within the MLGW service area. Smart meters are secure, digital, two-way communicating meters that measure electricity usage and enable customers to see how much energy they are using and how much their bill is going to be. Meters will be automatically read, as often as every 15 minutes, and smart-meter customers will be able to continuously monitor their energy consumption. Customers with smart meters will never again be subject to estimated bills.

In 2009, Memphians paid the lowest combined water and wastewater rates of nearly 30 U.S. cities, according to the 2009 report of water and wastewater bill comparisons compiled by Austin Water Utility in Austin, Texas.

MLGW joined 143 of the nation's more than 2,000 public power utilities in earning an American Public Power Reliable Public Power Provider (RP3) Award, bestowed upon member utilities that demonstrate sound business practice and provide customers with the highest degree of reliable and safe electric service. MLGW achieved Platinum-level recognition, the second-highest award designation. Only 19 public utilities in the nation achieved Platinum-level proficiency in 2009.

In April 2009, MLGW's 2008 Water Quality Report was mailed to all MLGW water customers in Shelby County. MLGW is required by the Environmental Protection Agency and Tennessee Department of Environment and Conservation to provide its water quality report annually to water customers. The report includes information about MLGW's aquifer, results of MLGW's testing for contaminants (MLGW water exceeds all water quality standards set by the EPA), and contact information.

In June 2009, MLGW received the American Public Power Association's (APPA) Community Service Award at APPA's national conference in Salt Lake City, Utah. The award recognizes "good neighbor" activities that demonstrate the commitment of the utility and its employees to the community.

Major storms that come through Memphis never arrive at a convenient time, and the one that hit the metro Memphis area on Friday, June 12, 2009 was no exception. Around 5 p.m.—rush hour—70 mph straight-line winds whipped through Shelby County, downing trees, power lines, and initially knocking out 76 electric substation circuits. In the storm's wake, more than 131,000 MLGW residential and business/commercial customers found themselves without power. MLGW completed its storm restoration efforts June 19, one week after the devastating storm hit Memphis and Shelby County. By 11 p.m. Friday, June 19, power had been restored to customers who experienced an outage as a result of the storm on June 12 and subsequent smaller storms on June 14 and 15.

The Division celebrated Customer Service Week October 5-9, which is a national event devoted to recognizing the importance of customer service and honoring the people on the front lines who provide service to customers. Awards were given to the area/department with the most participation and creativity in customer service week activities, and gift certificates were presented to individual employees who earned the most "Caught in the Act of Providing Great Service" cards.

The Fair and Accurate Credit Transaction Act (FACTA) is a measure designed to protect American consumers while in the routine business of establishing or obtaining credit in the market place. Of particular interest to someone seeking utility services is the requirement that all customers be properly identified by their utility company in order to safeguard customers from identity theft by third parties. Effective November 1, 2009, MLGW began requiring a service agreement from all new residential and general power customers. MLGW requires that all new residential customers,

sole proprietors and general partnerships provide two forms of identification. Corporations, Limited Liability Companies, Limited Liability Partnerships, and Limited Partnerships must be registered with the Tennessee Secretary of State to be eligible to receive utility service.

On March 29, 2009, MLGW celebrated its 70th birthday.

Letter of Transmittal

Memphis Light, Gas and Water Division

To The Board of Commissioners and Valued Stakeholders:

We are pleased to submit the Annual Report of Memphis Light, Gas and Water Division (MLGW) for the fiscal year ended December 31, 2009, as required by the Charter Provisions of the city of Memphis (City) creating the Memphis Light, Gas and Water Division. This report has been prepared in conformity with generally accepted accounting principles (GAAP), under the rules and regulations of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). MLGW is also subject to the federally mandated Single Audit, and the findings for internal controls and compliance are herein presented.

Responsibility for the accuracy and presentation of the information provided is the full responsibility of the management of MLGW. Disclosures necessary to assist the reader in the understanding of the financial statements have been included.

MLGW's financial statements have been audited by Thompson Dunavant, PLC and Jones & Tuggle, CPAs. The goal of the independent audit was to provide reasonable assurance that the financial statements of MLGW for the fiscal year ended December 31, 2009 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that MLGW's financial statements for the fiscal year ended December 31, 2009, are fairly presented in conformity with generally accepted accounting principles (GAAP). The independent auditor's report is presented as the first component of the financial section of the report.

The independent audit of the financial statements of MLGW was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards.

Generally accepted accounting principles require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. MLGW's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government – MLGW was created by an amendment to the City Charter by Chapter 381 of the Private Acts of the General Assembly of Tennessee, adopted March 9, 1939, as amended (the "Private Act"). MLGW operates three separate utilities as divisions, providing electricity and gas in Memphis and Shelby County. Water service is provided by MLGW in Memphis and, together with other municipal systems, in Shelby County. Each division operates as a separate entity for accounting and financial purposes in accordance with the Private Act. For economic reasons, activities common to all three divisions are administered jointly and costs are prorated monthly among the divisions. A 1981 amendment to the City Charter permits the establishment of additional divisions to provide other energy services.

MLGW controls the administration of its activities and business affairs. It operates independently, manages its own finances and is responsible for obligations incurred in such operations, including indebtedness payable from operations of the Division. MLGW must have the approval of the Memphis City Council before incurring certain obligations, including purchasing real estate and exercising the right of eminent domain; also the annual budget is subject to approval by the Memphis City Council.

MLGW is managed by a Board, which consists of five members nominated by the Mayor and approved by the Memphis City Council. Under the Private Act, the Board is responsible for doing all things necessary to supply MLGW's service area with electricity, gas and water. The members of the Board serve staggered terms of three years each. The Chairman, Vice Chairman and Board Members continue to serve until a new Chairman, Vice Chairman or Board Member is elected, or appointed by the Mayor.

The daily operation of MLGW is managed by the President and Chief Executive Officer, who is nominated for a five-year term by the Mayor and approved by the City Council. Under the Private Act, the President generally supervises the operations of MLGW and all of its officers and employees.

Local Economy – Memphis, Tennessee, located in Shelby County in the southwest corner of Tennessee on the Mississippi River, is the nation's 18th largest city with a population of 610,434. The MLGW service area comprises all of Shelby County, which in 2009 reported a population of 911,303. The eight-county Memphis Metro area provides a diverse range of employers, which contributes to the overall stability of the area. Memphis' central location, which is traversed by seven federal and two interstate highways, and flanked by the Mississippi River, makes it a prime location for distribution. MLGW's low utility rates, as well as the city's low cost of living, inexpensive real estate and aggressive corporate incentives, has helped foster a business environment amenable to the distribution industry. As a result, Memphis has become known as America's Distribution Center and a global logistics hub, claiming the world's largest air cargo airport since 1991, and boasting the third largest rail center and the fourth largest inland port in the United States. Home to major hubs for FedEx and UPS, world headquarters for Federal Express and a major thoroughfare for the trucking industry, Memphis is a vital epicenter of commerce. MLGW works diligently to maintain reliable power for these operations to ensure they run smoothly.

National Economy – Throughout 2009, predictions varied from experts concerning the anticipated end of the economic recession that began in the last quarter of 2008. Most agreed that 2009 would not show significant economic growth as businesses and individuals began the slow process of economic recovery. Significant federal money was infused into the national economy to shore the staggering financial and automobile industries as well as to stem the rising tide of home foreclosures across the nation. Also, as part of the American Recovery and Reinvestment Act, in 2009 the federal government developed a plan to distribute more than \$3.3 billion in “Smart Grid” technology development grants and an additional \$615 million for Smart Grid storage, monitoring and technology viability. In other words, the federal government is willing to help utilities pay for huge upgrades to their systems. The basic concept of Smart Grid is to add monitoring, analysis, control, and communication capabilities to the national electrical delivery system to maximize its capabilities while reducing energy consumption. MLGW received a \$5 million award that will improve the resiliency, power quality, and reliability of the electric grid which serves downtown Memphis and the medical district, significantly reducing most electric problems in those key districts of our service area. The total cost of these upgrades is \$10.5 million, and the remaining \$5.5 million was approved in MLGW’s 2010 budget. These upgrades will not cause a rate increase at MLGW. Also approved in the MLGW 2010 budget by the Memphis City Council was a \$1 million pilot project to install automated meters in 1,000 homes of volunteer customers.

Financial Policies and Major Initiatives – MLGW maintains a comprehensive cash flow model which assesses the growth of the separate divisions and determines future rate increase requirements. MLGW also incorporates a 10-year capital financial plan in its budgeting process. MLGW’s Electric, Gas and Water Engineering Departments develop detailed technical master plans for their respective systems, which are then correlated with the financial plan. The 10-year capital plans are updated periodically during the year in order to provide the most current possible cash flow projections.

Among the three divisions, MLGW averages more than \$100 million in capital expenditures throughout the year. Major electric projects planned for the 10-year period include construction of South Collierville and East Shelby County substations needed to provide for expected residential and industrial growth in these areas. Gas division plans include installation of approximately 17 miles of transmission main, 202 miles of distribution main, and eight regulator stations over the next 10 years, and the Water division plans for the continuation of seismic retrofit to pumping facilities and the construction of an additional plant in the projected growth area of Northeast Shelby County. MLGW also has a formal five-year Strategic Plan and engages in joint endeavors with the city of Memphis, the Tennessee Valley Authority, and other stakeholders when possible to streamline costs through collaborative efforts.

Acknowledgements – The preparation of this report was made possible by the overall dedication of MLGW’s Finance Division and Corporate Communications department, and we express our appreciation to all who assisted and contributed to the preparation of this report. Special thanks must also be given to Thompson Dunavant, PLC and Jones & Tuggle, CPAs for their efficient and timely completion of this year’s audit.

Respectfully submitted,

Jerry R. Collins Jr.
President and CEO

John McCullough
Vice President, CFO and Secretary-Treasurer

Financial Statements

and Supplementary Information

Memphis Light, Gas and Water Division

Years ended December 31, 2009 and 2008

with report of Independent Auditors

THOMPSON DUNAVANT
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To the Board of Commissioners and Management
Memphis Light, Gas and Water Division
Memphis, Tennessee

We have audited the accompanying financial statements of the Electric, Gas and Water Divisions (the "Divisions") of Memphis Light, Gas and Water Division, enterprise funds of the City of Memphis, Tennessee, as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of the Divisions' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Divisions as of December 31, 2008, before the restatement described in notes 1 and 16, were audited by other auditors whose report dated May 7, 2009 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the Electric, Gas and Water Divisions of Memphis Light, Gas and Water Division and do no purport to, and do not, present fairly the financial position of the City of Memphis, Tennessee, as of December 31, 2009 and 2008, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric, Gas and Water Divisions of Memphis Light, Gas and Water Division as of December 31, 2009, and the changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. We also audited the adjustment described in notes 1 and 16 that was applied to restate the 2008 financial statements. In our opinion, such adjustment is appropriate and has been properly applied.

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In accordance with *Governmental Auditing Standards*, we have also issued our report dated April 26, 2010, on our consideration of the Divisions' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of each of the Divisions. The introductory section and supplementary information as shown in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Divisions. The supplementary information shown as the schedule of additions and retirements to utility plant; schedule of deposits and investments; schedule of long term debt, principal, and interest requirements; schedule of funding progress for OPEB; schedule of employer contributions; schedule of funding progress for pension plan; and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and supplementary information shown as the schedule of current utility rates; schedule of insurance; and schedule of unaccounted for water have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Thompson Dunavant PLC

Memphis, Tennessee
April 26, 2010

The following management discussion and analysis (MD&A) for Memphis Light, Gas and Water Division ("MLGW") is intended as an introduction and should be read in conjunction with the financial statements and the notes that follow this section.

Overview of the Financial Statements

MLGW's financial statements are comprised of the Balance Sheets; the Statements of Revenues, Expenses, and Changes in Net Assets; the Statements of Cash Flows; and the accompanying Notes to Financial Statements. This report also contains required supplementary information in addition to the basic financial statements.

MLGW is an Enterprise Fund of the City of Memphis, Tennessee. MLGW's statements are provided to the City of Memphis and reformatted to conform to the City's format for Enterprise Funds. The City of Memphis incorporates MLGW's statements ending December 31 into its statements ending June 30.

By Charter, MLGW is required to account separately for its electric, gas, and water divisions. Costs are allocated to the three divisions in a manner that ensures results of operations and changes in financial position are presented fairly and consistently from year to year.

Bond Ratings

In October 2009, MLGW initiated a refunding opportunity for a portion of the 2003A Electric System Revenue bonds. During this process, MLGW received credit upgrades from Fitch Ratings ("Fitch"). Fitch raised its credit ratings on all MLGW outstanding debt which includes the 2002, 2003A and the 2008 series bonds from AA to AA+. Moody's Investor Service ("Moody's") and Standard & Poor's ("S&P") reaffirmed their respective ratings on all outstanding Electric System Revenue bonds. The Water Division continues to hold the highest possible bond ratings which are Aaa from Moody's Investors Service and AAA from S&P. The Gas Division currently has no debt that is credit rated. When issuing bond ratings, agencies typically look at financial operations, management practices, rates, and debt ratios. Higher ratings result in the ability to issue and refinance debt at lower interest costs.

The following tables show MLGW bond ratings and debt administration for the Electric and Water Divisions in 2009:

Figure 1: Bond Ratings and Debt Administration for Electric and Water Divisions

MLGW Bond Ratings	S&P	Moody's	Fitch
Electric			
2002	AA+	Aa2	AA+
2003A	AA+	Aa2	AA+
2008	AA+	Aa2	AA+
Water	AAA	Aaa	

Debt Administration	Outstanding Balance	Coverage
Electric	$953,664	1.70
Water	$ 3,165	8.36

Analysis of the Electric Division's Balance Sheet

Condensed financial information comparing the Electric Division's net assets for the past three fiscal years is presented below:

Table 1
Electric Division Condensed Balance Sheets
December 31
(In Thousands)

	2009	2008 As Restated	FY09 - FY08 Percentage Change	2007 As Restated	FY08 - FY07 Percentage Change
Current assets (excluding restricted funds)	$ 444,587	$ 468,684	-5.1%	$ 426,611	9.9%
Restricted assets	53,670	56,149	-4.4%	54,577	2.9%
Other assets	8,945	11,552	-22.6%	11,988	-3.6%
Prepaid power costs - long-term	886,968	982,550	-9.7%	1,074,909	-8.6%
Utility plant	898,731	880,961	2.0%	854,680	3.1%
Total assets	2,292,901	2,399,896	-4.5%	2,422,765	-0.9%
Current liabilities payable from current assets	271,898	295,185	-7.9%	249,485	18.3%
Current liabilities payable from restricted assets	28,732	32,846	-12.5%	31,076	5.7%
Long-term debt	909,690	1,014,310	-10.3%	1,113,829	-8.9%
Non-current liabilities	38,395	42,432	-9.5%	50,201	-15.5%
Total liabilities	1,248,715	1,384,773	-9.8%	1,444,591	-4.1%
Net assets:					
Invested in utility plant, net of related debt	892,888	869,504	2.7%	837,840	3.8%
Restricted	15,295	14,830	3.1%	15,412	-3.8%
Unrestricted	136,003	130,789	4.0%	124,922	4.7%
Total net assets	$ 1,044,186	$1,015,123	2.9%	$ 978,174	3.8%

Assets

Total assets were $2.3 billion for fiscal year 2009, a decrease of a $107.0 million (-4.5%) compared to fiscal year 2008. This decrease is mainly due to a $95.6 million decrease in prepaid power cost due to amortization (See Note 10). Current assets decreased by $24.1 million due in part to a decrease in accounts receivable that can be attributed to TVA's fuel cost adjustment rate decreases. Restricted assets decreased by $2.5 million due in part to the discontinuance of renewal and replacement funding. Other assets decreased by $2.6 million partly due to the pay off of the Naval Support Activity long-term notes receivable. These decreases were partially offset by a $17.8 million dollar increase in utility plant as a result of additions to electric plant in service.

At December 31, 2008, total assets were $2.4 billion, a decrease of $22.9 million (-0.9%) compared to fiscal year 2007. This decrease is due in part to a decrease in prepaid power cost by $92.4 million due to amortization (See Note 10). Current assets increased by approximately $42.1 million, due in part to higher levels of cash and current accounts receivable resulting from TVA's rate increases in April and October of 2008 passed through to retail customers. Restricted assets increased by $1.6 million primarily due to an increase in the accrual of medical benefits of $1.2 million.

Capital Assets and Construction Activities

The Electric Division had approximately $898.7 million in utility plant assets net of accumulated depreciation at December 31, 2009, an increase of 2.0% over fiscal year 2008. During 2009, the Electric Division expended $59.6 million on capital equipment purchases and construction activities, a decrease of $7.3 million (-11.0%) compared to fiscal year 2008. Major Electric Division construction expenditures included substation and transmission projects ($16.5 million), extensions to serve new customers ($7.5 million), and distribution transformers ($5.8 million). Other significant Electric Division capital expenditures included street lighting and leased outdoor lighting installations ($6.2 million), meters and equipment ($1.7 million), mainframe system replacement project ($1.6 million), and communications network equipment ($1.5 million).

The Electric Division had approximately $881.0 million in utility plant assets net of accumulated depreciation at December 31, 2008, an increase of 3.1% over fiscal year 2007. During 2008, the Electric Division expended $66.9 million on capital equipment purchases and construction activities, a decrease of $3.0 million (-4.3%) compared to fiscal year 2007. Major Electric Division construction expenditures included substation and transmission projects ($21.3 million), extensions to serve new customers ($12.1 million), and street light and leased outdoor lighting installations ($7.8 million). Other significant Electric Division capital expenditures included meters and equipment ($3.8 million), transformers ($2.7 million), a mainframe system replacement project ($2.2 million), transportation and power operated equipment ($2.0 million), and communication network equipment ($1.1 million).

Liabilities

At December 31, 2009, total liabilities were $1.2 billion, representing a $136.1 million (-9.8%) decrease compared to $1.4 billion at December 31, 2008. This decrease is mainly the result of the payment of $104.6 million of long-term debt and a $23.3 million decrease in current liabilities payable from current assets primarily due to a decrease in fuel cost adjustment rates from TVA. Current liabilities payable from restricted assets decreased by $4.1 million as a result of a decrease in accrued medical benefits, and the discontinuance of the renewal and replacement fund.

Total liabilities were $1.4 billion at December 31, 2008 representing a decrease of $59.8 million as compared to December 31, 2007. This decrease is primarily the result of the payment of $99.5 million of long-term debt associated with prepaid power transactions and the reduction of liabilities related to the pollution remediation obligation (See Note 16). This decrease was offset by an increase in current liabilities as a result of the TVA rate increases in 2008.

Net Assets

At December 31, 2009, total net assets (total assets less total liabilities) were $1.0 billion, a $29.1 million, or 2.9%, increase over fiscal year 2008. This increase is mainly attributed to an increase in invested in utility plant, net of related debt (property, plant and construction work in progress) which accounts for $23.4 million of the increase; unrestricted net assets added another $5.2 million to the overall increase in total net assets.

At December 31, 2008, the Electric Division's total assets exceeded total liabilities by $1.0 billion, an increase of $37.0 million, or 3.8%, from $978.2 million at December 31, 2007. Eighty-six percent of the net assets were related to utility plant, net of related debt (property, plant and construction work in progress).

A prior period restatement was made to the Electric Division's beginning net assets balance for 2008. The restatement, an increase in net assets in the amount of $4,451, was a correction of the original pollution remediation liability booked to beginning net assets in 2008 for the year 2007. The restatements made were related to the cost associated with the pollution remediation obligation per implementation of GASB Statement No. 49, *Pollution Remediation Obligations* (See Note 16).

