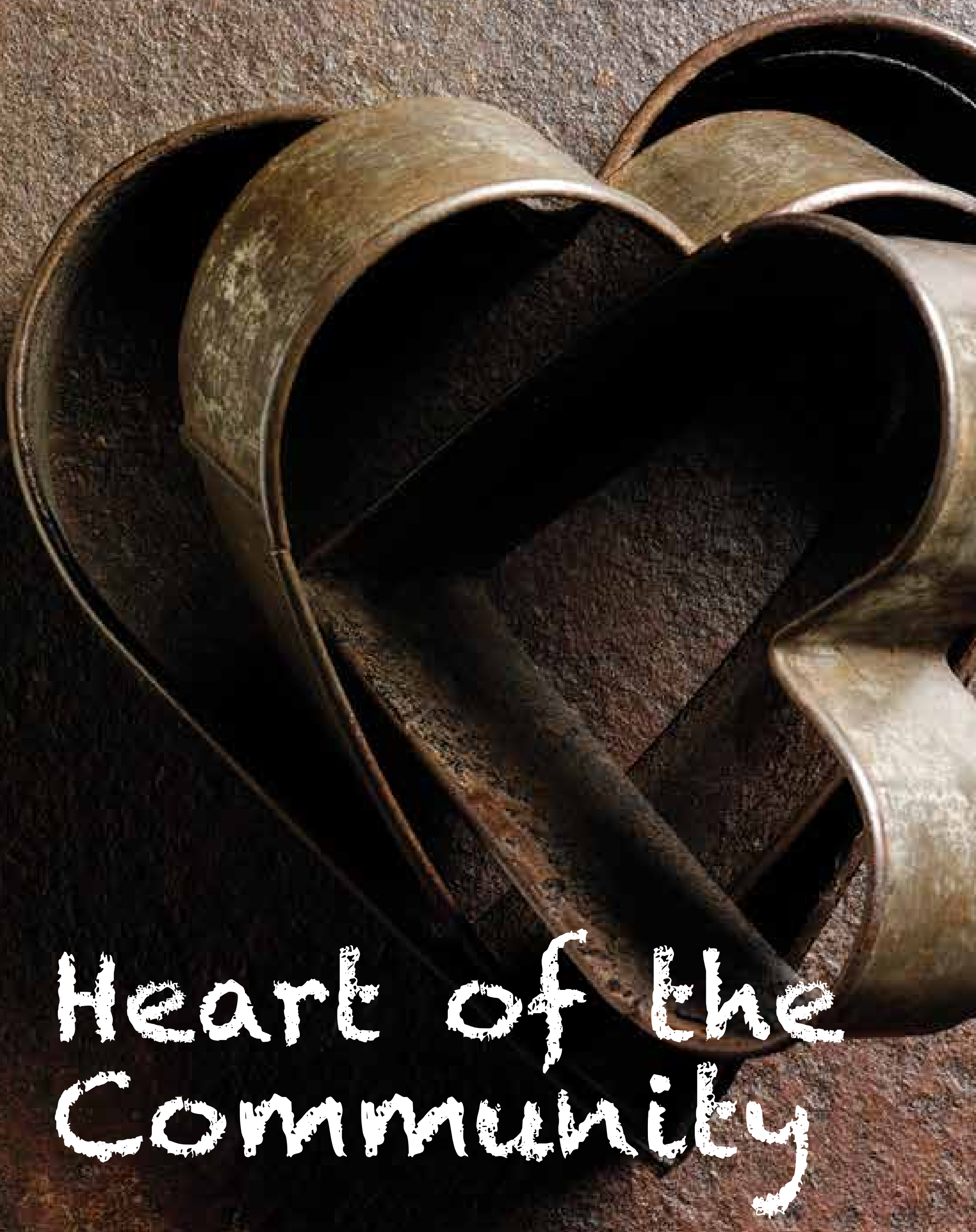