Analysis of the Electric Division's Statement of Revenues, Expenses, and Changes in Net Assets

Condensed financial information comparing the Electric Division's revenues, expenses, and changes in net assets for the past three fiscal years is presented below:

Table 2
Electric Division
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31,2009, 2008, and 2007
(In Thousands)

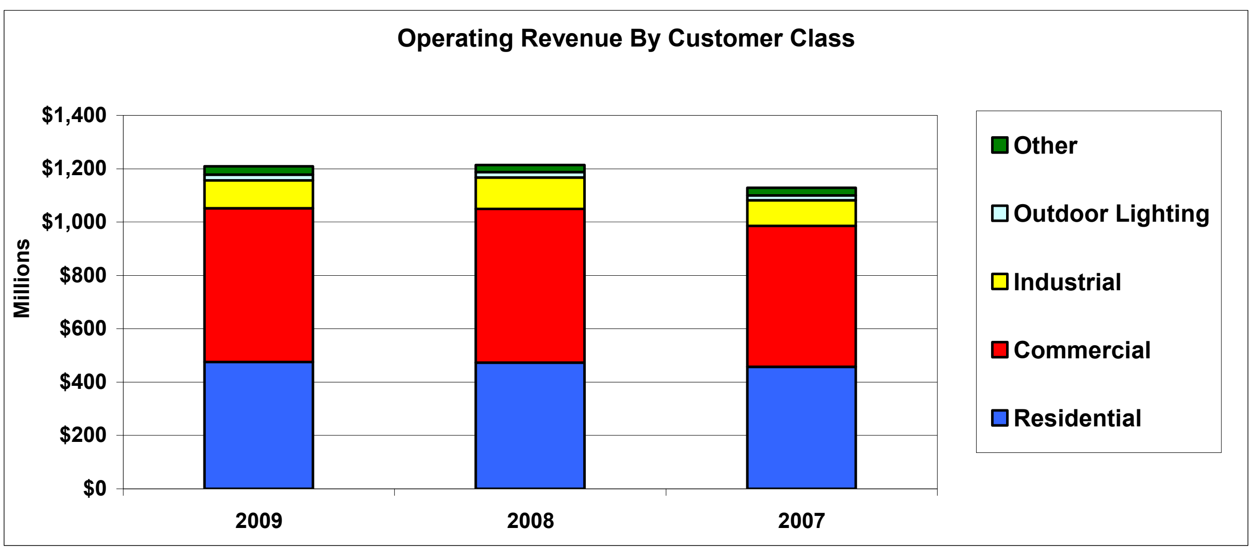
	2009	2008 As Restated	FY09 - FY08 Percentage Change	2007 As Restated	FY08 - FY07 Percentage Change
Revenues:					
Operating revenues	$ 1,208,856	$ 1,214,046	-0.4%	$ 1,128,491	7.6%
Non-operating revenues	76,007	82,712	-8.1%	88,905	-7.0%
Total revenues	1,284,863	1,296,758	-0.9%	1,217,396	6.5%
Expenses:					
Depreciation expense	41,444	40,018	3.6%	37,183	7.6%
Purchased power	969,309	991,866	-2.3%	878,396	12.9%
Other operating expense	165,512	152,270	8.7%	146,871	3.7%
Non-operating expense	41,536	45,843	-9.4%	48,548	-5.6%
Total expenses	1,217,801	1,229,997	-1.0%	1,110,998	10.7%
Income (loss) before contributions in aid of construction and transfers	67,062	66,761	0.5%	106,398	-37.3%
Contributions in aid of construction	10,532	11,675	-9.8%	15,776	-26.0%
Reduction of plant costs recovered through contributions in aid of construction	(10,532)	(11,675)	9.8%	(15,776)	26.0%
Transfers to City	(37,999)	(34,263)	10.9%	(37,397)	-8.4%
Change in net assets	29,063	32,498	-10.6%	69,001	-52.9%
Beginning net assets	1,015,123	978,174	3.8%	934,684	4.7%
Prior period adjustments	-	4,451	0.0%	(25,511)	117.4%
Beginning net assets as adjusted	1,015,123	982,625	3.3%	909,173	8.1%
Ending net assets	$ 1,044,186	$ 1,015,123	2.9%	$ 978,174	3.8%

The change in net assets for fiscal year 2009 was $29.1 million, a decrease of $3.4 million (-10.6%). This decrease was mainly due to a $3.7 million increase in transfers to city as a result of an increase in net plant and tax and equalization rates. At December 31, 2008, the change in net assets decreased by $36.5 million to $32.5 million, a decrease of 52.9% compared to 2007. A one-year temporary rate reduction in 2008 accounted for the majority of the decrease.

Total revenues were $1.3 billion for fiscal year 2009, a decrease of 0.9% from fiscal year 2008. Operating revenues were $1.2 billion in 2009, decreasing by $5.2 million from 2008. TVA wholesale rate adjustments passed through to retail customers, combined with a decrease in electricity sales of 6.8% from 2008, decreased sales and service revenues by $4.1 million. There was a corresponding decrease in purchased power cost of $22.6 million. Miscellaneous operating revenues decreased by $1.0 million in 2009 primarily from a $0.9 million decrease in other operating revenues and a $0.4 million decrease in forfeited discounts, partially offset by an increase in miscellaneous service revenue. Non-operating revenues decreased by 8.1% in 2009 as a result of a $6.0 million decrease in investment income.

For fiscal year 2008, total revenues were $1.3 billion, an increase of 6.5% over fiscal year 2007. Operating revenues were $1.2 billion in 2008, increasing by $85.6 million over 2007. Wholesale rate adjustments increased sales and service revenues by $85.0 million, despite a 3.5% decrease in 2008 electricity sales. There was a corresponding increase in purchased power cost of $113.5 million. Other operating revenue increased by $0.5 million in 2008 as a result of a $0.5 million increase in rent from property. Non-operating revenues decreased by 7.0% in 2008 as a result of a decrease in investment income.

Figure 2: Electric Division's Operating Revenue



At December 31, 2009, total expenses were $1.2 billion, a decrease of $12.2 million (-1.0%) compared to December 31, 2008. This decrease was mainly the result of a $22.6 million decrease in purchased power as a result of TVA fuel cost adjustments, and decreased amounts of purchased power. A $4.3 million decrease in non-operating expense resulted from the continuing decline in interest expense on long-term debt from Electric Prepay Bonds. These decreases were partially offset by increases in other operating expenses by $13.2 million due to a major storm, and shift in work from capital to operations and maintenance due to the decline in customer-driven capital construction activity. There was also a $1.4 million increase in depreciation expense as a result of a net increase in additions over retirements in electric plant in service.

For 2008, total expenses were $1.2 billion, an increase of 10.7% compared to 2007. This increase resulted from a 12.9% increase in purchased power costs, a 7.6% increase in depreciation expense, and a 3.7% increase in other operating expenses. The overall increase in total expenses was slightly offset by a 5.6% decrease in non-operating expenses resulting from the continuing decline in interest expense on long-term debt from Electric Prepay Bonds.

Contributions in aid of construction ("CIAC") were $10.5 million for fiscal year 2009, a decrease from of $1.1 million (-9.8%) for fiscal year 2008 as a result of lower construction activity by developers. CIAC were $11.7 million in 2008, a decrease from 2007 of $4.1 million (-26.0%) as a result of decline in development and construction activity.

MLGW's transfer to the City of Memphis is based on the formula provided by the State of Tennessee Municipal Electric System Tax Equivalent Law of 1987. The formula includes a property tax equivalency calculation plus 4% of operating revenue less power costs (three-year average). Transfers to the City represent the Electric Division's in lieu of tax payment. For the year ended December 31, 2009, transfers to the City were $38.0 million. This represents a $3.7 million increase compared to fiscal year 2008; $2.4 million is attributed to an increase in net plant and $1.3 million is accredited to a tax and equalization rate increase. For the year ended December 31, 2008, transfers to the city were $34.3 million. This amount represents an 8.4% decrease compared to 2007. The $3.1 million decrease in 2008 can be attributed to a change in tax rates.

Analysis of the Gas Division's Balance Sheet

Condensed financial information comparing the Gas Division's net assets for the past three fiscal years is presented below:

Table 3
Gas Division Condensed Balance Sheets
December 31
(In Thousands)

	2009	2008	FY09 - FY08 Percentage Change	2007 As Restated	FY08 - FY07 Percentage Change
Current assets (excluding restricted funds)	$ 208,890	$ 193,269	8.1%	$ 178,158	8.5%
Restricted assets	21,298	35,639	-40.2%	33,260	7.2%
Other assets	7,798	8,579	-9.1%	13,622	-37.0%
Utility plant	295,496	294,643	0.3%	295,424	-0.3%
Total assets	533,482	532,130	0.3%	520,464	2.2%
Current liabilities payable from current assets	87,605	102,380	-14.4%	116,036	-11.8%
Current liabilities payable from restricted assets	7,287	7,980	-8.7%	7,046	13.3%
Non-current liabilities	8,322	10,940	-23.9%	16,708	-34.5%
Total liabilites	103,214	121,300	-14.9%	139,790	-13.2%
Net assets					
Invested in utility plant, net of related debt	295,496	294,643	0.3%	295,424	-0.3%
Restricted	9,957	24,150	-58.8%	22,566	7.0%
Unrestricted	124,815	92,037	35.6%	62,684	46.8%
Total net assets	$ 430,268	$ 410,830	4.7%	$ 380,674	7.9%

Assets

Total assets were $533.5 million at December 31, 2009. Current assets increased by $15.6 million for fiscal year 2009 primarily due to increases in cash and investments, offset in part to changes in value of gas swaps and options. Restricted assets decreased by $14.3 million for fiscal year 2009 due to discontinuance of funding of the renewal and replacement account. Other assets decreased by $0.8 million due to the normal amortization activity associated with the Premcor pipeline lease.

Total assets increased by $11.7 million to $532.1 million for fiscal year 2008 as compared to $520.5 million for fiscal year 2007. The increase in total assets is due in part to changes in the value of gas swaps and options and an increase in the inventory of stored gas, partially offset by a decrease in other assets.

Capital Assets and Construction Activities

The Gas Division had approximately $295.5 million in utility plant assets net of accumulated depreciation at December 31, 2009, an increase of $0.8 million (0.3%) from December 31, 2008. During 2009, the Gas Division expended $16.5 million on capital equipment purchases and construction activities, resulting in an increase of $2.1 million (14.4%) in comparison to 2008. The Gas Division's major construction expenditures included a retrofit cast iron system and steel taps ($5.5 million), extensions to serve customers ($1.4 million), pipeline integrity management ($1.2 million), and relocation of facilities to accommodate road improvements ($0.5 million). A substantial portion of the Gas Division's expenditures was also attributed to meters and equipment ($3.5 million), transportation and power operated equipment ($1.5 million), and buildings and structures upgrades ($1.0 million).

The Gas Division had approximately $294.6 million in utility plant assets net of accumulated depreciation at December 31, 2008, a decrease of $0.8 million (-0.3%) from December 31, 2007. During 2008, the Gas Division expended $14.4 million on capital equipment purchases and construction activities, resulting in an increase of $3.4 million, or 30.9%, in comparison to 2007. The Gas Division's major construction expenditures included extensions to serve new customers ($2.5 million) and a cast iron pipe replacement project ($2.3 million). A substantial portion of the Gas Division capital expenditures were related to transportation and power operated equipment ($2.9 million), meters and equipment ($2.1 million), and buildings and structures upgrades ($1.9 million).

Liabilities

At December 31, 2009, total liabilities were $103.2 million as compared to $121.3 million at December 31, 2008, a decrease of 14.9%. Current liabilities payable from current assets decreased by 14.4% primarily as a result of the decline in notes payable balance associated with gas purchases for storage. Decreased financial liabilities for the pollution remediation obligation contributed to the decrease in non-current liabilities of 23.9%.

At December 31, 2008, total liabilities were $121.3 million as compared to $139.8 million at December 31, 2007, a decrease of 13.2%. Current liabilities payable from current assets were a major contributor to this decrease. Current liabilities payable from current assets decreased by $13.7 million (-11.8%) as a result of the decline in net storage withdrawals on the Texas Gas pipeline, and a decline in notes payable associated with gas purchases for storage. Current liabilities payable from restricted assets increased due to an increase in accrued reserves for medical benefits and insurance reserves-injuries and damages. Decreased financial liabilities for the pollution remediation obligation contributed to the decrease in non-current liabilities of $5.8 million (-34.5%).

Net Assets

Total net assets (total assets minus total liabilities) for 2009 increased by $19.4 million, or 4.7%, over 2008. Restricted net assets decreased by $14.2 million (-58.8%), due in part to the discontinuance of funding for renewals and replacements. Unrestricted net assets increased by $32.8 million, or 35.6%, in part due to the discontinuance of funding for renewal and replacements and the change in net assets.

Total net assets (total assets minus total liabilities) for 2008 increased by $30.2 million, or 7.9%, over 2007. This increase was the result of an increase in operating revenue due to a 6.8% gas rate increase effective December 26, 2007. Over 72% of the net assets were related to utility plant, net of related debt (property, plant and construction work in progress).

For 2008 a restatement was made to the beginning net assets balance for 2007. Also, restatements were made to non-current liabilities and unrestricted net assets. The restatements made were related to the cost associated with the pollution remediation obligation per implementation of GASB Statement No. 49, Pollution Remediation Obligations (See Note 16).

Analysis of the Gas Division's Statement of Revenues, Expenses, and Changes in Net Assets

Condensed financial information comparing the Gas Division's revenues, expenses, and changes in net assets for the past three fiscal years is presented below:

Table 4
Gas Division
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31,2009, 2008, and 2007
(In Thousands)

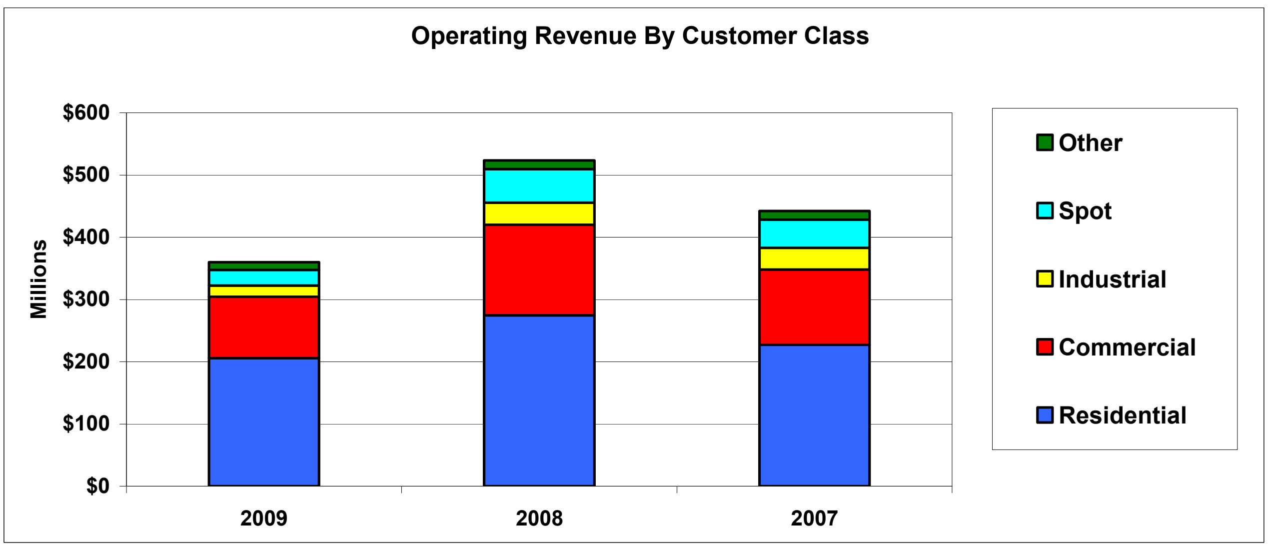
	2009	2008	FY09 - FY08 Percentage Change	2007 As Restated	FY08 - FY07 Percentage Change
Revenues:					
Sales, service and other operating revenues	$ 356,024	$ 518,780	-31.4%	$ 438,930	18.2%
Transported gas revenue	3,657	4,537	-19.4%	3,452	31.4%
Non-operating revenues	1,590	3,785	-58.0%	5,876	-35.6%
Total revenues	361,271	527,102	-31.5%	448,258	17.6%
Expenses:					
Depreciation expense	12,458	12,377	0.7%	13,286	-6.8%
Purchased gas	240,518	394,023	-39.0%	351,164	12.2%
Other operating expense	73,695	76,570	-3.8%	79,161	-3.3%
Non-operating expense	463	1,149	-59.7%	720	59.6%
Total expenses	327,134	484,119	-32.4%	444,331	9.0%
Income (loss) before contributions in aid of construction and transfers	34,137	42,983	-20.6%	3,927	994.6%
Contributions in aid of construction	796	1,568	-49.2%	1,839	-14.7%
Reduction of plant costs recovered through contributions in aid of construction	(796)	(1,568)	49.2%	(1,839)	14.7%
Transfers to City	(14,699)	(12,827)	14.6%	(14,638)	12.4%
Change in net assets	19,438	30,156	-35.5%	(10,711)	381.5%
Beginning net assets	$ 410,830	$ 380,674	7.9%	$ 395,600	-3.8%
Prior period adjustments	-	-	0.0%	(4,215)	100.0%
Beginning net assets as adjusted	410,830	380,674	7.9%	391,385	-2.7%
Ending net assets	$ 430,268	$ 410,830	4.7%	$ 380,674	7.9%

The change in net assets decreased by $10.7 million (-35.5%) to $19.4 million at December 31, 2009 from $30.2 million at December 31, 2008. This decrease is primarily the result of a decrease in sales, service and other operating revenues as a consequence of a decrease in sales volume and lower wholesale gas prices. At December 31, 2008, the change in net assets was $30.2 million. This represents an increase of $40.9 million, or 381.5% over December 31, 2007. This increase is primarily related to an increase in revenue from sales, service and other operating revenue as a result of an increase in both sales volume and gas rates.

Total revenues were $361.3 million for 2009, a decrease of 31.5% from 2008. There was a 31.4% decrease in sales, service and other operating revenues in 2009, which can be attributed to an 8.1% decrease in sales volume and lower wholesale gas prices. A corresponding 39.0% decrease in purchased gas cost occurred. Transported gas revenue decreased by 19.4% in 2009 resulting from a 9.2% decrease in volumes transported. The 58.0% decrease in 2009 non-operating revenues is attributed to a decrease in investment income.

For 2008, total revenues were $527.1 million, an increase of 17.6% compared to 2007. There was an 18.2% increase in sales, service and other operating revenues in 2008, which can be attributed to a 9.8% increase in sales volume and the Division's Gas Rate increase of 6.8% effective December 26, 2007. Transported gas revenue increased by 31.4% in 2008 resulting from an 8.8% increase in volumes transported. A corresponding 12.2% increase in purchased gas cost occurred as a result of the increase in total sales volume. The 35.6% decrease in non-operating revenues is the result of a decrease in other income and investment income.

Figure 3: Gas Division's Operating Revenue



Total expenses decreased by $157.0 million to $327.1 million for 2009. This decrease is mainly due to a $153.5 million decrease in purchased gas as a result of a decrease in sales volume and lower wholesale gas costs. There was a decrease in other operating expense due to a reduction in operation and maintenance expenses. Non-operating expenses decreased as a result of a decline in interest expense. For 2008, total expenses increased to $484.1 million, an increase of 9.0% compared to 2007. The increase in total expenses resulted from a $42.9 million increase in purchased gas cost and was partially offset by a $0.9 million decrease in depreciation expense and a $2.6 million decrease in other operating expense.

Contributions in aid of construction decreased to $0.8 million for 2009, representing a decrease of $0.8 million (-49.2%) from 2008. This decrease was due to a reduction in construction activity during 2009. In 2008, contributions in aid of construction decreased $0.3 million (-14.7%) to $1.6 million.

MLGW's transfer to the City of Memphis is based on the formula provided by the State of Tennessee Municipal Gas System Tax Equivalent Law of 1987. The formula includes a property tax equivalency calculation plus 4% of operating revenue less gas costs (three-year average). The Gas Division's transfers to the City (in lieu of tax payments) were $14.7 million in 2009. This amount represents an increase of $1.9 million compared to 2008. This increase can be attributed to an increase in tax and equalization rates in the Gas division. In 2008, transfers to the City decreased by $1.8 million as compared to 2007 as a result of a change in tax rates.

Analysis of the Water Division's Balance Sheet

Condensed financial information comparing the Water Division's net assets for the past three fiscal years is presented below:

Table 5
Water Division Condensed Balance Sheets
December 31
(In Thousands)

	2009	2008	FY09 - FY08 Percentage Change	2007 As Restated	FY08 - FY07 Percentage Change
Current assets (excluding restricted assets)	$ 33,108	$ 33,882	-2.3%	$ 40,813	-17.0%
Restricted assets	22,658	26,529	-14.6%	24,285	9.2%
Other assets	2,653	2,501	6.1%	1,348	85.5%
Utility plant	253,741	251,315	1.0%	250,181	0.5%
Total assets	312,160	314,227	-0.7%	316,627	-0.8%
Current liabilities payable from current assets	13,275	11,723	13.2%	13,700	-14.4%
Current liabilities payable from restricted assets	5,264	8,992	-41.5%	7,588	18.5%
Long-term debt	3,127	4,546	-31.2%	7,741	-41.3%
Non-current liabilities	7,144	6,506	9.8%	8,688	-25.1%
Total liabilites	28,810	31,767	-9.3%	37,717	-15.8%
Net assets					
Invested in utility plant, net of related debt	250,613	243,534	2.9%	239,341	1.8%
Restricted	16,776	20,227	-17.1%	19,269	5.0%
Unrestricted	15,961	18,699	-14.6%	20,300	-7.9%
Total net assets	$ 283,350	$ 282,460	0.3%	$ 278,910	1.3%

Assets

Total assets at December 31, 2009 decreased by $2.1 million (-0.7%) to $312.2 million compared to $314.2 million at December 31, 2008. The decrease in total assets was mainly due to a $3.9 million reduction in restricted assets which was the result of a reduction in funds held in reserve for bonds and debt service, medical benefits and insurance reserves – injuries and damages. Total assets were further reduced by a $0.8 million decrease in current assets due to a decline in cash and cash equivalents, investments, unbilled revenue and collateral held in trust for securities. These decreases were offset by an increase in other assets by $0.2 million on account of an increase in notes receivable and other prepayments and a $2.4 million increase in utility plant resulting from capital equipment purchases and construction activity.

At December 31, 2008, total assets were $314.2 million, a decrease of $2.4 million compared to $316.6 million at December 31, 2007. This decrease is the result of a decline in investments, cash and cash equivalents and collateral held in trust for securities. This decrease was offset by an increase in restricted assets due to increases in the construction funds and insurance reserves funds combined with an increase in utility plant.