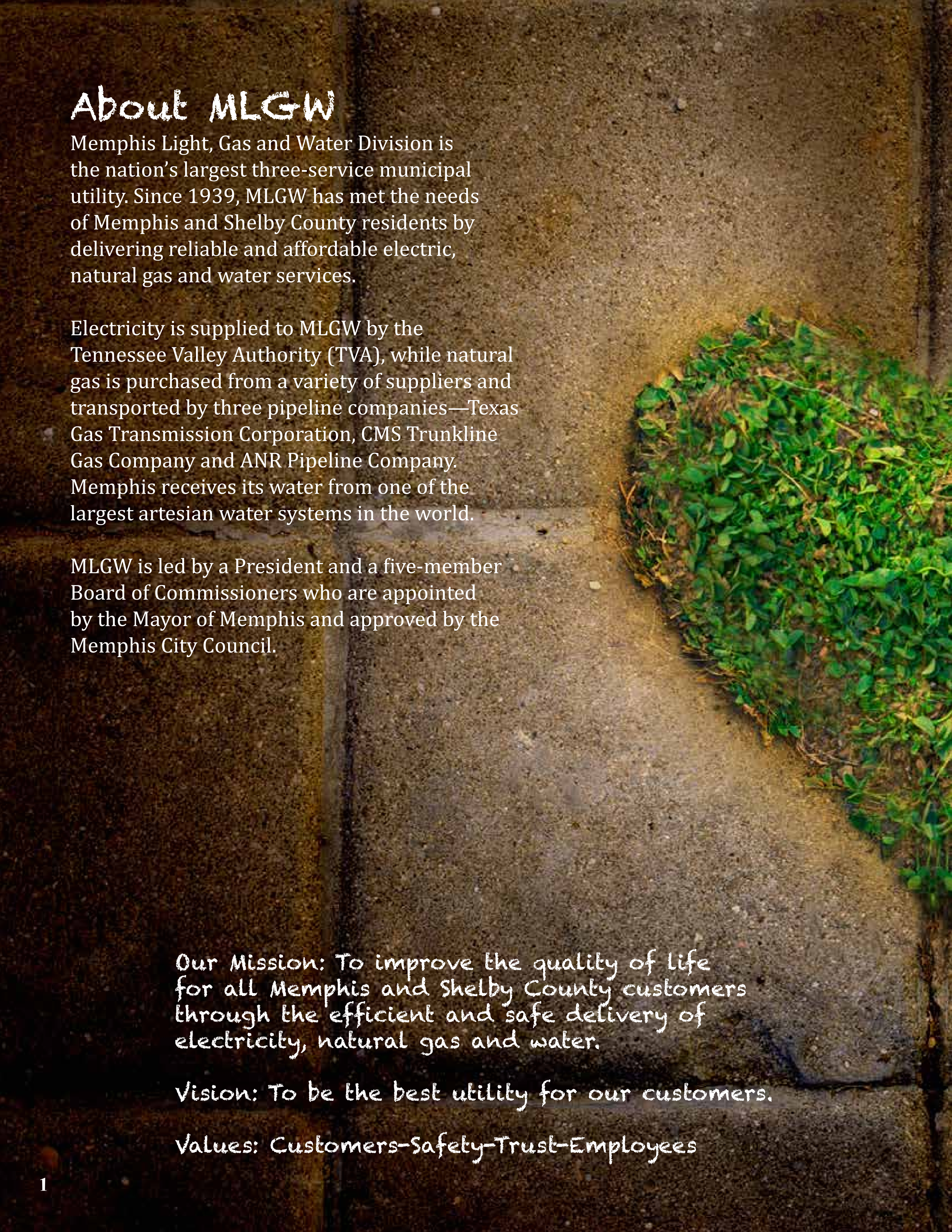