Capital Assets and Construction Activities

The Water Division had approximately $253.7 million in utility plant assets net of accumulated depreciation at December 31, 2009, an increase of 1.0%. During 2009, the Water Division expended $13.7 million on capital equipment purchases and construction activities, which was an increase of $1.8 million (15.2%) in comparison to 2008. The Water Division's major construction expenditures included extensions to new customers ($2.2 million), relocation of facilities to accommodate road improvements ($1.7 million), upgrades to McCord Pumping Station ($1.0 million), upgrades to Allen Pumping Station ($0.4 million), and upgrades to Shaw Pumping Station ($0.3 million). The Water Division major equipment purchases included data processing equipment ($2.5 million), meters ($1.3 million), and transportation and power operated equipment ($0.2 million).

The Water Division had approximately $251.3 million in utility plant assets net of accumulated depreciation at December 31, 2008, an increase of 0.5%. During 2008, the Water Division expended $11.9 million on capital equipment purchases and construction activities, which was a decrease of $3.1 million (-20.7%) in comparison to 2007. The Water Division's major construction expenditures included extensions to serve new customers ($2.2 million), relocation of facilities to accommodate road improvements ($1.2 million), upgrades to the Mallory Pumping Station ($1.0 million), upgrades to the Sheahan Pumping Station ($0.7 million), and upgrades to the Allen Pumping Station ($0.7 million). The Water Division equipment purchases included data processing equipment ($2.0 million), meters ($1.0 million), and transportation and power operated equipment ($0.4 million).

Liabilities

At December 31, 2009, total liabilities were $28.8 million, representing a decrease of $3.0 million (-9.3%) as compared to December 31, 2008. Total liabilities decreased in part due to a $3.2 million decline in bonds payable and a $0.7 million decline in medical benefit accrual. Total liabilities were further reduced due to payment of long term debt. These decreases were partly offset by an increase in current liabilities payable from current assets as a result of an increase in other accounts payable, accrued expenses, and deferrals as well as an increase in customer deposits and other non-current liabilities.

Total liabilities decreased by $6.0 million to $31.8 million at December 31, 2008, as compared to December 31, 2007. This is due to a decrease in current liabilities payable from current assets by $2.0 million primarily as a result of a decrease in securities lending of $1.1 million. Long-term debt decreased by $3.2 million primarily due to the amortization of Series 2001 and 1998 Revenue bonds. Non-current liabilities decreased by $2.2 million. This decrease is mainly a result of $1.4 million being expended on the pollution remediation liability. An increase in current liabilities payable from restricted assets of $1.4 million offset the decrease in total liabilities. Current liabilities from restricted assets increased due primarily to a $0.7 million increase in insurance reserves-injuries and damages and a $0.4 million increase in accrued medical benefits.

Net Assets

Total net assets (total assets minus total liabilities) increased by $0.9 million, or 0.3%, to $283.4 million at December 31, 2009, from $282.5 million at December 31, 2008. The increase in total net assets can be attributed, in part, to an increase in utility plant, net of related debt by $7.1 million. This increase was partly offset by a decrease of $3.5 million in restricted net assets mainly due to a reduction in reserves for medical benefits and bonds and debt service, and a $2.7 million decrease in unrestricted net assets.

Total net assets (total assets minus total liabilities) were $282.5 million at December 31, 2008; this represents an increase of $3.6 million since December 31, 2007. A $4.2 million increase in utility plant, net of related debt, contributed to this increase and was offset by a reduction in unrestricted assets as a result of the decline in liability associated with the pollution remediation obligation (See Note 16). Restricted Assets increased by $1.0 million as a result of an increase in insurance reserves-injuries, damages and insurance of $0.7 million and medical benefits of $0.4 million.

For 2008, a restatement was made to the beginning net assets balance for 2007. Also, restatements were made to non-current liabilities and unrestricted net assets. The restatements made were related to the cost associated with the pollution remediation obligation per implementation of GASB Statement No. 49, Pollution Remediation Obligations (See Note 16).

Analysis of the Water Division's Statement of Revenues, Expenses, and Changes in Net Assets

Condensed financial information comparing the Water Division's revenues, expenses, and changes in net assets for the past three fiscal years is presented below:

Table 6
Water Division
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31,2009, 2008, and 2007
(In Thousands)

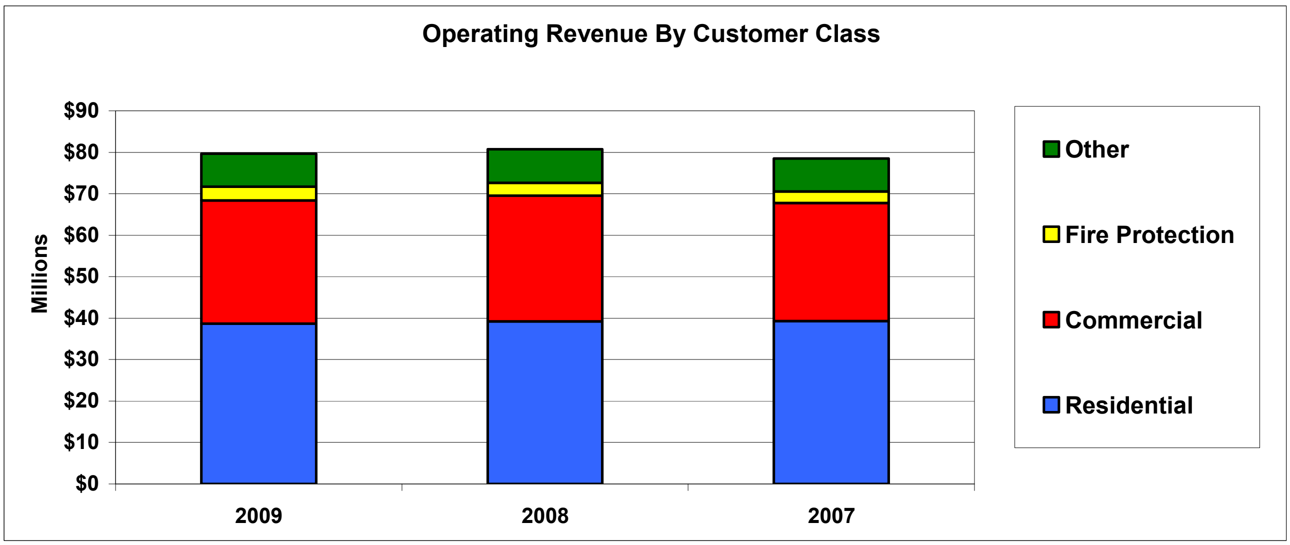
	2009	2008	FY09 - FY08 Percentage Change	2007 As Restated	FY08 - FY07 Percentage Change
Revenues:					
Operating revenues	$ 79,657	$ 80,741	-1.3%	$ 78,505	2.8%
Non-operating revenues	638	1,692	-62.3%	2,670	-36.6%
Total Revenues	80,295	82,433	-2.6%	81,175	1.5%
Expenses:					
Depreciation expense	10,932	10,493	4.2%	10,446	0.4%
Other operating expense	65,676	65,470	0.3%	63,471	3.1%
Non-operating expense	297	420	-29.3%	557	-24.6%
Total Expenses	76,905	76,383	0.7%	74,474	2.6%
Income (loss) before contributions in aid of construction and transfers	3,390	6,050	-44.0%	6,701	-9.7%
Contributions in aid of construction	3,152	4,589	-31.3%	5,094	-9.9%
Reduction of plant costs recovered through contributions in aid of construction	(3,152)	(4,589)	31.3%	(5,094)	9.9%
Transfers to City	(2,500)	(2,500)	0.0%	(2,500)	0.0%
Change in net assets	890	3,550	-74.9%	4,201	-15.5%
Beginning net assets	282,460	278,910	1.3%	281,231	-0.8%
Prior period adjustments	-	-	0.0%	(6,522)	100.0%
Beginning net assets as adjusted	282,460	278,910	1.3%	274,709	1.5%
Ending net assets	$ 283,350	$ 282,460	0.3%	$ 278,910	1.3%

At December 31, 2009, the change in net assets was $0.9 million, a decrease of $2.7 million (-74.9%). This decrease is the consequence of a slight growth in expenses combined with a decline in sales volume and revenues. The change in net assets was $3.6 million at December 31, 2008. This is a decrease of $0.7 million (-15.5%) compared to December 31, 2007. This decline is a result of the continued growth of expenses relative to revenue.

Total revenues were $80.3 billion for 2009, a decrease of 2.6% from 2008. Operating revenues decreased by 1.3% in 2009 and is attributed to a 10.3% decrease in sales from 2008. Non-operating revenues decreased by 62.3% in 2009, which can be attributed to decreases in investment and interest income.

For 2008, total revenues were $82.4 million, an increase of $1.3 million, or 1.5%, over 2007. Water sales decreased by 3.3% in 2008. Operating revenues increased by 2.8% in 2008 and is attributed to the Division's 14.9% water rate increase effective June 26, 2008. Non-operating revenues decreased by $1.0 million in 2008 as a result of a decrease in interest earned on investments.

Figure 4: Water Division's Operating Revenue



For 2009, total expenses were $76.9 million, representing a 0.7% increase compared to 2008, primarily due to an increase in depreciation expense. Non-operating expenses decreased by 29.3% as a result of the continuing decline in interest expense in relation to long-term debt. Total expenses for the Water Division in 2008 were $76.4 million, an increase of $1.9 million, or 2.6%, over 2007. Other operating expenses increased by 3.1% from 2007, attributable to the effects of electric rate increases on production costs. Non-operating expense decreased 24.6% in 2008 as a result of the continued decline in interest expense on long-term debt.

Contributions in aid of construction decreased to $3.2 million in 2009, representing a decrease of $1.4 million (-31.3%) from 2008. This decrease was due to a reduction in developers' construction activity during 2009. For 2008, contributions in aid of construction decreased by 0.5 million to $4.6 million.

Transfers to the City are per an agreement with the City of Memphis to provide payments in the amount of $2.5 million per year. The agreement is effective through the year 2028.

Additional Financial Information

This discussion is designed to provide MLGW's customers, investors, and other interested parties with a general overview of the financial position and results of operations. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Manager of General Accounting, Memphis Light, Gas and Water Division, P.O. Box 430, Memphis, TN 38101, or call 901-528-4221.

BALANCE SHEETS
DECEMBER 31, 2009 AND 2008
(Dollars in Thousands)

	Electric Division		Gas Division		Water Division	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
		As Restated				
Assets						
Current assets:						
Cash and cash equivalents	**$ 108,592**	$ 119,657	**$ 81,576**	$ 26,295	**$ 8,831**	$ 10,113
Investments	**45,505**	57,026	**33,026**	11,090	**3,714**	4,827
Derivative financial instruments	**40**	–	**2,351**	–	**–**	–
Restricted funds - current	**28,738**	32,846	**12,676**	27,613	**5,264**	9,442
Accounts receivable, less allowance for doubtful accounts	**80,213**	94,012	**46,891**	57,947	**11,547**	10,681
Unbilled revenues	**67,562**	58,913	**14,309**	37,960	**2,375**	3,018
Prepaid power cost	**95,582**	92,155	**–**	–	**–**	–
Unrecovered purchased gas cost	**–**	–	**1,585**	273	**–**	–
Inventories	**22,191**	23,757	**14,525**	31,491	**2,142**	2,391
Collateral held in trust for securities on loan	**21,419**	20,096	**12,755**	5,515	**2,832**	2,852
Other current assets	**3,483**	3,068	**1,872**	22,698	**1,667**	–
Total current assets	**473,325**	501,530	**221,566**	220,882	**38,372**	43,324
Non-current assets:						
Restricted funds:						
Futures margin deposits	**6**	–	**4,880**	3,546	**–**	–
Construction	**–**	2,011	**1,108**	17,078	**1,630**	1,660
Insurance reserves - injuries and damages	**6,163**	6,969	**2,314**	2,024	**1,850**	2,008
Insurance reserves - casualties and general	**15,289**	14,830	**4,569**	4,516	**6,491**	6,289
Medical benefits	**4,691**	6,756	**2,092**	3,013	**1,389**	2,001
Customer deposits	**15,808**	13,889	**6,335**	5,462	**1,012**	894
Bond reserve and debt service	**11,713**	11,694	**–**	–	**10,286**	13,677
Total restricted funds	**53,670**	56,149	**21,298**	35,639	**22,658**	26,529
Less restricted funds – current	**(28,738)**	(32,846)	**(12,676)**	(27,613)	**(5,264)**	(9,442)
Restricted funds – non-current	**24,932**	23,303	**8,622**	8,026	**17,394**	17,087
Other assets:						
Prepaid power cost – long term	**886,968**	982,550	**–**	–	**–**	–
Prepayments In Lieu of Taxes	**1,426**	1,444	**414**	463	**–**	–
Unamortized debt expense	**6,099**	7,333	**–**	–	**–**	–
Notes receivable	**–**	1,107	**6,734**	7,556	**2,223**	2,130
Other prepayments	**1,420**	1,668	**650**	560	**430**	371
Total other assets	**895,913**	994,102	**7,798**	8,579	**2,653**	2,501
Utility plant	**1,450,893**	1,405,585	**539,873**	535,359	**432,985**	420,983
Less accumulated depreciation	**(552,162)**	(524,624)	**(244,377)**	(240,716)	**(179,244)**	(169,668)
Utility plant, net	**898,731**	880,961	**295,496**	294,643	**253,741**	251,315
Total non-current assets	**1,819,576**	1,898,366	**311,916**	311,248	**273,788**	270,903
Total assets	**$ 2,292,901**	$ 2,399,896	**$ 533,482**	$ 532,130	**$ 312,160**	$ 314,227

See accompanying notes.

BALANCE SHEETS
DECEMBER 31, 2009 AND 2008
(Dollars in Thousands)
(Continued)

	Electric Division		Gas Division		Water Division	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
		As Restated				
Liabilities						
Current liabilities:						
Accounts payable - purchased power and gas	**$ 113,330**	$ 146,342	**$ 40,974**	$ 44,957	**$ –**	$ –
Other accounts payable, accrued expenses, and deferrals	**50,992**	46,435	**18,855**	15,564	**10,432**	8,824
Derivative financial instruments	**–**	–	**–**	1,252	**–**	–
Bonds and notes payable	**86,082**	81,976	**15,000**	35,000	**–**	–
Collateral subject to return to borrowers	**21,494**	20,432	**12,776**	5,607	**2,843**	2,899
Total current liabilities payable from current assets	**271,898**	295,185	**87,605**	102,380	**13,275**	11,723
Current liabilities payable from restricted assets:						
Construction	**–**	2,011	**600**	991	**1,630**	1,209
Customer deposits	**6,165**	5,416	**2,281**	1,952	**395**	349
Medical benefits	**4,691**	6,756	**2,092**	3,013	**1,389**	2,001
Insurance reserves - injuries and damages	**6,163**	6,969	**2,314**	2,024	**1,850**	2,008
Bonds payable – accrued interest	**3,947**	4,304	**–**	–	**–**	190
Bonds payable – principal	**7,766**	7,390	**–**	–	**–**	3,235
Total current liabilities payable from restricted assets	**28,732**	32,846	**7,287**	7,980	**5,264**	8,992
Total current liabilities	**300,630**	328,031	**94,892**	110,360	**18,539**	20,715
Non-current liabilities:						
Customer advances for construction	**7,556**	9,747	**1,015**	1,159	**–**	–
Customer deposits	**9,643**	8,472	**4,053**	3,510	**617**	546
Other	**21,196**	24,213	**3,254**	6,271	**6,527**	5,960
Bonds payable	**909,690**	1,014,310	**–**	–	**3,127**	4,546
Total non-current liabilities	**948,085**	1,056,742	**8,322**	10,940	**10,271**	11,052
Total liabilities	**1,248,715**	1,384,773	**103,214**	121,300	**28,810**	31,767
Net assets						
Invested in capital assets, net of related debt	**892,888**	869,504	**295,496**	294,643	**250,613**	243,534
Restricted	**15,295**	14,830	**9,957**	24,150	**16,776**	20,227
Unrestricted	**136,003**	130,789	**124,815**	92,037	**15,961**	18,699
Total net assets	**1,044,186**	1,015,123	**430,268**	410,830	**283,350**	282,460
Total liabilities and net assets	**$ 2,292,901**	$ 2,399,896	**$ 533,482**	$ 532,130	**$ 312,160**	$ 314,227

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (Dollars in Thousands)

	Electric Division		Gas Division		Water Division	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
		As Restated				
Operating revenues:						
Sales and service revenues	**$1,179,260**	$1,183,386	**$ 343,842**	$ 504,416	**$ 70,837**	$ 71,834
Transported gas revenue	–	–	**3,657**	4,537	–	–
Other revenues	**29,596**	30,660	**12,182**	14,364	**8,820**	8,907
Total operating revenues	**1,208,856**	1,214,046	**359,681**	523,317	**79,657**	80,741
Operating expenses:						
Purchased power and gas for resale	**969,309**	991,866	**240,518**	394,023	–	–
Production	–	–	–	–	**16,215**	15,817
Operation	**116,680**	109,436	**64,651**	66,526	**40,939**	42,029
Maintenance	**48,243**	42,318	**8,810**	9,684	**8,522**	7,624
Depreciation	**41,444**	40,018	**12,458**	12,377	**10,932**	10,493
Payments in lieu of taxes	**589**	516	**234**	360	–	–
	1,176,265	1,184,154	**326,671**	482,970	**76,608**	75,963
Operating income	**32,591**	29,892	**33,010**	40,347	**3,049**	4,778
Non-operating revenues (expenses):						
Contributions in aid of construction	**10,532**	11,675	**796**	1,568	**3,152**	4,589
Reduction of plant costs recovered through contributions in aid of construction	**(10,532)**	(11,675)	**(796)**	(1,568)	**(3,152)**	(4,589)
Transmission credits	**27,895**	26,493	–	–	–	–
Investment and other income	**7,274**	11,677	**1,590**	3,785	**638**	1,692
Prepay credit	**40,838**	44,542	–	–	–	–
Interest expense	**(41,536)**	(45,843)	**(463)**	(1,149)	**(297)**	(420)
Total non-operating revenues (expenses)	**34,471**	36,869	**1,127**	2,636	**341**	1,272
Income before transfers	**67,062**	66,761	**34,137**	42,983	**3,390**	6,050
Transfers out	**(37,999)**	(34,263)	**(14,699)**	(12,827)	**(2,500)**	(2,500)
Change in net assets	**$ 29,063**	$ 32,498	**$ 19,438**	$ 30,156	**$ 890**	$ 3,550
Net assets, beginning of year	**$1,015,123**	$ 978,174	**$ 410,830**	$ 380,674	**$ 282,460**	$ 278,910
Adjustments to beginning net assets, as previously reported	–	4,451	–	–	–	–
Net assets, beginning of year as adjusted	**1,015,123**	982,625	**410,830**	380,674	**282,460**	278,910
Change in net assets	**29,063**	32,498	**19,438**	30,156	**890**	3,550
Net assets, end of year	**$1,044,186**	$1,015,123	**430,268**	$ 410,830	**$ 283,350**	$ 282,460

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollars in Thousands)

	Electric Division		Gas Division		Water Division	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Cash flows from operating activities:						
Receipts from customers and users	**$ 1,207,244**	$ 1,201,126	**$ 391,749**	$ 513,242	**$ 72,978**	$ 79,425
Payments to suppliers	**(890,061)**	(859,377)	**(225,673)**	(446,989)	**(20,432)**	(33,812)
Payments to/on behalf of employees	**(103,922)**	(89,775)	**(51,618)**	(47,439)	**(38,813)**	(34,507)
Payments from (to) other Division funds	**(41)**	(313)	**(1,517)**	(972)	**1,519**	1,686
Payments for taxes	**(791)**	(480)	**(186)**	(197)	**–**	–
Other receipts	**–**	243	**–**	–	**–**	–
Net cash provided by operating activities	**212,429**	251,424	**112,755**	17,645	**15,252**	12,792
Cash flows from noncapital financing activities:						
Transfers to City of Memphis	**(37,999)**	(34,263)	**(14,699)**	(12,827)	**(2,500)**	(2,500)
Proceeds from issuance of long-term debt	**–**	100,479	**–**	–	**–**	–
Principal payments on long-term debt	**(82,210)**	(178,440)	**–**	–	**–**	–
Interest expense on bonds	**(50,735)**	(55,016)	**–**	–	**–**	–
Proceeds from issuance of notes payable	**–**	–	**15,000**	35,000	**–**	–
Principal payment on notes payable	**–**	–	**(35,000)**	(40,000)	**–**	–
Interest payments on notes payable	**–**	–	**(674)**	(1,255)	**–**	–
Net cash used in noncapital financing activities	**(170,944)**	(167,240)	**(35,373)**	(19,082)	**(2,500)**	(2,500)
Cash flows from capital and related financing activities:						
Purchase and construction of utility plant	**(72,726)**	(80,791)	**(17,136)**	(15,986)	**(17,155)**	(16,975)
Contributions in aid of construction	**10,532**	11,675	**796**	1,568	**3,152**	4,589
Sale (Purchase) of utility plant to/from other Divisions	**–**	(6)	**–**	–	**–**	6
Proceeds from issuance of long-term debt	**–**	–	**–**	–	**–**	–
Principal payments on long-term debt	**(7,156)**	(6,820)	**–**	–	**(4,700)**	(3,100)
Interest payments on debt	**(695)**	(1,023)	**–**	–	**(433)**	(445)
Net cash used in capital and related financing activities	**(70,045)**	(76,965)	**(16,340)**	(14,419)	**(19,136)**	(15,925)
Cash flows from investing activities:						
Sales and maturities of investments	**29,413**	27,104	**5,044**	15,574	**3,142**	6,699
Purchases of investments	**(16,811)**	(35,345)	**(21,786)**	(13,719)	**(1,801)**	(5,365)
Payments received on notes receivable	**1,708**	1,708	**1,712**	1,944	**–**	13
Issuance of notes receivable	**–**	–	**–**	–	**(94)**	(795)
Investment income earned on investments	**2,048**	8,378	**193**	3,547	**248**	1,272
Net cash provided by (used in) investing activities	**16,358**	1,845	**(14,837)**	7,346	**1,495**	1,824
Increase (decrease) in cash and cash equivalents	**(12,202)**	9,064	**46,205**	(8,510)	**(4,889)**	(3,809)
Cash and cash equivalents, beginning of year	**168,113**	159,049	**54,303**	62,813	**33,426**	37,235
Cash and cash equivalents, end of year	**$ 155,911**	$ 168,113	**$ 100,508**	$ 54,303	**$ 28,537**	$ 33,426