Heart of the Community

2012 Annual Report
Memphis Light, Gas and Water Division



About MLGW

Memphis Light, Gas and Water Division is the nation's largest three-service municipal utility. Since 1939, MLGW has met the needs of Memphis and Shelby County residents by delivering reliable and affordable electric, natural gas and water services.

Electricity is supplied to MLGW by the Tennessee Valley Authority (TVA), while natural gas is purchased from a variety of suppliers and transported by three pipeline companies—Texas Gas Transmission Corporation, CMS Trunkline Gas Company and ANR Pipeline Company. Memphis receives its water from one of the largest artesian water systems in the world.

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.

Our Mission: To improve the quality of life for all Memphis and Shelby County customers through the efficient and safe delivery of electricity, natural gas and water.

Vision: To be the best utility for our customers.

Values: Customers-Safety-Trust-Employees

President's Message

MLGW President and CEO Jerry R. Collins Jr.

A community can only stand as strong as its greatest asset and at MLGW we would like to think we are one of Memphis' and Shelby County's greatest assets. As a cornerstone of the community, MLGW's service is unparalleled. As a leader in our community and in the utility industry, MLGW's 2,700 employees work every day to make sure the results of our hard work are what our customers have come to expect.

As the "heart" of this community, we take very seriously the work we do for our customers day in and day out. Because electricity, natural gas and water are vital necessities to a quality life, we work with our customers to ensure they receive the lowest cost and most reliable service possible.

In 2012, we offered our customers a number of opportunities to learn more about how they can use their resources wisely and efficiently, and we created new programs to help those customers who are facing financial challenges.

We also strengthened our system to improve reliability and increased our efforts to be a responsible steward of the environment.

MLGW has a bright future filled with continued dedication to our customers, our business practices and the service we provide. We are proud to be the "heart" of this community, and we look forward to continuing our tradition of excellence within the community.

Jerry R Collins Jr.

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MLGW Board of Commissioners

Darrell T. Cobbins
V. Lynn Evans
Rick Masson
Derwin Sisnett
Steve Wishnia

MLGW Executive Leadership

MLGW Executive Leadership
Jerry R. Collins Jr., President and CEO
Christopher Bieber, Vice President of Customer Care
Von Goodloe, Vice President of Human Resources
Dana Jeanes, Vice President, CFO and Secretary-Treasurer
Nicholas Newman, Vice President of Construction and Maintenance
Cheryl Patterson, Vice President and General Counsel
Lashell Vaughn, 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 Walton, Director of Internal Audit
Roland McElrath, Controller
Anderson Williams, Executive Analyst

Strengthening Our Service

Heat Relief

MLGW has always strived to satisfy the needs of our customers. Meeting our customers' needs at every level isn't just a duty, it's our mission. To prove that fact, MLGW, for the third consecutive year in 2012, again offered its hot weather-related Reconnection Program for residential customers. The program's aim is to provide a reprieve from the hot Memphis heat for those customers who are without electric, gas and/or water services. Some customers were without these services due to non-payment and others due to the incompletion of MLGW's required identification procedures.

The residential customers—no matter how much they owed—paid a flat fee plus the appropriate reconnection fee to re-establish service. More than 900 customers took advantage of the Reconnection Program.

Low Rates

Customers also enjoyed some of the lowest combined bills of any utility in the country. Based on a survey of 60 utilities conducted by Jacksonville Electric Authority, Jacksonville, Florida, MLGW customers paid the third lowest combined bill for electricity, natural gas, water and wastewater. MLGW also had the lowest water rates of any utility in the survey. That is something to write home about!

Communication is a Two-Way Street

The saying goes that communication is a two-way street, and it couldn't be more true than with how we communicate with our customers. Although we provide customers with an abundance of information, there's no way to know if it's helpful if we don't hear back from them. In 2012, MLGW launched the Voice of the Customer, a real-time, phone survey system to capture customer feedback immediately following the interaction between a customer who calls into our Call Center and a Service Advisor. Each Service Advisor offers every fifth customer the opportunity to complete a survey, and the customer may also request to perform a survey.

We continued our commitment to educating customers on what they can do to reduce their energy consumption. Through radio and television public service announcements, MLGW drove home messages about gas safety by promoting the Tennessee One-Call number 811; promoted MLGW's Gift of Comfort program that allows any customer to make a gift of paying another customer's bill; and Plus-1. We also promoted our social media contacts through Connect with Us ads that urged customers to contact us through our website, mlgw.com, our accounts at Facebook and Twitter, and at our blog, Bird on a Wire. We also encouraged customers to sign up for our mobile text alerts to receive messages about billing due dates.

Connect With Us

Stay Connected With MLGW

- Go to MLGW.com for bill payment and analysis, service transfers, outage updates and more.

share

MLGW news.

lerts.

Save time.

MLGW Mobile Alerts

Need a reminder for your MLGW bill due date or an impending cut-off? We can help!

Go to www.mlgw.com/mobilealerts and sign up today.

Operational Excellence

eGIS Brings Easier Access to Information

For more than 20 years, MLGW has used a Geographical Information System (GIS) to share information with fire and police departments and Emergency Management Agency officials to assist with meeting public safety goals and delivering reliable service to customers. GIS integrates hardware, software and data for managing and analyzing geographical information. In 2012, MLGW moved its GIS to an enterprise format by teaming with Esri and Telvant companies. Making this move to a new format now allows MLGW to easily share information with internal and external groups.

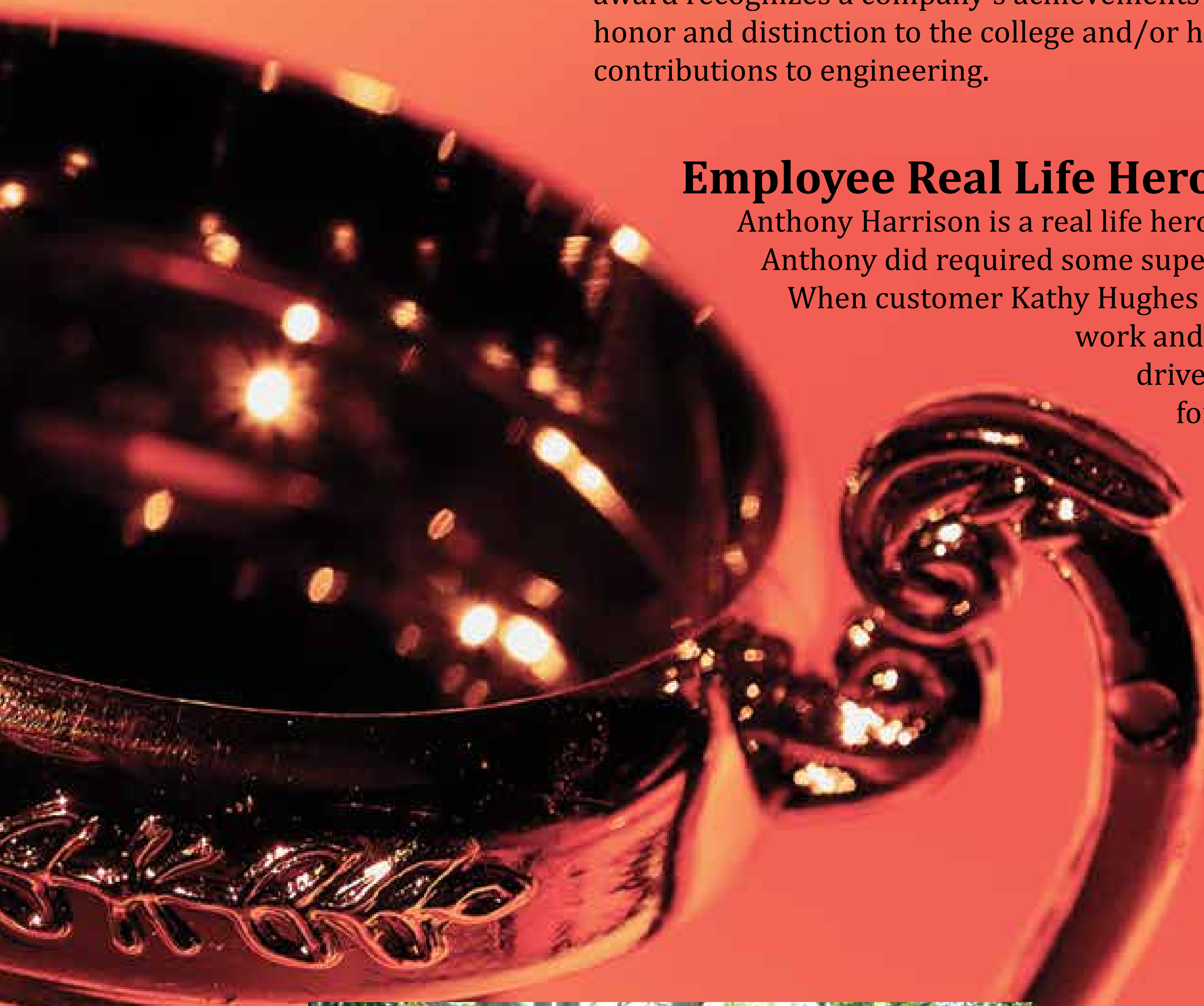
Water Supply System Earns Perfect Score

Perfect scores are rare; however, a 2012 survey by the Tennessee Department of Environment and Conservation (TDEC) of MLGW's water supply delivery system earned a perfect 599 on a 599-point scale. The survey measures water system management, treatment, monitoring, storage, pump facilities, controls and compliance.

Standing Ovation

Herff Honor Award

The University of Memphis recognized MLGW with the Herff Honor Award for Distinguished Service to Engineering. The award recognizes a company's achievements that have brought honor and distinction to the college and/or have made significant contributions to engineering.



Employee Real Life Hero

Anthony Harrison is a real life hero here at MLGW. What Anthony did required some super-human strength. When customer Kathy Hughes came home from work and parked her car in her driveway, she accidentally forgot to put it in "park." MLGW employee Anthony, who was working nearby when he heard Hughes' plea for help, jumped a fence and managed to get the car under control as it rolled toward Hughes' home. Hughes was so appreciative that she visited an MLGW Board of Commissioners meeting where she recognized Harrison as her real life hero.