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(Dollars in Thousands)
(Continued)

	Electric Division		Gas Division		Water Division	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	**$ 32,591**	$ 29,892	**$ 33,010**	$ 40,347	**$ 3,049**	$ 4,778
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation of utility plant	**44,425**	42,841	**15,487**	15,200	**11,577**	11,245
Transmission credits	**27,895**	26,493	**–**	–	**–**	–
Prepay power credits	**40,838**	44,542	**–**	–	**–**	–
Other income	**5,074**	3,367	**341**	155	**382**	467
(Increase) decrease in assets:						
Accounts receivable	**12,511**	(27,380)	**11,056**	(25,212)	**(866)**	(1,815)
Unbilled revenues	**(8,649)**	1,276	**23,651**	11,724	**643**	292
Prepaid power cost	**92,155**	88,987	**–**	–	**–**	–
Prepayments – In Lieu of Taxes	**18**	6	**49**	35	**–**	–
Unrecovered purchased gas cost	**–**	–	**(1,311)**	2,555	**–**	–
Inventories	**1,566**	(1,049)	**16,965**	(6,750)	**249**	(130)
Other assets	**630**	(599)	**18,549**	(15,161)	**(1,726)**	–
Increase (decrease) in liabilities:						
Accounts payable - purchased power and gas	**(33,012)**	41,761	**(3,983)**	(4,619)	**–**	–
Other accounts payable and accrued expenses	**4,557**	4,765	**3,291**	5,806	**1,608**	(827)
Customer deposits	**1,920**	629	**873**	(396)	**118**	29
Insurance reserves	**(806)**	(281)	**290**	410	**(158)**	667
Medical benefit accrual	**(2,065)**	1,181	**(920)**	358	**(611)**	444
Other	**(7,219)**	(5,007)	**(4,593)**	(6,808)	**987**	(2,358)
Total adjustments	**179,838**	221,532	**79,745**	(22,702)	**12,203**	8,014
Net cash provided by operating activities	**$ 212,429**	$ 251,424	**$ 112,755**	$ 17,645	**$ 15,252**	$ 12,792
Reconciliation of cash and cash equivalents per statements of cash flows to the balance sheets:						
Restricted funds	**$ 53,670**	$ 56,149	**$ 21,298**	$ 35,639	**$ 22,658**	$ 26,529
Less investments included in restricted funds	**(6,351)**	(7,693)	**(2,366)**	(7,631)	**(2,952)**	(3,216)
Cash and cash equivalents included in restricted funds	**47,319**	48,456	**18,932**	28,008	**19,706**	23,313
Current assets - cash and cash equivalents	**108,592**	119,657	**81,576**	26,295	**8,831**	10,113
Total cash and cash equivalents	**$ 155,911**	$ 168,113	**$ 100,508**	$ 54,303	**$ 28,537**	$ 33,426

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

Memphis Light, Gas and Water Division ("MLGW"), a division of the City of Memphis, Tennessee (the "City"), was created by an amendment to the City Charter by Chapter 381 of the Private Acts of the General Assembly of Tennessee (the "Charter"), adopted March 9, 1939, as amended. MLGW is managed by its President and a five member Board of Commissioners that are nominated by the City Mayor and approved by the Memphis City Council (the "Council"). MLGW, through its three divisions, provides electricity, gas and water to customers in Shelby County, Tennessee, which includes the City. MLGW's annual budget and electric, gas and water rates require the approval of the Council. MLGW must also obtain the approval of the Council before incurring certain obligations.

Basis of Presentation

The financial statements present only the Electric, Gas and Water Divisions of MLGW in conformity with accounting principles generally accepted in the United States that are applicable to a proprietary fund of a government unit. The accompanying financial statements present the separate financial positions, results of operations, and cash flows of each of the three divisions--Electric, Gas and Water--(the Divisions) of MLGW, but do not present the financial position, results of operations, or cash flows of MLGW, an enterprise fund of the City of Memphis. Accordingly, the accompanying disclosures relate separately to the Divisions, as applicable, and not collectively to MLGW. Unless expressly stated, each disclosure, including references to "MLGW" herein, applies solely to each of the separate divisions on an individual basis. These statements are not intended to present the financial position of the City, the results of the City's operations or the cash flows of the City's funds, nor do they represent the financial position, results of operations, or cash flows of MLGW's Retirement and Pension System discussed in Note 5 or the Other Post-Employment Benefits ("OPEB") discussed in Note 7.

Basis of Accounting

MLGW is required by state statute and the Charter to maintain separate accounting for each division and to allocate among the divisions, on an equitable basis, joint expenses, including those related to common facilities. MLGW utilizes direct cost methods where applicable. For expenses not directly charged to a specific division, internally developed cost allocation methods are used based on the function performed. Each division is separately financed, and its indebtedness is repayable from its net revenues.

MLGW's accounting policies are in conformity with accounting principles generally accepted in the United States. Where applicable, the Federal Energy Regulatory Commission's (FERC) (Electric and Gas Divisions) and the National Association of Regulatory Utility Commissioners' (NARUC) (Water Division) Uniform Systems of Accounts are used. MLGW is not subject to the jurisdiction of federal or state regulatory commissions.

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued)

Under Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* MLGW has elected to apply all Financial Accounting Standards Board ("FASB") statements and interpretations and Accounting Standards Updates issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements, to MLGW's accounting and financial reporting.

Recent Accounting Standards

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* The objective of this statement is to establish accounting and financial reporting for intangible assets that will reduce inconsistencies among governments in the areas of recognition, initial measurement and amortization of intangible assets. This statement requires intangible assets not specifically excluded by its scope provisions to be classified as capital assets. The requirements of this statement are effective for periods beginning after June 15, 2009 and should be applied retroactively to intangible assets acquired in fiscal years ending after June 30, 1980, except for those assets considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. MLGW has not completed the process of evaluating the impact of this statement on its financial statements. MLGW has not elected early implementation of this statement.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement 53 is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009. MLGW has not elected early implementation of this statement, and does not believe it will have a material effect on the financial statements.

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent.

1. Summary of Significant Accounting Policies (continued)

Recent Accounting Standards (continued)

Disclosure of the policies in the notes to the financial statements is required. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. MLGW has not completed the process of evaluating the impact of this statement on its financial statements, and has not elected early implementation of this statement.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles.* This statement became effective upon issuance. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles ("GAAP") for state and local governments into the Governmental Accounting Standards Board's authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.* This statement was effective upon issuance. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events.

In July 2009, the FASB issued the *FASB Accounting Standards Codification* ("ASC") effective for periods ending after September 15, 2009. The ASC combines all previously issued U.S. GAAP into one comprehensive set of guidance for nongovernmental entities organized by subject area. The ASC is generally organized in a hierarchical structure by topic, subtopic, section, and subsection. The adoption of the ASC changed certain financial statement disclosures but did not materially impact MLGW's financial condition, results of operations, or cash flows.

Regulatory Accounting

MLGW prepares its financial statements in accordance with the provisions of ASC 980, *Regulated Operations* (formerly Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation.)* In general, ASC 980 recognizes that accounting for rate regulated enterprises should reflect the relationship of costs and revenues introduced by rate regulation. As a result, a regulated utility may defer recognition of a cost (a regulatory asset) or recognize an obligation (a regulatory liability) if it is probable that through the rate making process, there will be a corresponding increase or decrease in future revenues. Accordingly, MLGW has recognized certain regulatory assets and regulatory liabilities in the accompanying balance sheets.

(Dollars in Thousands)

1. Summary of Significant Accounting Policies (continued)

Regulatory Accounting (continued)

In the event operations are no longer subject to the provisions of ASC 980 as a result of a change in regulation or the effects of competition, MLGW would be required to recognize the effects of any regulatory change in assets or liabilities in its statement of revenues and expenses. The following are the regulatory assets and liabilities included in the balance sheets:

		2009	2008
Assets			
Electric Division	Deferred asset pollution remediation	**$ 1,535**	$ -
Gas Division	Deferred loss on futures/swaps	**7**	21,019
Gas Division	Unrecovered purchased gas cost	**1,585**	273
Water Division	Deferred asset pollution remediation	**1,667**	-
Liabilities			
Gas Division	Deferred liability pollution remediation	**$ 1,195**	$ -
Gas Division	Deferred gains-gas futures/swaps	**3,350**	-
Gas Division	Deferred credits-PGA/storage	**-**	2,475

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, investments, restricted fund investments, accounts receivable and accounts payable are a reasonable estimate of their fair values. The estimated fair values of MLGW's other financial instruments have been determined by MLGW using available market information. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the fair values are not necessarily indicative of the amounts that MLGW could realize in a current market exchange. The use of different market assumptions may have a material effect on the estimated fair value amounts. The estimated fair value of long-term debt for the Electric Division and the Water Division based on quoted market prices is as follows as of December 31, 2009 and 2008:

	2009	2008
Electric Division	**$ 1,048,553**	$ 1,103,494
Water Division	**3,383**	8,157

(Dollars in Thousands)

1. Summary of Significant Accounting Policies (continued)

Investments

Investments are carried at fair value based on quoted market prices. See Note 2. All changes in the fair value of investments are included in investment income in the accompanying statements of revenues, expenses and changes in net assets.

Accounts Receivable

As of December 31, 2009 and 2008, accounts receivable and allowances for doubtful accounts were as follows:

	Electric Division		Gas Division		Water Division	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Accounts receivable	**$ 88,507**	$106,300	**$ 49,143**	$ 60,515	**$ 12,633**	$ 11,725
Less: Allowance for doubtful accounts	**(8,294)**	(12,288)	**(2,252)**	(2,568)	**(1,086)**	(1,044)
TOTAL	**$ 80,213**	$ 94,012	**$ 46,891**	$ 57,947	**$ 11,547**	$ 10,681

MLGW performs a monthly analysis of outstanding trade receivables to assess the likelihood of collection. For aged receivable balances, MLGW records an allowance to adjust the trade receivable to MLGW's best estimate of the amount it will ultimately collect. Such allowances are netted against operating revenues.

MLGW's policy is to write off trade receivables after 150 days of non-payment. The bad debt expense amounts netted against operating revenues are as follows:

	2009	2008
Electric	**$ 6,914**	$ 10,813
Gas	**3,726**	5,346
Water	**1,271**	1,235

Concentration of Credit Risk

MLGW's financial instruments that are potentially exposed to concentrations of credit risk primarily consist of trade receivables and derivative instruments. Trade receivables result from operations and include wholesale, commercial, industrial and government customers in the Memphis, Tennessee, geographic area. As a general policy, customer deposits are required for receivables unless or until the customer has established good credit history. Customers' financial condition and credit worthiness are evaluated regularly.

1. Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk (continued)

Management of MLGW does not believe that it has a significant credit risk on its derivative instruments. MLGW's derivatives transactions are mostly conducted directly or indirectly with the New York Mercantile Exchange ("NYMEX"). Using NYMEX largely minimizes MLGW's exposure to credit risk for such transactions.

Prepaid Power Cost

Electric Division prepaid power cost represents the unamortized amount of prepaid power under the prepaid electricity agreement signed with Tennessee Valley Authority ("TVA") on November 19, 2003. See Note 10. Under the prepay agreement, MLGW issued revenue bonds with a face value of $1,392,170 and a premium of $121,247 to make an upfront payment of $1,500,000 to TVA. Under the terms of the agreement, MLGW receives a fixed discount on the monthly power purchased for the fifteen year term of the agreement. The total fixed discount under the agreement is sufficient to meet the debt service requirements and yield approximately $13,000 in annual power cost savings. The monthly fixed discount is allocated to prepaid power cost and other income under the interest method based on the debt service requirements of the associated debt.

Inventories

Inventories, consisting primarily of materials and supplies inventory and stored natural gas, are valued at cost using the average cost method.

Utility Plant

The costs of additions and replacements of units of property are capitalized. Costs include contracted work, direct labor and materials, allocable overhead and, where applicable, allowances for borrowed funds used during construction and are reduced by contributions in aid of construction. When property units are retired, original cost, plus removal cost, less salvage is charged to accumulated depreciation. The units of property adopted are related to those suggested by FERC for the Electric and Gas Divisions and NARUC for the Water Division, which allow for the reduction of plant cost recovered through contributions in aid of construction as opposed to recovery of costs through future regulatory rates.

An allowance for borrowed funds used during construction is computed at actual interest rates to the extent major projects are financed by specific long-term debt. In 2009 and 2008, no construction projects were financed with specific long-term debt. Interest on other debt is not capitalized as it is recovered through current revenues.

Depreciation is computed using the straight-line method based on estimated service lives of various classes of property at rates equivalent to annual composite rates of approximately 3.3% for the electric division, 3% for the gas division and 3% for the water division. Computations of the estimated service lives are the result of various depreciation studies and comparisons with industry standards.

1. Summary of Significant Accounting Policies (continued)

Utility Plant (continued)

For assets owned by one division, but jointly used by more than one division, the other divisions share the costs by paying rent to the owning division to cover depreciation, interest, in lieu of taxes, and transfers.

Bond Premiums, Discounts and Issuance Costs

Bond premiums and discounts, as well as issuance costs, are deferred and amortized by the interest method over the lives of the applicable bond issues. Long-term debt is reported net of the applicable bond premium or discount. Bond issue costs are reported as deferred charges and amortized over the term of the related debt.

Reserves and Related Restricted Funds

Certain MLGW assets are restricted for specific purposes. Legal and contractual agreements restrict amounts for debt service, refund of customer deposits, futures margin requirements, and capital improvements while Board of Commissioners enacted provisions restrict funds for self-insurance and additional capital improvements. Restricted funds are first used for expenses when available, with the exception of the insurance reserve fund for casualties which is used at the discretion of management, depending on the severity of the catastrophe and the availability of funds.

The Electric and Gas Divisions maintain cash margin accounts with its futures clearing member. The clearing member requires that a minimum cash margin be maintained based on the value of the Divisions' outstanding futures positions. The minimum cash margin requirements are considered restricted and are reflected in restricted assets in the accompanying balance sheets. The amounts of cash in excess of the minimum cash margin requirement are included in cash and cash equivalents.

Construction funds are generally maintained for the purpose of paying certain repairs and capital additions and improvements. The respective bond resolutions of the Electric, Gas and Water Divisions allow for funding for future construction. Additional construction funds are periodically authorized by the Board of Commissioners.

The insurance reserves for injuries and damages are maintained for estimated liabilities incurred and risks assumed on claims for injuries and damages and on recurring property losses. The insurance reserves for casualties are maintained at discretionary amounts to partially cover losses of a catastrophic nature which are not ordinarily insurable or which are not insurable on an economical basis.

Medical benefit reserves are maintained for MLGW's medical insurance program, which serves employees and retirees. The medical benefit reserves represent the estimated costs incurred but not yet paid in providing medical benefits to employees and retirees which are not insured by third party providers.

1. Summary of Significant Accounting Policies (continued)

Reserves and Related Restricted Funds (continued)

Since MLGW is self-insured for insurance and medical benefit costs, the Board of Commissioners has authorized the restriction of assets equal to the computed reserves.

Customer deposit funds are maintained for the future repayment of deposits collected from customers without adequate credit history in accordance with MLGW's policy and the respective customer service agreement.

Bond reserve and debt service funds are restricted under the terms of the respective bond indentures to pay current bond principal and interest as they become due.

Futures, Options and Swap Contracts

The Gas Division enters into futures contracts, swaps, and options on futures contracts to manage the risk of volatility in the market price of natural gas on anticipated purchase transactions. Open futures, swaps, and options on futures contracts as of December 31, 2009 and 2008, are reported at market values of $2,351 and ($1,252) respectively. Notional values of the open futures as of December 31, 2009 and 2008 were $9,362 and $6,444, respectively. Margin account balances with MLGW's New York Mercantile Exchange clearing member as of December 31, 2009 and 2008, were $7,933 and $6,610, respectively.

Because MLGW prepares its statements in accordance with ASC 980, *Regulated Operations,* gains or losses on futures contracts and swaps and option costs are included in deferred purchased gas costs until they are charged to gas costs through the purchased gas adjustment. Gains or losses on futures contracts entered into on behalf of specified customers are charged to that specific customer.

Deferred gains (losses) at year end associated with recording derivatives at fair market value were $2,351 and ($1,252) for the years ending 2009 and 2008, respectively. Deferred costs at year end associated with gains (losses) on closed positions for the years ending 2009 and 2008 were $1,012 and ($19,762) respectively.

The Electric Division enters into swaps on futures contracts to manage the risk of volatility in the market price of unleaded and diesel fuel on anticipated purchase transactions. Swaps contracts as of December 31, 2009 are reported at market values of $40. Notional values of the open swaps as of December 31, 2009 were $122. The margin account balance with MLGW's New York Mercantile Exchange clearing member as of December 31, 2009 was $212.

Deferred gains (losses) at year end associated with recording derivatives at fair market value were $40 for the year ending 2009. Gains and losses associated with derivatives on fuel are transferred monthly to MLGW's transportation costs.

1. Summary of Significant Accounting Policies (continued)

Net Assets

Net assets are classified into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- Restricted net assets – This component of net assets consists of external constraints placed on net asset use by creditors (such as through debt covenants), contributors, or laws or regulations of governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Revenues and Expenses

Revenues are recognized when earned. Customer meters are read and bills are rendered monthly. MLGW records an estimate for unbilled revenues earned from the dates its customers were last billed to the end of each month.

MLGW distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of MLGW consist of electric, gas and water sales and related activities. Non-operating revenues consist of transmission credits, the non-power cost portion of the prepaid electricity discount, investment income and other ancillary activities. Transmission credits are fees paid by Tennessee Valley Authority for its use of the Electric Division's power transmission facilities in supplying power to MLGW.

Operating expenses include the cost of purchased power and gas, water production costs, operation and maintenance expenses, depreciation on capital assets and payments in lieu of taxes. Expenses not meeting this definition are reported as non-operating expenses.

Investment and other income includes prepay credit income related to the prepaid power agreement with TVA of $40,838 and $44,542 for the years ended December 31, 2009 and 2008, respectively.

1. Summary of Significant Accounting Policies (continued)

Customer Deposits

Customers that do not have adequate credit history are required to make utility deposits before services are provided. Deposits are refunded or applied toward a customer's bill after a 24 month good pay status. Deposits are allocated to the Electric, Gas and Water Divisions based upon each division's percentage of total sales revenue of the previous year end.

Statements of Cash Flows

MLGW considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Related Parties

MLGW conducts business with its related parties as "arm's length" transactions. Major related party entities include the City of Memphis government. Generally, MLGW provides utility and related services to these parties and receives payments in the same manner as other customers. For the years ending 2009 and 2008, receivables from related parties for utility construction, pole rentals and utility related services excluding utility bills were $3,244 and $4,615. The only free service provided to the City, under the Charter, is water for public purposes, such as Memphis City Schools and fire hydrants. The free water provided to the City is estimated to be $2,316 and $2,422 for 2009 and 2008, respectively.

Electric Division Prior Period Restatement

The Electric Division's net assets as of January 1, 2008 have been restated to correct an error in the calculation of the original pollution remediation liability recorded in 2008. The adjustment was an increase in the January 1, 2008 net assets in the amount of $4,451. The liability recorded in 2008 in accordance with GASB 49, *Pollution Remediation Obligations* erroneously included installation and purchase costs of PCB transformers (capital assets) and excluded removal cost. The prior period restatement corrects the error by adding the estimated removal costs and deducting the estimated replacement costs. See Note 16.

Events occurring after reporting date

Management has evaluated events and transactions that have occurred between December 31, 2009 and April 26, 2010, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassifications

Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

2. Deposits and Investments

The MLGW Statement of Investment Policy has been adopted and approved by the MLGW Board of Commissioners. This policy sets forth the investment and operational policies for the management of the public funds of MLGW. The Board of Commissioners has the power to invest and reinvest MLGW funds in accordance with the prudent investor rule. The Board members exercise authority and control over MLGW's investment portfolio by setting policies which MLGW's investment staff executes either internally, or through the use of external prudent experts.

Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, MLGW will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depository-government's name.

MLGW deposits include bank deposits and futures margin deposits. The bank deposits are insured up to $250 by the Federal Deposit Insurance Corporation ("FDIC") and the remainder is covered by the State of Tennessee Collateral Pool; certificates of deposit must be placed directly with depository institutions. The depository bank shall provide collateral for MLGW deposits in accordance with requirements for public funds deposits in Tennessee. The market value of the pledged securities in the collateral pool must equal at least 105% of the value of the deposit secured, less the amount protected by federal deposit insurance. As of December 31, 2009, MLGW deposits with financial institutions were $6,739, gas margin deposits were $8,145, and electric margin deposits were $212. Deposits of $6,739 were maintained in collateralized accounts or covered by federal depository insurance, and were not exposed to custodial credit risk. The margin deposits of $8,145 and $212 were exposed to custodial credit risk as they were uninsured and uncollateralized.

(Dollars in Thousands)

2. Deposits and Investments (continued)

Investments

The investment policy governs the overall administration and investment management of the funds held in the MLGW investment portfolio. MLGW is authorized by the Board of Commissioners to invest in the following investments as authorized by state law and as it deems proper: U.S. Treasuries; U.S. government obligations; repurchase agreements; commercial paper with specified ratings; bankers' acceptances with specified ratings; corporate bonds/notes with specified ratings; municipal obligations with specified ratings; bank deposits; certificates of deposit; state pool; mutual funds with specified ratings; and asset-backed securities with specified ratings. MLGW is prohibited from investing in the following securities: purchases on margin or short sales; investments in reverse repurchase agreements; and "exotic" derivatives such as range notes, dual index notes, inverse floating rate notes and deleveraged notes, or notes linked to lagging indices or to long-term indices.

The following table presents the investments and maturities of MLGW's investment portfolio as of December 31, 2009:

		Remaining Maturities (in Years)		
Investment Type	**Fair Value**	**Maturities < 1 year**	**Maturities 1 to 5 years**	**Maturities Not Determined**
U.S. Treasuries	$ 1,329	$ 1,329	$ -	$ -
Federal Agency (Fixed Rate)	27,776	8,853	18,923	-
Federal Agency (Callable)	1,136	-	1,136 [1]	-
Corporate Bonds/Notes (medium term)	16,999	8,646	8,353	-
Asset - Backed Securities	14,417	-	14,417	-
Other Fixed Income	14	-	-	14
Money Market Mutual Funds	269,396	269,396	-	-
Securities held by Brokers-Dealers under Securities Loans for Cash Collateral:				
U.S. Treasuries	23,854	4,094	19,760	-
Federal Agency (Fixed Rate)	5,767	489	5,278	-
Corporate Bonds/Notes (medium term)	2,617	-	2,617	-
Total Investments	**$ 363,305**	**$ 292,807**	**$ 70,484**	**$ 14**

[1] Bonds mature in 2012 and 2014; callable in 2010.

2. Deposits and Investments (continued)

Investments (continued)

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, MLGW will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty, or the counterparty's trust department or agent but not in the name of MLGW. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risks because their existence is not evidenced by securities that exist in physical or book entry form. The underlying securities for securities on loan are not subject to custodial credit risk because the collateral for those loans is reported in the balance sheets. To limit its exposure, MLGW's investment policy requires that all securities purchased by MLGW shall be held in safekeeping by a third-party custodial bank or financial institutions. None of MLGW's investments at December 31, 2009 were exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment in debt securities. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. MLGW's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the investment policy states no investment will have a maturity of greater than five years from date of purchase, except U.S. Treasury Securities which shall have a maturity not to exceed ten years. As of December 31, 2009, MLGW had purchased no investments in debt securities that were outside of the policy guidelines. To compensate for securities lending losses in 2008, The Northern Trust Company issued MLGW a fixed income asset of $14. The maturity of this asset has not been determined. MLGW uses the segmented time distribution method of disclosure, as shown above, to identify this risk.

Some investments can be highly sensitive to changes in interest rates due to their terms or characteristics. In MLGW's investment portfolio, asset-backed and government mortgage backed securities are most sensitive to changes in interest rates as their repayments can vary significantly with interest rate changes. These securities represent 4.4% of the total investment portfolio with a fair market value of $16,009 at year-end 2009.

Credit Risk

Credit risk is the risk that an issuer of a debt security will not fulfill its obligation. This credit risk is measured by the credit quality of investments in debt securities as described by nationally recognized statistical rating organizations. Investments in obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk. MLGW debt securities that were subject to credit risk were $34,047, or 9.4% of total investments. Of this amount $8,646 has a remaining maturity of one year or less.

(Dollars in Thousands)

2. Deposits and Investments (continued)

Credit Risk (continued)

MLGW's ratings and policy limits as of December 31, 2009 are as follows:

Investment Type	Fair Value		S&P Rating	Moody Rating
Corporate Bonds/Notes	$ 10,100		AAA	Aaa
Corporate Bonds/Notes	784		AA+	Aaa
Corporate Bonds/Notes	765		AA+	Aa1
Corporate Bonds/Notes	2,209		AA+	Aa2
Corporate Bonds/Notes	542		AA+	Aa3
Corporate Bonds/Notes	2,398		AA	Aa1
Corporate Bonds/Notes	1,512		AA-	Aa3
Corporate Bonds/Notes	518		AA-	A1
Corporate Bonds/Notes	788		AA-	A2
Asset-Backed Securities	10,896		AAA	Aaa
Asset-Backed Securities	3,521		AAA	NA
Other Fixed Income	14		NA	NA
Total credit risk debt securities	34,047			
U.S. Treasuries	15,915		AAA	Aaa
U.S. Treasuries	21,998	[1]	AAAm	Aaa
U.S. Treasuries (explicitly guaranteed)	9,268		AAA	Aaa
Federal Agency (Fixed Rate)	31,951		AAA	Aaa
Federal Agency (Fixed Rate)	247,398	[2]	AAAm	Aaa
Federal Agency (Fixed Rate - implicitly guaranteed)	1,592		AAA	Aaa
Federal Agency (Callable)	1,136		AAA	Aaa
U.S. Government and Agencies	329,258			
Total debt securities investments	**$ 363,305**			

Non-Rating Description	
NA	Not Available

[1] Money Market Treasury Fund primarily consists of U.S. Treasury securities.
[2] Government/Agency Money Market Fund primarily consists of U.S. government/agencies securities.

(Dollars in Thousands)

2. Deposits and Investments (continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer that represent five percent or more of total investments must be disclosed by amount and issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. Of the investments subject to concentration of credit risk, there were no investments in any one issuer that represented 5% or more of MLGW's investments at December 31, 2009.

In accordance with the investment policy, no more than 10% of MLGW's portfolio will be invested in the securities of any single issuer with the following exceptions: U.S. Government Obligations up to 100%; and the amount invested in corporate bonds/notes will not exceed 5% of the portfolio book value for any single issuer. In addition, MLGW's investment policy seeks to diversify its portfolio by limiting the percentage of the portfolio that may be invested in any one type of instrument as follows:

U.S. Treasuries	100% maximum
Federal Agency (fixed rate)	100% maximum
Federal Agency (callable)	50% maximum
Repurchase Agreements	50% maximum
Commercial Paper (rated AA or higher)	90% maximum
Bankers' Acceptances (rated AA or higher)	60% maximum
Corporate Notes (medium term)	15% maximum
Certificates of Deposit	20% maximum
Municipal Obligations	20% maximum
Tennessee LGIP and Mutual Funds	40% maximum
Asset - Backed Securities	50% maximum

2. Deposits and Investments (continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. MLGW does not have a formal investment policy for foreign currency risk. As of December 31, 2009, MLGW had no investments that were denominated in foreign currencies; therefore, there is no foreign currency risk.

Securities Lending

MLGW has authorized The Northern Trust Company ("the Agent") to enter into, on behalf of MLGW, securities lending transactions comprised of loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Initial collateral levels, consisting of cash and securities, must be at least 102% of the market value of borrowed securities, or at least 105% if the borrowed securities and collateral are denominated in different currencies.

At December 31, 2009, MLGW has no credit risk exposure to borrowers because the amounts MLGW owe the borrowers exceed the amounts the borrowers owe MLGW. The borrower is required to deliver additional collateral when necessary so that the total collateral held by the Agent for all loans to the borrower will at least equal the market value of the securities without a borrower default. MLGW does not have the ability to pledge or sell collateral securities without a borrower default. The Agent shall issue a safekeeping receipt to MLGW listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the Agent will also provide reports which list all securities held for MLGW, the book value of holdings and the market value as of month-end. Appropriate MLGW officials and representatives of the Agent responsible for, or in any manner involved with, the safekeeping and custody process of MLGW shall be bonded in such a fashion as to protect MLGW from losses from malfeasance and misfeasance. In addition, MLGW will not deposit funds through third parties or money brokers.

Under the terms of the lending agreement, MLGW is indemnified against any losses, damages, costs and expenses should the Agent be unable to recover borrowed securities and distributions due to borrower filing for bankruptcy or similar relief or failure of the Agent to properly evaluate the creditworthiness of the borrower. In addition, MLGW is indemnified against loss should the Agent fail to demand adequate and appropriate collateral on a timely basis.

During fiscal year 2008, losses in the financial market affected the securities lending collateral pool held by The Northern Trust Company. The securities lending collateral pool has relatively high levels of overnight liquid and high-quality assets, but the unprecedented market events drove the markets into a highly illiquid condition. The impact of the highly illiquid market caused a decline in the market value of the securities lending collateral pool, resulting in a collateral deficiency declared on September 19, 2008. As of December 31, 2009, MLGW has an outstanding collateral deficiency liability of $107.

(Dollars in Thousands)

2. Deposits and Investments (continued)

Securities Lending (continued)

As of December 31, 2009, MLGW investments held by broker-dealers under securities loans consist of the following:

	Market Value of Securities on Loan				Cash Collateral Received			
Securities on Loan	Electric Division	Gas Division	Water Division	Total	Electric Division	Gas Division	Water Division	Total
U.S. Agencies	$ 3,330	$ 1,997	$ 440	$ 5,767	$ 3,488	$ 2,077	$ 461	$ 6,026
U.S. Corporate Fixed	1,511	906	200	2,617	3,522	2,097	465	6,084
U.S. Government Fixed	13,776	8,259	1,820	23,855	14,409	8,581	1,906	24,896
Total	**$ 18,617**	**$ 11,162**	**$ 2,460**	**$ 32,239**	**$ 21,419**	**$ 12,755**	**$ 2,832**	**$ 37,006**

Restricted and Unrestricted Funds

Restricted funds, cash and cash equivalents, and investments consisted of the following as of December 31, 2009 and 2008:

	Electric Division		Gas Division		Water Division	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Restricted funds:						
Cash and cash equivalents	**$ 47,319**	$ 48,456	**$ 18,932**	$ 28,008	**$ 19,706**	$ 23,313
Investments	**6,351**	7,693	**2,366**	7,631	**2,952**	3,216
Total restricted funds	**$ 53,670**	$ 56,149	**$ 21,298**	$ 35,639	**$ 22,658**	$ 26,529
Unrestricted funds:						
Cash and cash equivalents	**$ 108,592**	$ 119,657	**$ 81,576**	$ 26,295	**$ 8,831**	$ 10,113
Investments	**45,505**	57,026	**33,026**	11,090	**3,714**	4,827
Total unrestricted funds	**$ 154,097**	$ 176,683	**$ 114,602**	$ 37,385	**$ 12,545**	$ 14,940

(Dollars in Thousands)

3. Long-Term Receivables

The Electric Division has an unsecured note receivable from a government agency, which totaled $1,106 and $2,663 as of December 31, 2009 and 2008, respectively. Interest is earned at a fixed rate of 7.723% per annum. The note provides for monthly payments of principal and interest and has a maturity date of August 1, 2010. The note receivable secures an Electric Division note payable (see Note 8).

The government agency note receivable is included in other current assets in the accompanying 2009 Electric Division balance sheet.

In 2002, MLGW and the Valero Refining Group ("Valero") (formerly Premcor Refining Group, Inc. and Williams Refining and Marketing, LLC) entered into an agreement whereby MLGW would provide for the construction of two pipelines and lease them to Valero for the purpose of transporting crude oil and refinery products. The lease provides for monthly payments of principal and interest and has an initial term of 15 years, which expires on October 1, 2016.

Scheduled lease payments receivable are as follows for the years ending December 31:

2010	$ 1,712
2011	1,712
2012	1,712
2013	1,712
2014	1,712
Thereafter	2,852
	$ 11,412

The Valero lease receivable is included in notes receivable in the accompanying 2009 Gas Division's balance sheet, except for the current portion of $1,712, which is included in other current assets.

(Dollars in Thousands)

4. Utility Plant

Utility plant activity for the years ended December 31, 2009 and 2008 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2009				
Electric Division				
Capital assets not being depreciated:				
Land	$ 28,887	$ 667	$ -	$ 29,554
Land – Non-utility	15,345	-	-	15,345
Construction in progress	59,775	59,556	(52,520)	66,811
Total capital assets not being depreciated	104,007	60,223	(52,520)	111,710
Capital assets being depreciated:				
Structures and improvements	54,801	490	(33)	55,258
Transmission and distribution plant equipment	1,102,250	47,005	(10,760)	1,138,495
General plant equipment	144,527	4,358	(3,455)	145,430
Total capital assets being depreciated	1,301,578	51,853	(14,248)	1,339,183
Less accumulated depreciation	(524,624)	(47,735)	20,197	(552,162)
Total capital assets being depreciated, net	776,954	4,118	5,949	787,021
Total capital assets, net	$ 880,961	$ 64,341	$ (46,571)	$ 898,731
Gas Division				
Capital assets not being depreciated:				
Land	$ 7,302	$ 200	$ -	$ 7,502
Land – Non-utility	66	-	-	66
Construction in progress	10,920	16,512	(18,272)	9,160
Plant held for future use	212	-	-	212
Total capital assets not being depreciated	18,500	16,712	(18,272)	16,940
Capital assets being depreciated:				
Structures and improvements	54,016	1,810	(895)	54,931
Processing and distribution plant equipment	399,563	13,294	(8,914)	403,943
General plant equipment	63,080	2,968	(2,189)	63,859
Non-utility plant equipment	200	-	-	200
Total capital assets being depreciated	516,859	18,072	(11,998)	522,933
Less accumulated depreciation	(240,716)	(15,959)	12,298	(244,377)
Total capital assets being depreciated, net	276,143	2,113	300	278,556
Total capital assets, net	$ 294,643	$ 18,825	$ (17,972)	$ 295,496

(Dollars in Thousands)

4. Utility Plant (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2009				
Water Division				
Capital assets not being depreciated:				
Land	**$ 3,269**	**$ 35**	**$ -**	**$ 3,304**
Construction in progress	**15,870**	**13,732**	**(14,705)**	**14,897**
Total capital assets not being depreciated	**19,139**	**13,767**	**(14,705)**	**18,201**
Capital assets being depreciated:				
Structures and improvements	**47,272**	**592**	**(45)**	**47,819**
Pumping, transmission and distribution plant equipment	**298,623**	**11,051**	**(972)**	**308,702**
General plant equipment	**66,065**	**3,027**	**(1,677)**	**67,415**
Total capital assets being depreciated	**411,960**	**14,670**	**(2,694)**	**423,936**
Less accumulated depreciation	**(169,668)**	**(12,789)**	**3,213**	**(179,244)**
Less acquisition adjustment	**(10,116)**	**964**	**-**	**(9,152)**
Total capital assets being depreciated, net	**232,176**	**2,845**	**519**	**235,540**
Total capital assets, net	**$ 251,315**	**$ 16,612**	**$ (14,186)**	**$ 253,741**

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2008				
Electric Division				
Capital assets not being depreciated:				
Land	$ 28,755	$ 132	$ -	$ 28,887
Land – Non-utility	15,345	-	-	15,345
Construction in progress	55,857	66,923	(63,005)	59,775
Total capital assets not being depreciated	99,957	67,055	(63,005)	104,007
Capital assets being depreciated:				
Structures and improvements	53,748	1,076	(23)	54,801
Transmission and distribution plant equipment	1,057,561	54,005	(9,316)	1,102,250
General plant equipment	137,206	7,798	(477)	144,527
Total capital assets being depreciated	1,248,515	62,879	(9,816)	1,301,578
Less accumulated depreciation	(493,792)	(47,374)	16,542	(524,624)
Total capital assets being depreciated, net	754,723	15,505	6,726	776,954
Total capital assets, net	$ 854,680	$ 82,560	$ (56,279)	$ 880,961

(Dollars in Thousands)

4. Utility Plant (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2008				
Gas Division				
Capital assets not being depreciated:				
Land	$ 7,302	$ -	$ -	$ 7,302
Land – Non-utility	66	-	-	66
Construction in progress	10,667	14,436	(14,183)	10,920
Plant held for future use	212	-	-	212
Total capital assets not being depreciated	18,247	14,436	(14,183)	18,500
Capital assets being depreciated:				
Structures and improvements	52,696	1,320	-	54,016
Processing and distribution plant equipment	390,642	9,370	(449)	399,563
General plant equipment	59,978	3,494	(392)	63,080
Non-utility plant equipment	200	-	-	200
Total capital assets being depreciated	503,516	14,184	(841)	516,858
Less accumulated depreciation	(226,339)	(15,318)	941	(240,716)
Total capital assets being depreciated, net	277,177	(1,134)	100	276,143
Total capital assets, net	$ 295,424	$ 13,302	$ (14,083)	$ 294,643

	Beginning Balance	Increases	Decreases	Ending Balance
Water Division				
Capital assets not being depreciated:				
Land	$ 3,247	$ 22	$ -	$ 3,269
Construction in progress	13,279	11,919	(9,328)	15,870
Total capital assets not being depreciated	16,526	11,941	(9,328)	19,139
Capital assets being depreciated:				
Structures and improvements	46,895	383	(6)	47,272
Pumping, transmission and distribution plant equipment	293,618	6,006	(1,001)	298,623
General plant equipment	63,929	2,917	(781)	66,065
Total capital assets being depreciated	404,442	9,306	(1,788)	411,960
Less accumulated depreciation	(159,707)	(12,240)	2,279	(169,668)
Less acquisition adjustment	(11,080)	964	-	(10,116)
Total capital assets being depreciated, net	233,655	(1,970)	491	232,176
Total capital assets, net	$ 250,181	$ 9,971	$ (8,837)	$ 251,315

(Dollars in Thousands)

4. Utility Plant (continued)

Total net capital asset changes include additions to construction in progress, transfers to or from other accounts, depreciation and amortization and the effects of sales, retirements, and contribution in aid of construction.

MLGW's planned construction program expenditures for 2010 are estimated as follows (unaudited):

Electric Division	$ 80,792
Gas Division	21,954
Water Division	15,753

In June 1999, the Water Division purchased the Shelby County Water Distribution System and related assets from Shelby County, Tennessee. The difference between the purchase price and the net book value of the assets acquired (the "acquisition adjustment") is being amortized over twenty years by the Water Division. Under the purchase agreement, MLGW agreed to decrease the water rates for the acquired customers by 3% per year through the year 2003 and committed to expenditures of at least $15 million over twenty years beginning in 1999 to upgrade and expand the acquired water system.

5. Employee Retirement System

Plan Description

Memphis Light, Gas and Water Retirement and Pension System (the "MLGW Pension Plan") is a single-employer defined benefit pension plan administered by the MLGW Pension Board. The MLGW Pension Plan was established to provide retirement benefits for its plan members and beneficiaries, who meet the eligibility requirements. MLGW issues a separate audited financial report for the MLGW Pension Plan that includes financial statements and required supplementary information. That report may be obtained by writing to: Manager, Risk Management, P. O. Box 430, Memphis, TN 38101.

The MLGW Pension Plan provides retirement, disability and death benefits to participants and their beneficiaries. The MLGW Pension Plan also provides for a cost of living adjustment beginning at age 56 for retired members and surviving spouses, and at any age for disabled members on a graded scale up to 5% per annum based on the National Consumer Price Index. The MLGW Pension Board has the authority to establish and amend benefit provisions of the pension plan.

(Dollars in Thousands)

5. Employee Retirement System (continued)

Plan Description (continued)

The MLGW Pension Plan covers permanent full time employees and appointed officials of MLGW. Membership consisted of the following as of December 31, 2009 and 2008:

	2009	2008
Retirees and beneficiaries receiving benefits	**2,482**	2,472
Terminated plan members entitled to but not yet receiving benefits	**12**	16
Active members	**2,655**	2,605
Total	**5,149**	5,093

Funding Policy

The contribution requirements of pension plan members and MLGW are established and may be amended and approved by the MLGW Board of Commissioners and the Memphis City Council. Pension plan members are required to contribute 8% of their annual covered salary. Under Article III, Section 3.2 of the pension plan, MLGW shall contribute to the pension fund such amounts as from time to time are estimated by the actuary. MLGW also funds the 8% pension plan member's contribution on behalf of the president and vice presidents. For fiscal year 2009, MLGW contributed 13.9% of the annual covered payroll.