Giving Back...
It's the heart of what we do

One of the hallmarks of a good company is its ability to give back to the community it serves, and that statement is no truer than at MLGW. Giving back is truly the backbone of what makes this utility the heartbeat of the community. MLGW's compassionate employees not only give monetarily, but they give their time, expertise and talent through a number of programs each year. From LifeBlood, to the United Way, to the American Heart Association walks, MLGW employees give wholeheartedly to the causes which they believe in.

MLGW Rolls Out Plan to Increase Plus-1 Giving

Every year, thousands in our community are faced with the difficult choice of putting food on the table or spending the night in a cold, drafty house or sweltering heat that makes it hard to breath. Some of these customers have fallen behind in making their utility payments, and some were laid off suddenly from a job that offered no severance pay and the customers had no emergency fund. Through MLGW's Plus-1 Program, administered by the Metropolitan Inter-Faith Association (MIFA), customers can receive the assistance they need. In 2012, more than 1,000 families received this one-time utility assistance, but many thousands more need the help. Each month, MIFA receives more than 800 requests for assistance, but can only fund about 140 of these families.

To increase Plus-1 giving, MLGW mailed Plus-1 donor cards to every customer in hopes of increasing the giving to the organization. MLGW also hosted its first Phon-a-thon in which MLGW employees, along with representatives from the City of Memphis, the Memphis City Council, the Shelby County Commission, Tennessee Valley Authority (TVA) and MIFA made calls to friends and family to request pledges to the organization.

MLGW also worked with the Memphis Grizzlies and MIFA to encourage fans to sign up for Plus-1 during the Grizzlies' game against the Dallas Mavericks on Leap Day, February 29.

Employees also came to the rescue of Plus-1 by creating innovative methods for raising funds. In 2012, MLGW hosted its first Plus-1 Jam which celebrated Memphis music during the Memphis in May International Festival.

In 2012, the Plus-1 program was able to help 1,300 families.

Extreme Home Makeover for MLGW Customer

A leaking water heater left a South Memphis homeowner on the brink of homelessness. The water heater leaked for months in the home of retired state worker, Annie Moore, 65, causing extensive damage to her home's structure and possessions. The damage was so severe, it's likely the home would have been condemned. Overwhelmed, and suffering from health issues, Moore didn't know where to turn.

After MLGW's Project CARE team became aware of her predicament, they enlisted the help of local businesses and organizations to repair Moore's home. Nearly $40,000 in in-kind donations of volunteer labor and materials from MLGW's Residential Services' Energy Techs, ServiceMaster by Cornerstone, CRND of the Mid-South, Carpet Tech, Habitat for Humanity and others allowed her to return home in the winter of 2012.

Project MAX Becomes the Project CARE Program

Over the past 28 years, Project MAX volunteers have installed attic insulation, made window and door repairs, caulked and weather-stripped homes and completed minor plumbing repairs. For homeowners with mobility issues, workers have built wheelchair ramps. TVA provides some funding for materials; local contractor and hardware store donations make up any gaps in material needs. During that time span, the program served approximately 4,000 people.

In 2012, Project MAX became the Project CARE Program. Project CARE is a residential energy-efficiency and conservation program designed to help MLGW customers reduce their energy consumption by providing the necessary capital and labor to make minor repairs to their primary residences. To help fund Project CARE, MLGW sponsored the first annual MLGW Race to Care 5K Walk/Run.

Making an Impact on the Environment

One of the driving forces behind MLGW promoting energy-efficiency initiatives is the fact that households in Tennessee consistently lead the nation in terms of average annual electricity use. As a result, MLGW consistently encourages customers to lower their energy consumption. In 2012, one major avenue of promotion was through the EnergySmart Memphis Workshops. Through a partnership with TVA, City of Memphis and Shelby County government, MLGW provides free residential energy-efficiency workshops. Each workshop participant also receives a free energy-saving kit containing weatherization products.