(Dollars in Thousands)

5. Employee Retirement System (continued)

Annual Pension Cost and Net Pension Obligation

MLGW's annual pension cost ("APC") and net pension asset for the MLGW Pension Plan consisted of the following for fiscal year 2009 and 2008:

	2009	2008
Annual required contribution ("ARC")	$ **22,401**	$ 10,541
Interest on net pension obligation (asset)	**(1,368)**	(855)
Adjustment to annual required contribution	**1,951**	1,227
Annual pension cost	**22,984**	10,913
Contributions made	**(21,388)**	(18,466)
Change in net pension obligation (asset)	**1,596**	(7,553)
Net pension obligation (asset) at beginning of fiscal year	**(18,237)**	(10,684)
Net pension obligation (asset) at end of fiscal year	$ **(16,641)**	$ (18,237)

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation (Asset)
December 31, 2009	$ 22,984	93.1%	$ (16,641)
December 31, 2008	10,913	169.2%	(18,237)
December 31, 2007	17,596	97.9%	(10,684)

Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the MLGW Pension Plan was 92.1% funded. The actuarial accrued liability ("AAL") for benefits was $1,292,791, and the actuarial value of assets was $1,191,027, resulting in an unfunded actuarial accrued liability ("UAAL") of $101,764. The covered payroll (annual payroll of active employees covered by the pension plan) was $154,057, and the ratio of the UAAL to the covered payroll was 66.1%.

(Dollars in Thousands)

5. Employee Retirement System (continued)

Funded Status and Funding Progress (continued)

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information indicating whether the actuarial value of pension plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the January 1, 2010 actuarial valuation using the aggregate actuarial cost method. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. The information about funded status and funding progress has been prepared using the entry age normal actuarial cost method for that purpose and the information presented is intended to serve as a surrogate for the funded status and funding progress of the pension plan. Actuarial methods and significant assumptions were as follows:

Valuation Date	January 1, 2010
Actuarial Cost Method	Aggregate Cost Method
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five-year period, further adjusted, if necessary, to be within 30% of the market value.
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Inflation Rate	3.25%
Projected Salary Increases	Inflation plus merit increases that vary by age and service, ranging from 0.00% to 4.35%
Cost of Living Adjustments	0.98% for ages 56 - 58 1.95% for ages 59 - 61 2.44% for ages 62 and older, and all disabled participants

6. Deferred Compensation Plan

MLGW offers its employees a deferred compensation plan under Internal Revenue Code Section 457. The plan, available to all MLGW employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The plan provides that assets or income of the plan shall be used for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of administration of the plan. Since the assets of the amended plan are held in custodial and annuity accounts for the exclusive benefit of plan participants, the related assets of the plan are not reflected in MLGW's balance sheets.

7. Other Postemployment Benefits

The Memphis Light, Gas and Water Division OPEB Trust ("OPEB Trust") was established for the exclusive benefit of MLGW's retired employees and their dependents (who meet the eligibility requirements) to fund the postemployment benefits provided through the health and welfare benefit plan. Amounts contributed to the OPEB Trust by MLGW are held in trust and are irrevocable and are for the sole and exclusive purpose of funding for health and welfare benefits of the eligible participants, and the cost of operating and administering this Trust. The OPEB Trust is administered by the MLGW OPEB Committee.

Plan Description

Memphis Light, Gas and Water Division, by resolution of its Board of Commissioners, has established, adopted, and maintains a medical benefits (health and welfare) plan (the "Plan") for its retired employees and their eligible dependents. The Plan is a single-employer defined benefit healthcare plan administered by MLGW. MLGW issues a separate audited financial report for the OPEB Trust that includes financial statements and required supplementary information. That report may be obtained by writing to: Manager, General Accounting, P.O. Box 430, Memphis, Tennessee 38101-0430.

The Plan provides postemployment health care, life insurance, accident/death and dismemberment (AD&D), medical and prescription drugs to eligible retirees and their dependents. Benefits are payable to retirees and their spouses for their lifetime. Qualified dependents will continue to receive benefits as long as they are qualified under the Plan. Dental, dependent life insurance, cancer, accident, and long-term care benefits are available, but are 100% paid by the retiree.

Employees retired under the MLGW Pension Plan, or disabled with five years of service at any age, or disabled in the line of duty at any age with no years of service restriction are eligible for OPEB benefits. Health care benefits are also offered to qualifying survivors of active employees who are eligible to retire at the time of death. Currently, 2,482 retirees and beneficiaries are eligible for postemployment benefits.

(Dollars in Thousands)

7. Other Postemployment Benefits (continued)

Funding Policy

The contribution requirements of plan members and MLGW are established and may be amended by the MLGW Board of Commissioners. Retiree and spouse contribution rates are periodically reset and are currently at 25% of costs for medical and drug benefits. For life insurance and AD&D, retirees contribute 40% of the cost.

The Board of Commissioners has set the employer contribution rate based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. For fiscal year 2009, employer contributions were $55,688 to the Plan. Plan members receiving benefits contributed $4,213 through their required contribution of $32.19 to $363.24 (dollars) per month depending on the coverage (employee only, employee and spouse, or family) and the health plan selected.

Annual OPEB Cost and Net OPEB Obligation

An actuarial valuation of MLGW's postemployment welfare benefit program was performed for the Plan as of December 31, 2007. During 2009, an experience review led to the adoption of certain revised actuarial assumptions for retirement plan purposes. The actuarial valuation of MLGW's postemployment welfare benefit program as of December 31, 2007 was updated based on the revised actuarial assumptions. MLGW's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC). The following table presents the OPEB cost for the year, the amount contributed to the plan, and changes in the net OPEB obligation as of December 31, 2009 and 2008:

	2009	2008
Annual required contribution	**$ 55,340**	$ 57,991
Interest on net OPEB obligation	**-**	-
Adjustment to annual required contribution	**-**	-
Annual OPEB cost (expense)	**55,340**	57,991
Contributions made	**(55,688)**	(66,881)
Change in net OPEB asset/obligation	**(348)**	(8,890)
Net OPEB obligation (asset) at beginning of fiscal year	**(2,152)**	6,738
Net OPEB asset at end of fiscal year	**$ (2,500)**	$ (2,152)

(Dollars in Thousands)

7. Other Postemployment Benefits (continued)

MLGW's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2009 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
December 31, 2009	$ 55,340	100.6%	$ (2,500)
December 31, 2008	57,991	115.3%	(2,152)
December 31, 2007	57,991	88.4%	6,738

Funded Status and Funding Progress

As of December 31, 2007, the most recent actuarial valuation date, the plan was 2.2% funded. The actuarial accrued liability (AAL) for benefits was $674,002 and the actuarial value of assets was $15,097, resulting in an unfunded actuarial accrued liability (UAAL) of $658,905. The covered payroll (annual payroll of active employees covered by the Plan) was $144,756, and the ratio of the UAAL to the covered payroll was 455.2 %.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information indicating whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(Dollars in Thousands)

7. Other Postemployment Benefits (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations. Actuarial methods and significant assumptions were as follows:

Valuation Date	December 31, 2007 (Revised for 2009)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay, 30 years
Remaining Amortization Period	29 years as of December 31, 2007
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Inflation Rate	3.25%
Projected Salary Increases	7.60% at age 24 graded to 3.25% at age 60 and older
Medical Cost Trend Rate for PPO, POS and HMO (starting at 1/1/2008)	8.5% graded to 5.00% over 7 years
Drug Cost Trend Rate	8.0% graded to 5.00% over 6 years

(Dollars in Thousands)

8. Debt

Long-term debt as of December 31, 2009 and 2008 consists of the following:

	Interest Rates	2009	2008
Electric Division:			
Electric System Revenue Bonds:			
Series 2002, due serially 2008-2010	4.00-5.00%	**$ 5,855**	$ 11,490
Series 2003A, due serially 2008-2018	3.00-5.00%	**849,380**	931,590
Series 2008, due 2017-2018	4.00-5.00%	**96,930**	96,930
Premium on revenue bonds		**49,930**	60,800
Unamortized deferred cost on bond refunding		**(56)**	(154)
Total		**1,002,039**	1,100,656
Note payable with bank, due serially through 2010	7.58%	**1,499**	3,020
		1,003,538	1,103,676
Less: current portion of bonds and notes payable		**(93,848)**	(89,366)
		$ 909,690	$ 1,014,310
Water Division:			
Revenue Refunding Bonds:			
Series 1998, due serially 2008-2012	4.05-5.25%	**$ 3,165**	$ 6,035
Series 2001, due serially 2008-2009	4.25%	**-**	1,830
Premium on revenue bonds		**7**	5
Unamortized deferred cost on bond refunding		**(45)**	(89)
		3,127	7,781
Less: current portion of bonds and notes payable		**-**	(3,235)
		$ 3,127	$ 4,546

Principal payments on bonds are due annually on January 1 or December 1. Debt service requirements, including notes payable, as of December 31, 2009, are as follows:

	Electric Division		Water Division	
	Principal	Interest	Principal	Interest
2010	$ 93,848	$ 47,024	$ -	$ 83
2011	90,420	42,412	1,540	126
2012	95,190	37,978	1,625	43
2013	99,700	33,240	-	-
2014	104,675	28,381	-	-
2015-2018	469,831	58,742	-	-
Total	$ 953,664	$ 247,777	$ 3,165	$ 252

MLGW, at its option, may redeem bonds prior to maturity at premiums and prices specified in the indentures. The Series 2003A and Series 2008 bonds are subject to mandatory redemption upon early termination of the Supplement to the Power Contract ("Supplement") with TVA as discussed in Note 10.

Bonds are secured by the pledge of the respective division's revenues, by funds established by the bond resolutions and, in certain circumstances, proceeds from the sale of certain division assets.

8. Debt (continued)

During 2008, the Electric Division issued $96,930 in revenue bonds to refund $100,000 of Series 2003B revenue bonds. The refunding was undertaken to convert the 2003B auction rate securities into fixed rate securities of the same maturity. The Series 2008 revenue bonds bear interest at annual fixed rates ranging from 4.00% to 5.00%.

During 2003, the Electric Division issued $1,292,170 of Series 2003A and $100,000 of Series 2003B revenue bonds to prepay future power purchases from TVA under the Supplement. See Note 10. The outstanding Series 2003A revenue bonds bear interest at annual fixed rates ranging from 3.00% to 5.00%. The Series 2003B revenue bonds were auction rate securities, and bore interest for 35-day auction periods. The Series 2003B revenue bonds were refunded in 2008, as discussed above.

During 2002, the Electric Division issued $41,625 in revenue bonds to refund $41,905 of Series 1993 revenue bonds. An additional $4,270 of the 1993 revenue bonds was not refunded, but was repaid on January 1, 2003. The refunding was undertaken to reduce total future debt service payments. The reacquisition price exceeded the net carrying value of the old debt by $462. This amount is netted against the carrying value of the new debt and is being amortized over the life of the new debt, which was shorter than the life of the refunded debt.

The Electric Division bond covenants require that for Series 2002 Bonds, the ratio of net revenues available for debt service to the maximum amount of principal and interest for any fiscal year ("electric coverage") must not be less than 1.20. For Series 2003A and 2008 Bonds, the ratio of net revenues to the maximum amount of principal and interest for any fiscal year must not be less than 1.00. The composite electric coverage as of December 31, 2009, was 1.70.

The Water Division bond covenant requires that the ratio of net revenues available for debt service to the maximum amount of principal and interest for any fiscal year ("water coverage") must not be less than 1.20. Water coverage as of December 31, 2009, was 8.36.

MLGW buys and stores natural gas during the off-season (summer) to use in the upcoming winter months. In July 2009, the Gas Division issued a revenue anticipation note in the amount of $15,000 with a yield rate of 1.25% to provide funds for the purchase of gas and related storage. The note is due March 31, 2010. In September 2008, the Gas Division issued a revenue anticipation note in the amount of $35,000 with a yield rate of 3.30% to provide funds for the purchase of gas and related costs for storage. The note was repaid in full in April 2009. In July 2007, the Gas Division issued a revenue anticipation note in the amount of $40,000 with a yield rate of 3.95% to provide funds for the purchase of gas and related costs for storage. The note was repaid in full in July 2008.

(Dollars in Thousands)

8. Debt (continued)

Long-term debt activity for the years ended December 31, 2009 and 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2009:				
Electric Division				
Bonds and notes payable:				
Revenue bonds	**$ 1,040,010**	**$ –**	**$ (87,845)**	**$ 952,165**
Premium on revenue bonds	**60,800**	**–**	**(10,870)**	**49,930**
Notes payable	**3,020**	**–**	**(1,521)**	**1,499**
Less deferred amounts:				
For issuance discounts and on refunding	**(154)**	**–**	**98**	**(56)**
Total bonds and notes payable	**$ 1,103,676**	**$ –**	**$ (100,138)**	**$ 1,003,538**
Water Division				
Bonds payable:				
Revenue bonds	**$ 7,865**	**$ –**	**$ (4,700)**	**$ 3,165**
Premium on revenue bonds	**5**	**2**	**–**	**7**
Less deferred amounts:				
For issuance discounts and on refunding	**(89)**	**–**	**44**	**(45)**
Total bonds payable	**$ 7,781**	**$ 2**	**$ (4,656)**	**$ 3,127**
Year ended December 31, 2008:				
Electric Division				
Bonds and notes payable:				
Revenue bonds	$ 1,126,930	$ 96,930	$ (183,850)	$ 1,040,010
Premium on revenue bonds	68,075	4,260	(11,535)	60,800
Note payable	4,430	–	(1,410)	3,020
Less deferred amounts:				
For issuance discounts and on refunding	(294)	–	140	(154)
Total bonds and notes payable	$ 1,199,141	$ 101,190	$ (196,655)	$ 1,103,676
Water Division				
Bonds payable:				
Revenue bonds	$ 10,965	$ –	$ (3,100)	$ 7,865
Premium on revenue bonds	27	–	(22)	5
Less deferred amounts:				
For issuance discounts and on refunding	(151)	–	62	(89)
Total bonds payable	$ 10,841	$ –	$ (3,060)	$ 7,781

(Dollars in Thousands)

9. Insurance Reserves for Medical Benefits and Injuries and Damages

MLGW is self-insured for health and medical benefits and for injuries and damages including workers compensation and general liability claims. MLGW has established insurance reserves for the estimated liabilities, including an accrual for incurred but not reported claims, resulting from medical benefits and injuries and damages claims as established by a third party administrator and MLGW's Legal Department. Effective for fiscal year 2008, MLGW adopted GASB Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy (RDS) Provisions of Medicare Part D.* This technical Bulletin clarifies that such payments to the plan be considered as payments to the employer. Payments received are generally transferred from the reserve accounts to the employer's account the following month. The medical benefits reserve and the costs and charges to the reserve are allocated to each division based on a standard administrative and general cost allocation.

The changes in the self-insurance reserves for medical benefits (excluding RDS payments) and injuries and damages for the years ended December 31, 2009 and 2008 are as follows:

	Medical Benefits			Injuries and Damages		
	Electric Division	Gas Division	Water Division	Electric Division	Gas Division	Water Division
Balance – December 31, 2007	$ 5,575	$ 2,655	$ 1,557	$ 7,250	$ 1,614	$ 1,341
Payments	(22,465)	(10,019)	(6,653)	(1,894)	(725)	(553)
Incurred claims expense	23,484	10,474	6,955	1,613	1,135	1,220
Balance – December 31, 2008	6,594	3,110	1,859	6,969	2,024	2,008
Payments	**(25,487)**	**(11,368)**	**(7,549)**	**(2,045)**	**(944)**	**(972)**
Incurred claims expense	**23,393**	**10,433**	**6,928**	**1,239**	**1,234**	**814**
Balance – December 31, 2009	**$ 4,500**	**$ 2,175**	**$ 1,238**	**$ 6,163**	**$ 2,314**	**$ 1,850**

10. Energy Supplies

TVA currently supplies all of MLGW's electric power requirements pursuant to a power contract. On November 19, 2003, MLGW entered into a Supplement to the Power Contract with TVA under which MLGW made a prepayment of $1,500,000 to TVA for capacity and related energy. In exchange for the prepayment and a commitment by MLGW to purchase a minimum amount of electric power from TVA over the term of the Supplement (15 years), TVA will supply a specified amount of electricity and provide a fixed credit to its wholesale power rates otherwise in effect. To finance the prepayment, MLGW issued the Series 2003A and Series 2003B Bonds. Subsequently, MLGW has refinanced portions of the bonds originally issued for the prepayment. In 2008, the Series 2003B bonds were refunded by the Series 2008 bonds. In 2009, MLGW began the process of refunding the callable portion of the 2003A Series bonds. See also Note 1 (Prepaid Power Cost), Note 8 (Debt), and Note 17 (Subsequent Event).

10. Energy Supplies (continued)

Under the terms of the TVA power contract, MLGW may terminate its supply arrangement with TVA upon five years' prior written notice. TVA may terminate on not less than ten years' prior written notice. However, such notice of termination cannot be given by either party before November 19, 2013, under the terms of the Supplement.

MLGW purchases natural gas from multiple suppliers on multiple pipelines in order to minimize operational and performance risk. MLGW has short-term purchase commitments which are normally for one year or less. MLGW and the Tennessee Energy Acquisition Corporation ("TEAC") entered into a 20 year gas purchase contract beginning January 1, 2007 with volume commitments for the term. In June 2006, Public Energy Authority of Kentucky, Inc. ("PEAK") and MLGW entered into a 5 year gas purchase contract with volume commitments for the term. Both TEAC and PEAK deals are paid monthly after the gas is received by MLGW for its customers, and therefore these deals present no increased cash flow risk compared to normal physical gas purchases.

11. Rates

Electric, gas and water rates are established by MLGW and rate changes are subject to approval by the Council. The Council has approved mechanisms for pass-through of wholesale electric rate changes from TVA and natural gas price changes from suppliers without requiring additional specific approval.

TVA implemented a rate adjustment effective with the October 2009 revenue month, increasing the cost of wholesale power purchased by MLGW by approximately 9.0%. MLGW implemented changes to its retail rate schedules effective with meters read on or after September 30, 2009, to recover the increased cost of wholesale power from its retail customers. The retail effects of the increase varied by customer class, with the approximate increases being 7.2% for residential, 7.7% for commercial customers and 8.6% for industrial customers.

TVA implemented a rate adjustment effective with the April 2008 revenue month, increasing the cost of wholesale power purchased by MLGW by approximately 7.0%. MLGW implemented changes to its retail rate schedules effective with meters read on or after March 28, 2008, to recover the increased cost of wholesale power from its retail customers. The retail effects of the rate adjustment varied by customer class, with the approximate increases being 5.5% for residential customers, 5.9% for commercial customers and 6.5% for industrial customers.

TVA implemented a second adjustment within 2008 that became effective with the October 2008 revenue month, increasing the cost of wholesale power purchased by MLGW by approximately 3.5%. MLGW implemented changes to its retail rate schedules effective with meters read on or after September 25, 2008, to recover the increased cost of wholesale power from its retail customers. The retail effects of the increase varied by customer class, with the approximate increases being 2.7% for residential, 2.9% for commercial customers and 3.2% for industrial customers.

11. Rates (continued)

Effective with meters read on or after December 26, 2007, MLGW implemented an electric temporary weather credit (one-year rate decrease) for residential customers and for commercial and industrial customers with contracts less than 5,001 kilowatts of demand.

The retail effects of the decrease varied by customer class, with the approximate decreases being 4.4% for residential and 2.8% for commercial and industrial customers. MLGW eliminated this credit effective with meters read on or after December 31, 2008.

MLGW retail electric rates are adjusted for TVA's Fuel Cost Adjustor ("FCA"). The FCA is a variable wholesale energy rate that can fluctuate each month with TVA's cost of fuel for electricity generation and purchased power costs. The FCA affects energy (per kilowatt-hour) charges for all retail customers who are not on interruptible rate schedules. The FCA was a quarterly adjustment until the October 2009 revenue month, when TVA changed to a monthly adjustment.

MLGW retail natural gas rates are adjusted monthly for the Purchased Gas Adjustment ("PGA") rider. MLGW gas rate schedules have a projected price of natural gas and related gas storage and transportation. In addition, a PGA is applied to customer bills to reflect the difference between the actual cost of gas, storage and transportation in a given month and the projected levels built into the base rate schedules.

In 2007, the Council approved a water rate increase effective with meters read on or after June 26, 2008. The approximate retail rate impact is 15%.

12. Commitments and Contingencies

The Electric and Gas Divisions have derivative contracts and agreements from which risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in prices. The exposure to credit loss in the event of nonperformance by the other party is represented by the fair values of the open derivative contracts. However, there is no counterparty financial risk for contracts transacted through NYMEX or the International Petroleum Exchange.

MLGW pays a transfer to the City and in lieu of taxes to the incorporated towns of Shelby County for the Electric and Gas Divisions based on the Tennessee Municipal Electric and Gas System Tax Equivalent Laws of 1987. MLGW pays a Transfer to the City for the Water Division based upon an agreement with the City which calls for a payment of $2,500 for each of the fiscal years through 2028.

MLGW is party to various legal proceedings incidental to its business. In the opinion of management, MLGW's liability, if any, in all pending litigation or other proceedings, taken as a whole after consideration of amounts accrued, insurance coverage, or other indemnification arrangements, will not have a material adverse effect on its financial position or results of operations.

See Note 10 for discussions of MLGW's power contract with TVA and gas purchase commitments.

13. Self-Insurance

MLGW is self-insured. The Tennessee Governmental Tort Liability Act applies to all tort actions against MLGW arising in the State of Tennessee and establishes limits of liability.

The current limits of liability for actions arising on or after July 1, 2007, for personal injuries are $300 per person and $700 for two or more persons per accident. Property damages are limited to $100 per accident.