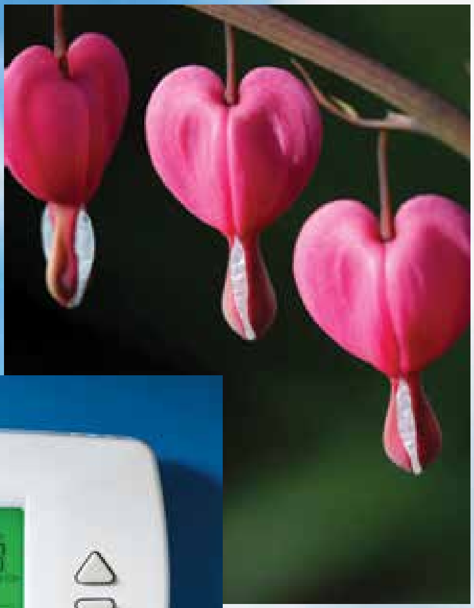
In 2012, MLGW conducted more than 84 workshops with a total of 1,373 attendees.

MLGW Works with Federal Program to Assist Customers

Thanks to the Energy Efficiency and Conservation Block Grants (EECBG), funded through the American Recovery and Reinvestment Act, MLGW was able to assist more than 730 homeowners in making energy-efficient improvements to their homes.

MLGW provided energy audits, recommendations to help customers make weatherization, heating, cooling and water heating improvements.

Funding from the grant also allowed MLGW to create a Programmable Thermostat Program which provided installation of up to two programmable thermostats, enabling residential customers to automate HVAC system operation. The new thermostats were programmed using MLGW-approved settings, and the homeowners received operational instructions. MLGW provided approximately 825 thermostats to homeowners.



Alternative-Fueled Vehicles Decrease Environmental Impact

MLGW added four all-electric vehicles to its fleet of more than 1,300 vehicles in 2012. While most of MLGW's fleet is comprised of vehicles using gasoline, the Division is working to increase the number of vehicles using alternative fuels.

As the price of natural gas decreased and interest in alternative fuel sources increased, MLGW positioned itself to capitalize on the low cost of natural gas. In addition to the four all-electric vehicles, there are 27 hybrid (electric/gas) vehicles and approximately 50 bi-fuel vehicles. MLGW's bi-fuel vehicles use Compressed Natural Gas (CNG), which is pumped at MLGW's CNG station located at the North Service Center.

As employees go about their daily functions, driving to and from worksites, they are able to save the Division about $2 per gallon compared to regular gasoline.

Solar-Assisted Electric Car Charging Station Came to Shelby Farms

Continuing our support for alternative vehicles, MLGW partnered with Shelby Farms Park Conservancy, TVA, Electric Power Resource Institute (EPRI), and the Memphis and Shelby County Office of Sustainability to build West Tennessee's first solar-assisted electric vehicle charging station. The solar-assisted charging station is located at Shelby Farms Park and provides an opportunity for electric vehicle owners to charge their cars.

Employees Get Energy-Certified

Ten employees working in MLGW's Residential Services area obtained their Home Energy Rating System (HERS) certifications. Home energy rating involves an analysis of a home's construction plans and onsite inspections. Based on the home's plans, the Home Energy Rater uses an energy-efficiency software package to perform an energy analysis of the home's design.

Investing in our Community

Gas Safety Awareness Day

Natural gas safety is very important. To get the message out, MLGW teamed with area Lowe's Home Improvement and Walmart stores to present two National Gas Safety Awareness Days. Volunteers engaged customers, distributed our new Natural Gas Safety brochure and information, and talked to them about important safety issues such as how to detect leaks and what to do in emergencies.

MLGW staff also emphasized the need to call 811, Tennessee One Call, before customers and/or contractors undertake any digging project.

Helping Neighbors through Business of Service Conference

MLGW hosted the 14th annual Business of Service Conference in 2012. The annual conference provides training and networking opportunities for grassroots and community leaders. The Business of Service Conference is a hands-on, educational seminar for staff and volunteers coordinating activities at organizations serving the community.

Striving for Financial Excellence

Memphis is home to the only Liquefied Natural Gas plant within a nearly 200-mile radius of Shelby County. Liquefied natural gas is basically natural gas that has been converted to a liquid by reducing its temperature to a negative 260 degrees Fahrenheit. The liquid is then stored in tanks at MLGW's LNG plant.

Our location within the United States offers us a unique opportunity to offer this resource at minimal cost. In 2012, we began selling liquefied natural gas at 60 to 80 cents a gallon to companies to distribute at truck stops where it is sold as alternative fuel for 18-wheeler trucks. From August to December 2012, MLGW sold 1.1 million gallons, or 110 truck loads of liquefied natural gas.