14. Transfers to City

The Electric, Gas and Water Divisions make transfers to the City.

The Electric Division transfer is based on the formula provided by the State of Tennessee Municipal Electric System Tax Equivalent Law of 1987. The formula includes a property tax equivalency calculation plus 4 % of operating revenue less power costs (three year average).

The Gas Division transfer is based on the formula provided by the Municipal Gas System Tax Equivalent Law of 1987. The formula includes a property tax equivalency calculation plus 4% of operating revenue less gas costs (three year average).

The Water Division, through an agreement with the City, transfers a payment in the amount of $2,500 per year. The agreement is effective through the year 2028.

15. Federal Grant Contributions

In 2009, the City of Memphis, in conjunction with MLGW, applied for a grant under the American Recovery and Reinvestment Act ("ARRA") for the Department of Energy's Energy Efficiency and Conservation Block Program. The grant was awarded in September 2009. The total grant was for $6,767, with $5,000 allocated to MLGW for direct investment in energy efficiency improvements to customer homes and businesses. As of December 31, 2009, program planning was underway, but no funds had been expended.

During June 2009, straight-line winds and two tornadoes caused damage to Substation 67 and MLGW's electric distribution system. For the year ended December 31, 2009, the total expenditures for the Electric Division as a result of the storms were $8,505, which includes a $4,973 addition to utility plant for capital asset replacement and $3,532 in operating and maintenance expenses. Insurance proceeds in the amount of $100 for these expenditures are accounted for as contributions in aid of construction. The Electric Division has been preliminarily approved to receive reimbursement from the Federal Emergency Management Agency ("FEMA") (Contract 34101-0000001983) totaling $5,932 (or 75% of eligible expenses). Of this $5,932, $3,331 was accounted for as contributions in aid of construction and $2,601 as other income. As of December 31, 2009, a receivable of $5,932 is included in accounts receivable in the accompanying balance sheets. In March 2010, the Electric Division received a partial payment of $4,453, leaving a remaining balance of $1,479.

15. Federal Grant Contributions (continued)

During February 2008, severe storms and tornadoes caused damage to transmission towers, one substation and portions of MLGW's electric distribution system. Also, as a result of the storms, additional expenses were incurred for the operation of the Water pumping stations during the period of the electrical power outage. As of December 31, 2009, the total expenditures for all Divisions related to the storm were $3,917. Of these costs, $3,860 was incurred by the Electric Division, including a $2,253 addition to plant for capital asset replacement and $1,607 for operating and maintenance expenses. MLGW received insurance proceeds in the amount of $288 for these expenditures which was recorded as contributions in aid of construction in the Electric Division. MLGW submitted cost estimates and was initially approved to receive reimbursement from FEMA totaling $2,427 (or 75% of eligible expenses). In November 2008, MLGW received reimbursement from FEMA for $2,318. Upon final FEMA review, a reduction of $38 was made to the FEMA reimbursement estimate (Contract Z-08-212844-01) resulting in a revised grant amount of $2,389, leaving a balance of $71 as of December 31, 2009. Of the revised $2,389, $1,383 was accounted for as contributions in aid of construction in the Electric Division and $1,006 as Electric other income. As of December 31, 2009 and 2008, receivables of $71 and $109, respectively, were included in accounts receivable in the accompanying balance sheets. Final payment was received in March 2010. In addition, the Water Division incurred total operating and maintenance expenditures of $42 due to the loss of power to the pumping stations during the storms. MLGW was approved to receive reimbursement from FEMA (Contract Z-08-212844-00) totaling $25 (or 75% of eligible expenses). In August 2008, a payment of $19 was received leaving a balance of $6 as of December 31, 2008 and 2009. Final payment was received in March 2010.

In September 2009, MLGW determined that the Sheahan Water Plant Seismic Retrofit Project (Contract GR-07-20788-00), approved under the Pre-Disaster Mitigation Competitive Program in 2006, was no longer cost effective and should be discontinued. MLGW informed the Tennessee Emergency Management Agency ("TEMA") of its decision and requested final payment along with formal close out notification. As of December 31, 2009, the total eligible project expenditures incurred to date are $297, of which $223 (or 75%) qualifies for federal reimbursement. Federal share payments received to date total $110, leaving the remaining receivable balance of $113 at December 31, 2009. The final payment was received in March 2010.

In October 2008, FEMA announced approval of the High Voltage Transformer Seismic Retrofit Project (Contract Edison #E-18001) under the Pre-Disaster Mitigation Competitive Program. The award was approximately $2,700, of which $2,025 is being federally funded. Fiscal year 2009 expenditures totaled $548, with $411 (or 75%) eligible for federal reimbursement. Fiscal year 2008 expenditures totaled $19, with $14 (or 75%) eligible for federal reimbursement. As of December 31, 2009 and 2008, receivables of $425 and $14 are included in accounts receivable in the accompanying balance sheets.

16. Pollution Remediation Obligation

Effective for the 2008 fiscal year, MLGW adopted GASB Statement No. 49, *Pollution Remediation Obligations,* which addresses accounting and financial standards for pollution remediation liabilities. GASB Statement No. 49 requires measurement of the liabilities at the beginning of the reported period so beginning net assets can be restated. As a result, beginning net assets for 2007 were reduced for the Electric, Gas and Water Division liabilities by $25,511, $4,215 and $6,522, respectively.

The liabilities remaining after expenditures as of December 2008 for the Electric, Gas and Water Divisions were $24,609, $3,923 and $5,155, respectively. The $24,609 liability for electric is prior to the prior period restatement detailed below.

MLGW has a contract with a state licensed environmental remediation company. The liabilities to remove asbestos, mold and lead from various substations and equipment because of imminent danger were derived from the environmental remediation contractor's estimate. The liability assumes no unexpected change orders.

MLGW is under a Consent Agreement and Final Order from the United States Environmental Protection Agency ("EPA") to perform a Supplemental Environmental Project ("SEP") over three years beginning with 2009. The SEP consists of a voluntary accelerated polychlorinated biphenyls ("PCBs") removal program that will significantly reduce the number of PCB transformers, PCB-contaminated transformers, PCB capacitors, and associated PCB oils in its possession that are in use, stored for reuse, or stored for disposal. This project was undertaken in connection with the settlement of an enforcement action taken by the U.S. Environmental Protection Agency for violations of Section 6(e) of TSCA, 15 U.S.C. § 2605. A liability of $10,094 for the cost of performing this work was derived from the Consent and Final Order from EPA. An additional $2,135 liability for the cost of clean-up was derived from previous experience in PCB remediation associated with transformers. The estimated liability assumes no expected change orders.

During 2009, it was determined that a decrease in cost of the original estimate of the PCB change-out program was necessary due to a calculation error. A prior period restatement was made to correct this error, which increased Electric Division's beginning net assets for 2008 by $4,451. See Note 1, Electric Division Prior Period Restatement.

In July 2009, MLGW was notified by the Tennessee Department of Environmental and Conservation, Division of Water Pollution Control ("TDEC") of a violation of the Water Quality Control Act (TCA 69-3-114 (a)). In response to this violation, MLGW presented a remediation action plan to the TDEC agency and after its approval; MLGW obtained an estimate from a licensed contractor to perform the necessary activities. MLGW recognized liabilities for storm water in the Electric, Gas and Water Divisions in the amounts of $998, $363 and $327, respectively.

16. Pollution Remediation Obligation (continued)

As provided by GASB Statement No. 49, MLGW annually reevaluates its liability to measure the scope of current conditions, evaluate remediation plan changes and adhere to changes in legal or regulatory requirements. Through this re-measurement process, the estimated liabilities were determined to be $16,404, $2,059, and $5,967 for the Electric, Gas and Water Divisions, respectively (see schedule below). As a result of these changes to the original estimate, the creation of regulatory accounts was used to capture the net effect of the changes in estimates for each division. The changes for Electric, Gas and Water were $1,535, ($1,195), and $1,667, respectively. See Note 1, Regulatory Accounting.

(Dollars in Thousands)

16. Pollution Remediation Obligation (continued)

The schedule below shows the balance for each pollution liability by Division for each period presented.

		12/31/2009	12/31/2008
Electric			
	PCB	**$ 4,613**	$ 7,643
	Asbestos	**1,127**	1,149
	Lead	**9,666**	11,366
	Storm Water	**998**	-
Total Electric		**16,404**	20,158
Gas			
	Mold	-	145
	Asbestos	**246**	29
	Lead	**1,450**	3,749
	Storm Water	**363**	-
Total Gas		**2,059**	3,923
Water			
	Mold	**80**	339
	Asbestos	**1,250**	1,250
	Lead	**4,310**	3,566
	Storm Water	**327**	-
Total Water		**5,967**	5,155
Total Liability		**$ 24,430**	$ 29,236
Total PCB		**$ 4,613**	$ 7,643
Total Mold		**80**	484
Total Asbestos		**2,623**	2,428
Total Lead		**15,426**	18,681
Total Storm Water		**1,688**	-
Total Liability		**$ 24,430**	$ 29,236

17. Subsequent Event (2010 Bonds)

On March 16, 2010, the Electric Division issued $460,050 of Series 2010 bonds to advance refund a portion of the outstanding Electric System Subordinate Revenue Bonds, Series 2003A, and to pay certain costs of issuance of the Series 2010 Bonds. The refunding was undertaken to reduce total future debt service payments. The 2010 Series Bonds have a net present value benefit of $16,541. The first principal payment is to be made December 1, 2014 and thereafter annually with a final maturity date of December 1, 2018. The Series 2010 Bonds are not subject to optional redemption, but will be subject to extraordinary redemption prior to maturity. See Note 10.

SCHEDULE OF ADDITIONS AND RETIREMENTS TO UTILITY PLANT
DECEMBER 31, 2009
(Dollars in Thousands)

	Electric Division	Gas Division	Water Division
Utility plant in service, December 31, 2008	$ 1,330,465	$ 523,961	$ 405,113
Additions- Construction	52,520	18,272	14,705
Additions – Acquisition Adjustment			964
Retirements	(14,248)	(11,998)	(2,694)
Transfers	-	-	-
Utility plant in service, December 31, 2009	**$ 1,368,737**	**$ 530,235**	**$ 418,088**

Note: Utility plant in service balances exclude amounts for construction work in process, non-utility property and land held for future use.

SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2009
(Dollars in Thousands)

		ACCRUAL YIELD	MATURITY DATE	FAIR VALUE
MONEY MARKET MUTUAL FUNDS				
	Northern Institutional Government Select Funds			$ 247,398
	Federated Treas Obligations FD 398			21,998
	Total Money Market Mutual Funds			$ 269,396
CASH	Bank Deposits			$ 14,884
ACCRUED INTEREST				$ 677
TOTAL CASH AND CASH EQUIVALENTS				$ 284,957
TREASURY NOTE		(0.356)	06/30/2010	$ 503
U. S. GOVERNMENT BONDS				
		3.875	09/15/2010	$ 1,027
		4.500	11/15/2010	517
		4.875	04/30/2011	527
		4.875	07/31/2011	1,593
		4.500	09/30/2011	795
		4.750	01/31/2012	574
		3.875	10/31/2012	53
		3.375	11/30/2012	552
		2.375	08/31/2014	4,963
		3.875	05/15/2010	51
		0.875	05/31/2011	1,201
		0.875	05/31/2011	1,001
		1.000	07/31/2011	1,502
		4.250	10/15/2010	1,030
		0.875	02/28/2011	601
		4.375	12/15/2010	777
		3.375	07/31/2013	184
		3.125	04/30/2013	781
		2.875	06/30/2010	1,520
		4.625	07/31/2012	432
		1.750	11/15/2011	2,025
		2.375	09/30/2014	2,975
	Total U.S. Government Bonds			$ 24,681

(Dollars in Thousands)

	ACCRUAL YIELD	MATURITY DATE	FAIR VALUE
U.S. GOVERNMENT AGENCIES			
	5.125	08/23/2010	$ 1,027
	4.875	11/18/2011	1,602
	5.250	06/11/2010	1,533
	5.020	05/03/2012	320
	5.000	09/14/2012	281
	3.625	09/16/2011	1,043
	3.625	07/01/2011	1,558
	4.875	11/15/2011	107
	5.250	03/19/2014	505
	5.000	03/25/2011	526
	5.250	05/25/2012	311
	2.125	03/23/2012	3,046
	6.135	02/15/2011	212
	4.125	10/18/2010	2,056
	4.750	01/18/2011	782
	5.125	07/15/2012	2,716
	5.500	08/20/2012	2,195
	1.750	06/15/2012	1,004
	5.500	03/15/2011	793
	6.410	11/13/2012	1,117
	6.125	03/15/2012	1,654
	4.750	11/19/2012	2,165
	3.875	02/15/2010	502
	3.250	08/12/2010	1,018
	2.875	10/12/2010	509
	4.750	12/15/2010	489
	4.125	05/15/2010	913
	5.125	04/15/2011	1,585
	4.125	02/17/2011	519
	1.900	10/19/2012	999
Total U.S. Government Agencies			$33,087

(Dollars in Thousands)

CORPORATE BONDS	ACCRUAL YIELD	MATURITY DATE	FAIR VALUE
Westpac Bkg Corp	2.250	11/19/2012	$ 498
PVTPL Dexia Cr Loc Societe	2.375	09/23/2011	765
Shell Intl Fin	1.300	09/22/2011	501
BP Cap Mkts	3.125	03/10/2012	670
Arden Rlty Ltd Partnership	5.200	09/01/2011	1,035
Chevron Corp	3.450	03/03/2012	728
Gen Elec Cap Corp	0.404	04/10/2012	1,174
Merck & Co Inc	1.875	06/30/2011	1,009
Met Life Global	2.875	09/17/2012	504
Private Expt Fdg Corp	3.550	04/15/2013	784
PVTPL Hancock John Global	7.900	07/02/2010	542
PVTPL Roche Hldgs Inc	4.500	03/01/2012	788
Wells Fargo & Co	4.875	01/12/2011	518
Total Corporate Bonds			$ 9,516

ASSET BACKED SECURITIES	ACCRUAL YIELD	MATURITY DATE	FAIR VALUE
BMW Veh Lease	2.910	03/15/2012	$ 1,018
CAP 1 Prime Auto	4.899	01/17/2012	436
Carmax Auto Owner	3.310	11/15/2011	927
Chase Issuance Tr	1.033	06/15/2012	401
Daimler Chrysler	4.710	09/08/2012	513
Ford Cr Auto Owner	1.210	01/15/2012	501
Ford Cr Auto Owner	2.100	11/15/2011	1,006
GE Equip Midticket	4.530	06/14/2011	477
Harley-Davidson	2.000	07/15/2012	1,007
Honda Auto Rcvbls	5.110	04/15/2012	1,183
Honda Auto	2.220	08/15/2011	1,007
Hyundai Auto	1.110	02/15/2012	501
Hyundai Auto	2.030	08/15/2013	1,007
John Deere Owner	2.590	10/15/2013	1,525
Nissan Auto Lease	1.220	09/15/2011	501
Nissan Auto	4.460	04/16/2012	1,025
USAA Auto Owner Tr	4.900	02/15/2012	357
Volkswagen Auto Ln	4.500	07/20/2012	1,025
Total Asset Backed Securities			$ 14,417

(Dollars in Thousands)

		ACCRUAL YIELD	MATURITY DATE	FAIR VALUE
GOVERNMENT MORTGAGE BACKED SECURITIES				
	Federal Home LN Mtg	4.000	06/01/2011	$ 297
	FNMA Pool	4.000	06/01/2010	504
	FNMA Series 2004-2 Class-1	4.100	11/25/2010	791
	Total Government Mortgage Backed Securities			$ 1,592
GUARANTEED FIXED INCOME				
	BK America	1.700	12/23/2010	$ 5,045
	Citibank N A FDIC	1.375	08/10/2011	1,003
	GMAC Inc FDIC	1.750	10/30/2012	993
	JP Morgan Chase & Co FDIC	2.625	12/01/2010	3,059
	Total Guaranteed Fixed Income			$ 10,100
OTHER FIXED INCOME				
	Securities Lending – Core USA Sub-Fund Asset			$ 14
	Total Other Fixed Income			$ 14
FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS				$ 2,391
FAIR VALUE OF INVESTMENTS				$ 3
TOTAL CASH AND INVESTMENTS				$ 381,261

SCHEDULE OF LONG TERM DEBT,
PRINCIPAL AND INTEREST REQUIREMENTS
DECEMBER 31, 2009
(Dollars in Thousands)

MLGW

	Series 2002		Series 2003A		Series 2008	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
Electric Division:						
2010	$ 5,855	$ 293	$ 86,494	$ 42,110	$ -	$ 4,564
2011			90,420	37,848		4,564
2012			95,190	33,414		4,564
2013			99,700	28,677		4,564
2014			104,675	23,817		4,564
2015			109,905	18,584		4,564
2016			115,270	13,110		4,564
2017			88,075	7,347	31,625	4,564
2018			59,651	2,965	65,305	3,043
Total	$ 5,855	$ 293	$ 849,380	$ 207,872	$ 96,930	$ 39,555

	Note Payable – Bank	
	Principal	**Interest**
Electric Division:		
2010	$ 1,499	$ 57
Total	$ 1,499	$ 57

	Series 1998	
	Principal	**Interest**
Water Division:		
2010	$ -	$ 83
2011	1,540	126
2012	1,625	43
Total	$ 3,165	$ 252

Electric Division Rate Class	Base Charge	Customers
Residential – Schedule RS	Effective meters read on or after September 30, 2009.	359,265
Customer charge:	$11.20 per month, less hydro allocation credit: $1.71	
Energy charge:	First 2,000 kWh per month at 8.076 cents per kWh; Additional kWh per month at 8.930 cents per kWh The above rates are subject to adjustment under the provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.	
General Service – Schedule GSA	Effective meters read on or after September 30, 2009. If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest twelve-month period is not more than 50 kW, and (b) customer's monthly energy taking for any month during such period does not exceed 15,000 kWh:	43,525
Customer charge:	$15.52 per delivery point per month	
Energy charge:	9.291 cents per kWh	
	If (a) the higher of (i) the customer's currently effective contract demand or (ii) its highest billing demand during the latest twelve-month period is greater than 50kW but not more than 1,000 kW, or (b) if the customer's billing demand is less than 50kW and its energy takings for any month during such period exceed 15,000 kWh.	
Customer charge:	$53.42 per delivery point per month	
Demand charge:	First 50kW of billing demand per month, no demand charge Excess over 50kW of billing demand per month, at $13.84 per kW	
Energy charge:	First 15,000 kWh per month at 9.875 cents per kWh Additional kWh per month at 4.729 cents per kWh	
	If the higher of the customer's currently effective contract demand or its highest billing demand during the latest twelve-month period is greater than 1.000 kW.	
Customer charge:	$191.84 per delivery point per month	

Electric Division Rate Class (cont.)	Base Charge	Customers
Demand charge:	First 1,000 kW of billing demand per month, at $13.47 per kW Excess over 1,000 kW of billing demand per month, at $15.47 per kW, plus an additional $15.47 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand	
Energy charge:	5.030 cents per kWh per month The above rates are subject to adjustment under the provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.	
<u>General Service – Schedule GSB</u>	Effective meters read on or after September 30, 2009.	10
Customer charge:	$1,500 per delivery point per month	
Demand charge:	$15.85 per kW of billing demand per month, plus an additional $15.85 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds its contract demand	
Energy charge:	First 620 hours use of metered demand per month at 4.259 cents per kWh Additional kWh per month at 3.477 cents per kWh The above rates are subject to adjustment under the provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.	
<u>General Service – Schedule GSC</u>	Effective meters read on or after September 30, 2009.	0
Customer charge:	$1,500 per delivery point per month	
Demand charge:	$15.32 per kW of billing demand per month, plus an additional $15.32 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds its contract demand	
Energy charge:	First 620 hours use of metered demand per month at 4.259 cents per kWh Additional kWh per month at 3.477 cents per kWh The above rates are subject to adjustment under the provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.	
<u>General Service – Schedule GSD</u>	Effective meters read on or after September 30, 2009.	0
Customer charge:	$1,500 per delivery point per month	

Electric Division Rate Class (cont.)	Base Charge	Customers
Demand charge:	$18.53 per kW of billing demand per month, plus an additional $18.53 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds its contract demand	
Energy charge:	3.349 cents per kWh per month The above rates are subject to adjustment under the provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.	
<u>Manufacturing – Schedule MSB</u>	Effective meters read on or after September 30, 2009.	13
	If the customer's metered demand for the month is not more than 5,000 kW:	
Customer charge:	$1,500 per delivery point per month	
Demand charge:	$13.61 per kW of billing demand per month, plus an additional $13.61 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds its contract demand	
Energy charge:	First 620 hours use of metered demand per month at 3.611 cents per kWh Additional kWh per month at 2.947 cents per kWh	
	If the customer's metered demand for the month is greater than 5,000 kW:	
Customer charge:	$1,500.00 per delivery point per month	
Demand charge:	$12.93 per kW billing demand per month, plus an additional $12.93 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds its contract demand	
Energy charge:	First 620 hours use of metered demand per month at 3.431 cents per kWh Additional kWh per month at 2.803 cents per kWh The above rates are subject to adjustment under the provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.	
<u>Manufacturing – Schedule MSC</u>	Effective meters read on or after September 30, 2009.	1
Customer charge:	$1,500 per delivery point per month	
Demand charge:	$12.40 per kW of billing demand per month, plus an additional $12.40 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds its contract demand	