Keeping our Service Reliable

MLGW Strengthens System Against Outages

With the large number of significantly damaging weather events to our area, MLGW realizes how important reliability is to our customers. We continue to strengthen our electric system against the possibility of outages. Here are several actions MLGW does to help increase reliability:

- We began installing 50 automated switches that will help reduce the number of customers affected by outages.
- We installed conduit, wiring, and devices that will give greater intelligence to our power distribution equipment on the downtown network.
- MLGW has dedicated line inspectors, who work every day to identify possible issues with the utility's electric lines.
- Tree-related damage is the top cause of outages, so MLGW has an ongoing tree-trimming program in order to lessen this possibility.
- We also began replacing older underground cables with newer, more reliable cables.

Looking Ahead

MLGW remains committed to being the “heart” of our community by making sound decisions that will improve the quality of life for all residents of Memphis and Shelby County. As a trusted leader in our industry, we will continue to put our customers’ needs above all else. We will continue to bring innovation to our company to best serve our customers. At the same time, we rely on the values our customers know and trust. We also enjoy financial stability that allows us to further improve the safety, reliability and affordability of our services. All in all, MLGW has a bright future and we look forward to the journey.

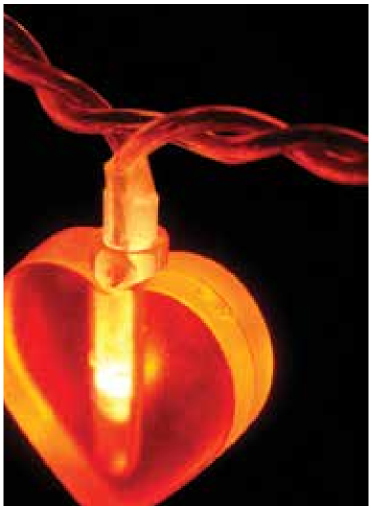
Letter of Transmittal

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, 2012, 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 accounting principles generally accepted in the United States of America (GAAP) for proprietary funds of governmental entities. 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 Mayer Hoffman McCann P.C. and Jones & Tuggle CPAs, licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of MLGW for the fiscal year ended December 31, 2012, are free from material misstatement. The independent audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements; evaluating the appropriateness of accounting policies used and the reasonableness of 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 unmodified opinion that MLGW's financial statements for the fiscal year ended December 31, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the 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 the City and Shelby County. Water service is provided by MLGW in the City 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 City Council before incurring certain obligations, including purchasing real estate and exercising the right of eminent domain; the annual budget is also subject to approval by the City Council.

MLGW is managed by a Board of Commissioners, which consists of five members nominated by the Mayor and approved by the City Council. Under the Private Act, the Board is responsible for doing all things necessary to supply the Division's service area with electricity, gas and water. The members of the Board serve staggered terms of three years each. Every two years, the Board elects a Chairman and a Vice Chairman whose terms begin June 1. 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 operations of MLGW are 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 its officers and employees.

Local Economy—(Information provided by Memphis Regional Chamber website)—Memphis, Tennessee, located in the southwest corner of Tennessee on the Mississippi River, is the nation's 20th largest city. The latest population estimates in 2012 reported a Shelby County population of 937,962, of which, all households utilize MLGW's services. The eight-county Memphis Metro area provides a diverse range of employers which contributes to the overall stability of the area and to MLGW's customer base. As of 2012, government employment (14%) comprised the largest percentage of non-farm employment, followed by professional and business services and educational and health services (each adding 14%); retail trade and leisure and hospitality (each 11% and 10% respectively); and transportation and utilities (10%).

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 have 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 U.S. Home to major hubs for FedEx, UPS, DHL and a major thoroughfare for the trucking industry, Memphis is a vital epicenter of commerce, and MLGW works diligently to maintain reliable power for these operations to ensure they run smoothly.

National Economy—2012 was a brighter time for the U.S. economy. The gross domestic product, which measures U.S. productivity, rose 1.9 percent in 2012 during the first quarter compared to the preceding quarter and 1.3 percent in the second quarter over the first. The economy picked up in the third quarter with 3.1 percent growth. Fourth quarter growth was only .1 percent despite a predicted growth between 2.2 and 2.7 percent.

In 2012, the housing market began to show signs of a turnaround. Home builders registered eight straight months of solid growth in their trade association's confidence index. The other gain for the 2012 year was in energy. U.S. oil production rose by 760,000 barrels per day in 2012, a record jump. This growth helped to hold down prices at the pump and kept travel affordable.

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 five-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 five-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 around $100 million in capital expenditures throughout the year. Major projects planned within the next five years for all three divisions — electric, gas and water — include the implementation of smart meters. Major electric projects planned within the next five years include the installation of Smart Grid technology, installation of two substations near Collierville, a substation in north Bartlett, the completion of a new substation in Southeast Memphis and a mainframe system replacement project.