Electric Division Rate Class (cont.)	**Base Charge**	**Customers**
Energy charge:	First 620 hours use of metered demand per month at 3.431 cents per kWh Additional kWh per month at 2.803 cents per kWh The above rates are subject to adjustment under the provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.	
<u>Manufacturing – Schedule MSD</u>	Effective meters read on or after September 30, 2009.	3
Customer charge:	$1,500 per delivery point per month	
Demand charge:	$14.95 per kW of billing demand per month, plus an additional $14.95 per kW per month for each kW, if any, of the amount by which the customer’s billing demand exceeds its contract demand	
Energy charge:	2.708 cents per kWh per month The above rates are subject to adjustment under the provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.	
<u>Time-Of-Day – Schedule TGSA</u>	Effective meters read on or after September 30, 2009.	1
	If the higher of (1) the higher of the customer’s currently effective onpeak or offpeak contract demand or (2) its highest onpeak or offpeak billing demand during the latest 12 month period is not more than 50 kW:	
Customer charge:	$198.95 per delivery point per month.	
Energy charge:	16.014 cents per kWh per month for all onpeak kWh 5.137 cents per kWh per month for all offpeak kWh	
	If the higher of (1) the higher of the customer’s currently effective onpeak or offpeak contract demand or (2) the customer’s highest onpeak or offpeak billing demand during the latest 12-month period is greater than 50 kW but no more that 1,000 kW.	
Customer charge:	$198.95 per delivery point per month.	
Demand charge:	$14.20 per kW of the customer’s onpeak billing demand, plus $4.16 per month for each kW, if any, of the amount by which the customer’s offpeak billing demand exceeds its onpeak billing demand.	
Energy charge:	6.636 cents per kWh per month for all onpeak kWh 4.217 cents per kWh per month for all offpeak kWh	
	If the higher of (1) the higher of the customer’s currently effective onpeak or offpeak contract demand or (2) the customer’s highest onpeak or offpeak billing demand during the latest 12-month period is greater than 1,000 kW:	

Electric Division Rate Class (cont.)	**Base Charge**	**Customers**
Customer charge:	$198.95 per delivery point per month	
Demand charge:	$15.05 per kW per month of the customer's onpeak billing demand, plus $3.01 per month for each kW, if any, of the amount by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus an additional $15.05 per kW per month for each kW, if any, of the amount by which (1) the customer's onpeak billing demand exceeds the higher of 2,500 kW or its onpeak contract demand or (2) the customer's offpeak billing demand exceeds the higher of 2,500 kW or its offpeak contract demand, whichever is higher,	
Energy charge:	6.459 cents per kWh per month for all onpeak kWh 4.024 cents per kWh per month for all offpeak kWh The above rates are subject to adjustment under the Provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.	
<u>Time-Of-Day – Schedule TGSC</u>	Effective meters read on or after September 30, 2009.	1
Customer charge:	$1,500 per delivery point per month.	
Demand charge:	$15.23 per kW per month of the customer's onpeak billing demand, plus $1.81 per month for each kW, if any, of the amount by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus an additional $15.23 per kW per month for each kW, if any, of the amount by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
Energy charge:	5.699 cents per kWh per month for all onpeak kWh 3.364 cents per kWh per month for all offpeak kWh The above rates are subject to adjustment under the Provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.	
<u>Time-Of-Day – Schedule TMSB</u>	Effective meters read on or after September 30, 2009.	1
	If the higher of the customer's onpeak metered demand or offpeak metered demand for the month is not more than 5,000 kW:	
Customer charge:	$1,500 per delivery point per month.	
Demand charge:	$14.48 per kW per month of the customer's onpeak billing demand, plus $2.23 per kW per month for each kW, if any, of the amount by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus an additional $14.48	

Electric Division Rate Class (cont.)	Base Charge	Customers
Demand charge:	per kW per month for each kW, if any, of the amount by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
Energy charge:	5.191 cents per kWh per month for all onpeak kWh 3.065 cents per kWh per month for all offpeak kWh	
	If the higher of the customer's onpeak metered demand or offpeak metered demand for the month is greater than 5,000kW:	
Customer charge:	$1,500 per delivery point per month.	
Demand charge:	$12.94 per kW per month of the customer's onpeak billing demand, plus $2.02 per month for each kW, if any, of the amount by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus an additional $12.94 per kW per month for each kW, if any, of the amount by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
Energy charge:	4.620 cents per kWh per month for all onpeak kWh 2.727 cents per kWh per month for all offpeak kWh The above rates are subject to adjustment under the Provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.	
<u>Time-Of-Day – Schedule TMSC</u>	Effective meters read on or after September 30, 2009.	1
Customer charge:	$1,500 per delivery point per month.	
Demand charge:	$12.44 per kW per month of the customer's onpeak billing demand, plus $1.54 per month for each kW, if any, of the amount by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus an additional $12.44 per kW per month for each kW, if any, of the amount by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
Energy charge:	4.620 cents per kWh per month for all onpeak kWh 2.727 cents per kWh per month for all offpeak kWh The above rates are subject to adjustment under the Provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.	

Electric Division Rate Class (cont.)	Base Charge	Customers
Outdoor Lighting- Schedule LS	Effective meters read on or after September 30, 2009.	17,056
	Part A – Charges for street and park lighting systems, traffic signal systems, and athletic field lighting installations.	
Energy charge:	6.109 cents per kWh per month This rate is subject to adjustment under the provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.	
Outdoor Lighting Facilities charge:	The annual facility charge shall be 9.84% of the installed cost to the Division's electric system of the facility devoted to street and park lighting service specified in this Part A. Such installed cost shall be recomputed on July 1 of each year, or more often if substantial changes in the facilities are made. Each month, one-twelfth of the then total annual facility charge shall be billed to the customer. If any part of the facilities has not been provided at the electric system's expense or if the installed cost of any portion thereof is reflected on the books of another municipality or agency or department, the annual facility charge shall be adjusted to reflect properly the remaining cost to be borne by the electric system. Traffic signal systems and athletic field lighting installations shall be provided, owned, and maintained by and at the expense for the customer, except as Division may agree otherwise in accordance with the provisions of the paragraph next following in this section. The facilities necessary to provide service to such systems and installations shall be provided by and at the expense of Division's electric system, and the annual facility charge provided for first above in this section shall apply to the installed cost of such facilities. When so authorized by policy duly adopted by Division's governing board, traffic signal systems and athletic field lighting installations may be provided, owned and maintained by Division's electric system for the customer's benefit. In such cases Division may require reimbursement from the customer for a portion of the initial installed cost of any such system or installation and shall require payment by the customer of a facility charge sufficient to cover all of Division's costs (except reimbursed costs), including appropriate overheads, of providing, owning, and maintaining such system or installation; provided that, for athletic field lighting installations, such facility charge shall in no case be less than 12% per year of such costs. Said facility charge will be in addition to the annual facility charge on the facilities necessary to provide service to such system or installation as provided for in the preceding paragraph.	

Electric Division Rate Class (cont.)	**Base Charge**	**Customers**
	Part B – Charges for outdoor lighting for individual customers – charges per fixture per month	

(a) Type of fixture	**Watts**	**Lamp Size (Lumens)**	**Rated (kWh)**	**Charge**
Mercury Vapor or Incandescent	175	7,650	70	$ 2.95
	250	10,400	98	3.49
	400	19,100	155	4.42
	700	33,600	266	5.96
	1,000	47,500	378	7.59
Metal Halide	175	8,300	70	2.95
	250	14,000	98	3.49
	400	22,600	155	4.42
	1,000	88,000	378	7.59
High Pressure Sodium	50	3,285	22	4.19
	100	8,550	42	4.48
	150	14,400	63	4.61
	200	18,900	82	5.01
	250	23,000	105	5.30
	400	45,000	165	6.29
	1,000	126,000	385	10.05

Gas Division Rate Class	**Base Charge**	**Customers**
Residential G-1 & G-3	Effective meters read on or after December 26, 2007 Schedule G-1 is available for domestic use to residential customers in individual private residences or other individual dwelling units situated within the corporate limits of the City of Memphis, Tennessee. Schedule G-3 is available for domestic use to residential customers in individual private residences or other individual dwelling units situated outside the corporate limits of the City of Memphis, Tennessee.	290,912
Service charge:	$ 10.00 per month plus	
Commodity charge:	First 100 ccf per month @ $1.081 per ccf	
	Excess over 100 ccf per month @ $0.991 per ccf, plus the above rates are subject to adjustment under the provisions of the Purchased Gas Adjustment Rider.	
Minimum bill:	$10.00 per meter per month	
Small General Service G-7	Effective meters read on or after December 26, 2007 This rate schedule is available for gas service to all gas customers except residential.	21,979

Gas Division Rate Class (cont.)	**Base Charge**	**Customers**
Service charge:	For 0 to 250 ccf meter, $25.00 Over 250 to 1,000 ccf meter, $50.00 Over 1,000 ccf meter, $100.00 per month plus,	
Commodity charge:	All gas consumed: $1.021 per Ccf per month, plus The above rates are subject to adjustment under the provisions of the Purchased Gas Adjustment Rider.	
Minimum bill:	The minimum monthly bill shall be $0.654 for each Ccf of the higher of: (1) The maximum daily demand during the preceding eleven months, or (2) The daily contract demand, but in no case less than the Service charge listed above.	
<u>Large General Service Firm on-peak G-8 and G-9</u>	Effective meters on or after December 26, 2007 This rate schedule is available for gas service to all customers contracting for not less than 100 Ccf of maximum daily demand.	471
Demand charge:	$0.251 Ccf per month of contract demand or maximum daily demand during the twelve (12) months ending with the billing month, whichever is higher, plus	
Commodity Charge:	First 200,000 Ccf per month @ $0.978 ccf Excess over 200,000 Ccf per month @ $0.864 ccf, plus The above rates are subject to adjustment under the provisions of the Purchased Gas Adjustment Rider.	
Minimum bill:	The minimum bill shall be $0.904 for Ccf of the higher of: (1) the maximum Daily Demand during the twelve (12) months ending with the billing month, or (2) the Daily Contract Demand.	
<u>Large General Service Interruptible Off-peak G-10 and G-12</u>	Effective December 26, 2007 This rate schedule is available for gas service to all customers contracting for not less than 1,500 Ccf of maximum daily demand and providing oil or other alternate fuel facilities approved by the Division as being adequate in design and capacity.	24

Gas Division Rate Class (cont.)	**Base Charge**	**Customers**
Service charge:	$500.00 per month, plus First 200,000 Ccf per month @ $0.948 Ccf Excess over 200,000 Ccf per month @ $0.864 per Ccf, plus The above rates are subject to adjustment under the provisions of the Purchased Gas Adjustment Rider.	
Minimum bill:	The minimum monthly bill shall be $0.350 for each Ccf of the higher of (1) the maximum daily demand during the twelve months ending with the billing month, or (2) the daily contract demand, but in no event less than $500.00.	

Water Division Rate Class	**Base Charge**	**Customers**
Residential – Inside City Rate	Effective meters read on or after June 26, 2008 For water furnished to premises entirely within the corporate limits of the City of Memphis	185,684
Commodity charge:	All water consumed: $1.31 per Ccf per month	
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows: 5/8" meter $ 5.54 3/4" meter 7.99 1" meter 14.18 1-1/2" meter 31.91 2" meter 56.72	
Residential – Outside City Rate	Effective meters read on or after June 26, 2008 For water furnished to premises outside the corporate limits of the City of Memphis	22,039
Commodity charge:	All water consumed: $2.04 per Ccf per month	
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows: 5/8" meter $ 7.71 3/4" meter 11.09 1" meter 19.74 1-1/2" meter 44.39 2" meter 78.91	

Water Division Rate Class (cont.)	Base Charge		Customers
General Service – Inside City Rate	Effective meters read on or after June 26, 2008 For water service to all customers within the corporate limits of the City of Memphis, except residential customers		18,838
Commodity charge:	Water consumed per month:		
	First 30 Ccf	$1.67 per Ccf	
	Next 70 Ccf	$1.42 per Ccf	
	Next 100 Ccf	$1.08 per Ccf	
	Next 400 Ccf	$0.90 per Ccf	
	Next 5,400 Ccf	$0.70 per Ccf	
	Excess over 6,000 Ccf	$0.73 per Ccf	
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:		
	5/8" meter	$ 10.62	
	3/4" meter	12.37	
	1" meter	21.21	
	1-1/2" meter	42.44	
	2" meter	88.45	
	3" meter	176.84	
	4" meter	264.45	
	6" meter	334.53	
	8" meter	404.63	
	10" meter	838.18	
	12" meter	1,169.54	
	14" meter	1,608.13	
	Battery of 2-2" meters	176.84	
	Battery of 3-2" meters	264.45	
General Service – Outside City Rate	Effective meters read on or after June 26, 2008 For water service to all customers outside the corporate limits of the City of Memphis, except residential customers		797
Commodity charge:	Water consumed per month:		
	First 30 Ccf	$2.51 per Ccf	
	Next 70 Ccf	$2.11 per Ccf	
	Next 100 Ccf	$1.61 per Ccf	
	Next 400 Ccf	$1.35 per Ccf	
	Next 5,400 Ccf	$1.06 per Ccf	
	Excess over 6,000 Ccf	$1.10 per Ccf	

Water Division Rate Class (cont.)	**Base Charge**	**Customers**
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:	

5/8" meter	$ 16.22
3/4" meter	18.93
1" meter	32.45
1-1/2" meter	64.88
2" meter	135.18
3" meter	270.39
4" meter	404.09
6" meter	511.20
8" meter	618.30
10" meter	1,280.82
12" meter	1,787.17
14" meter	2,455.69
Battery of 2-2" meters	270.39
Battery of 3-2" meters	404.09

Residential – Shelby County Water Distribution System	Effective meters read on or after June 26, 2008	20,702
	For water service within the area served by the Shelby County Water Distribution System at the time of its acquisition on June 30, 1999, for domestic uses to residential customers in individual private residences or other individual dwelling places.	
Monthly rate:	All water consumed $2.04 per Ccf per month	
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:	

5/8" meter	$ 7.71
3/4" meter	11.09
1" meter	19.74
1-1/2" meter	44.39
2" meter	78.91

Residential customers shall be served through a single meter not larger than 2” in size.

Water Division Rate Class (cont.)	**Base Charge**	**Customers**
Commercial - Industrial – Shelby County Water Distribution System	Effective meters read on or after June 26, 2008	600
	For water service within the area served by the Shelby County Water Distribution System at the time of its acquisition on June 30, 1999, for all customers except residential customers using service exclusive for domestic use.	
Monthly rate:	Water consumed per month:	

First 30 Ccf	$2.51 per Ccf
Next 70 Ccf	$2.11 per Ccf
Next 100 Ccf	$1.61 per Ccf
Next 400 Ccf	$1.35 per Ccf
Next 5,400 Ccf	$1.06 per Ccf
Excess over 6000 Ccf	$1.10 per Ccf

Minimum bill: The minimum monthly bill shall be determined by the size of the meter installed, as follows:

5/8" meter	$ 16.22
3/4" meter	18.93
1" meter	32.45
1-1/2" meter	64.88
2" meter	135.18
3" meter	270.39
4" meter	404.09
6" meter	511.20
8" meter	618.30
10" meter	1,280.82
12" meter	1,787.17
14" meter	2,455.69

SCHEDULE OF INSURANCE
DECEMBER 31, 2009
(Dollars in Thousands)

Type of Coverage	Amount of Coverage
Property	$ 500,000
Crime	1,000
Travel Accident	1,000

REQUIRED SCHEDULE OF FUNDING PROGRESS FOR OPEB
DECEMBER 31, 2009
(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry-Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
December 31, 2007***	$ 15,097	$ 674,002	$ 658,905	2.2%	$ 144,756	455.2%
December 31, 2007	15,097	694,574	679,477	2.2%	144,756	469.4%
December 31, 2006*	0	743,484	743,484	0.0%	148,219 **	501.6%

* Projected from 12/31/05 valuation.
** Projected from 2006 payroll.
*** Revised actuarial assumptions.

(Dollars in Thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed
December 31, 2009	$ 55,340	$ 55,688	100.6%
December 31, 2008	57,991	66,881	115.3%
December 31, 2007	57,991	51,253	88.4%

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)* Entry-Age Normal (b)	Unfunded/ (Overfunded) AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll** ((b - a) / c)
January 1, 2010	$ 1,191,027	$ 1,292,791	$ 101,764	92.1%	$ 154,057	66.1%
January 1, 2009	1,176,590	1,243,630	67,040	94.6%	150,253	44.6%
January 1, 2008	1,258,670	1,240,867	(17,803)	101.4%	146,830	0.0%

* The aggregate actuarial cost method is used to determine the annual required contribution of MLGW's Pension Plan. Because the method does not identify or separately amortize unfunded actuarial liabilities, information about the funded status and funding progress is prepared using the entry age normal actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of the MLGW Pension Plan.

** Not less than zero

SCHEDULE OF UNACCOUNTED FOR WATER
FOR THE YEAR ENDED DECEMBER 31, 2009
(Amounts in Gallons or Dollars)

MLGW

A	**Water Treated and Purchased:**		
B	Water Pumped (potable)	49,976,277,000	
C	Water Purchased	-	
D	**Total Water Treated and Purchased**		49,976,277,000
E	**Accounted for Water:**		
F	Water Sold (includes free water for City of Memphis, bulk sales, and water bill adjustments)	41,208,233,955	
G	Metered for Consumption (in house usage)	388,616,000	
H	Fire Department Usage	25,141,470	
I	Flushing	15,881,831	
J	Tank Cleaning/Filling	-	
K	Street Cleaning	408,320	
L	Bulk Sales	-	
M	Water Bill Adjustments	-	
N	Other (explain)	-	
O	**Total Accounted for Water**		41,638,281,576
P	Unaccounted for Water		8,337,995,424
Q	Percent Unaccounted for Water		16.7%
R	Cost per 1,000 gallons		$ 0.255
S	Cost of Unaccounted for Water		$ 2,127,747.94

Explained Other:

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Commissioners and Management
Memphis Light, Gas and Water Division
Memphis, Tennessee

We have audited the financial statements of the Electric, Gas and Water Divisions (the "Divisions") of Memphis Light, Gas and Water Division, enterprise funds of the City of Memphis, Tennessee, as of and for the year ended December 31, 2009, and have issued our report thereon dated April 26, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Divisions' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Divisions' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Divisions' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness in internal control is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Divisions' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Divisions' financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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We noted certain matters that we reported to management of the Divisions in a separate letter dated April 26, 2010.

This report is intended solely for the information and use of the Audit Committee, Board of Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Thompson Dunavant PLC

Memphis, Tennessee
April 26, 2010

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Commissioners and Management
Memphis Light, Gas and Water Division
Memphis, Tennessee

Compliance

We have audited the compliance of the Electric, Gas and Water Divisions (the "Divisions") of Memphis Light, Gas and Water Division, enterprise funds of the City of Memphis, Tennessee, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The Divisions' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Divisions' management. Our responsibility is to express an opinion on the Divisions' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Divisions' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Divisions' compliance with those requirements.

In our opinion, the Divisions complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

Management of the Divisions is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Divisions' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Divisions' internal control over compliance.

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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Audit Committee, Board of Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Thompson Dunavant PLC

Memphis, Tennessee
April 26, 2010

(Dollars in Thousands)

Federal Grantor/Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
Federal Awards						
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.036	34101-0000001983	$ -	$ -	$ 5,932	$ (5,932)
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.036	Z-08-212844-00	(6)	-	-	(6)
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.036	Z-08-212844-01	(109)	-	(38)	$ (71)
Total Program 97.036			(115)	-	5,894	(6,009)
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.047	Edison #E-18001	(14)	-	411	(425)
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.017	GR-07-20788-00	(11)	-	102	(113)
Total Federal Awards			$ (140)	$ -	$ 6,407	$ (6,547)

BASIS OF PRESENTATION

The accompanying schedule of Expenditures of Federal Awards (the Schedule) presents the grant activity of the federal award programs of the Electric, Gas and Water divisions of Memphis Light, Gas and Water Division, an enterprise fund of the City of Memphis, Tennessee, for the year ended December 31, 2009. The schedule is prepared on the accrual basis of accounting and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.* Each of the divisions of Memphis Light, Gas and Water Division generally follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Public Utilities.

MEMPHIS LIGHT, GAS AND WATER DIVISION

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the Electric, Gas, and Water Divisions (the "Divisions") of Memphis Light, Gas and Water Division.

2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of the Divisions, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The auditor's report on compliance for the major federal award programs for MLGW expresses an unqualified opinion on all major federal programs.

6. There were no audit findings related to major programs that are required to be reported under OMB Circular A-133.

7. The programs tested as major programs were U.S. Department of Homeland Security, CDFA 97.036 - Disaster Programs - Public Assistance and CDFA 97.047-Pre-Disaster Mitigation.

8. The threshold for distinguishing Type A and B programs was $300,000.

9. The Divisions were not determined to be a low risk auditee.

B. Financial Statement Findings Section

No matters are reportable

C. Federal Awards Findings and Questioned Cost Section

No matters are reportable.

Prior Year Findings

There were no prior year audit findings.


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