Major Gas Division projects planned within the next five years include continued investment in our cast iron replacement system project, maintenance of the integrity of our gas pipelines, continuous purchase of meters for replacement, construction of additional CNG (compressed natural gas) stations and adding more CNG vehicles to MLGW's fleet.

Major Water Division projects planned within the next five years include the construction of a new water lab, construction and replacement of wells at various MLGW pumping stations, purchase of meters, and improvements to the Shaw and Lichterman pumping stations.

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.

MLGW also has a formal five-year Strategic Plan that is committed to cost control and is discussed in other sections of this financial report.

Acknowledgements—The preparation of this report was made possible by the overall dedication of MLGW's Finance Division. We would like to express our appreciation to all members of the Finance Division who assisted and contributed to the preparation of this report. Special thanks must also be given to Mayer Hoffman McCann P.C. and Jones & Tuggle CPAs for their efficient and timely completion of this year's audit.

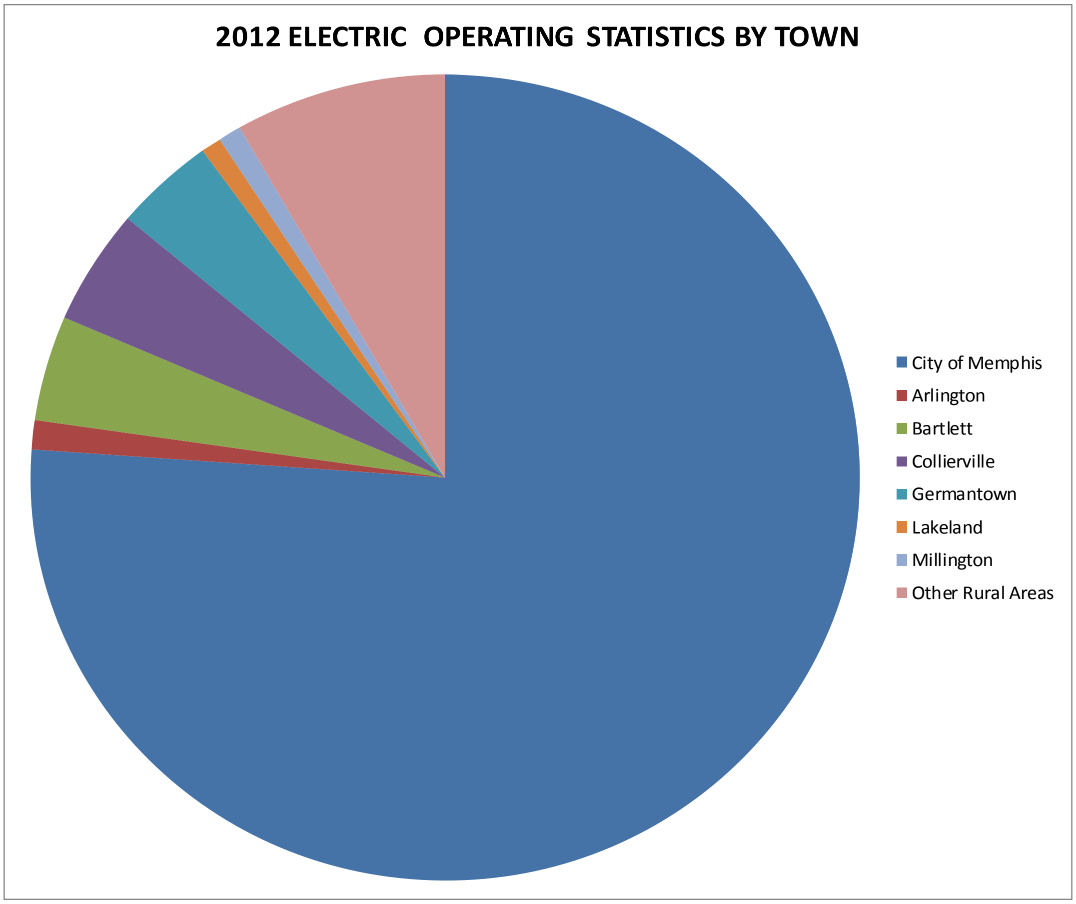
Respectfully submitted,

Jerry R Collins Jr.
Jerry Collins
President and CEO

Dana J Jeanes
Dana Jeanes
Vice President, CFO and Secretary-Treasurer

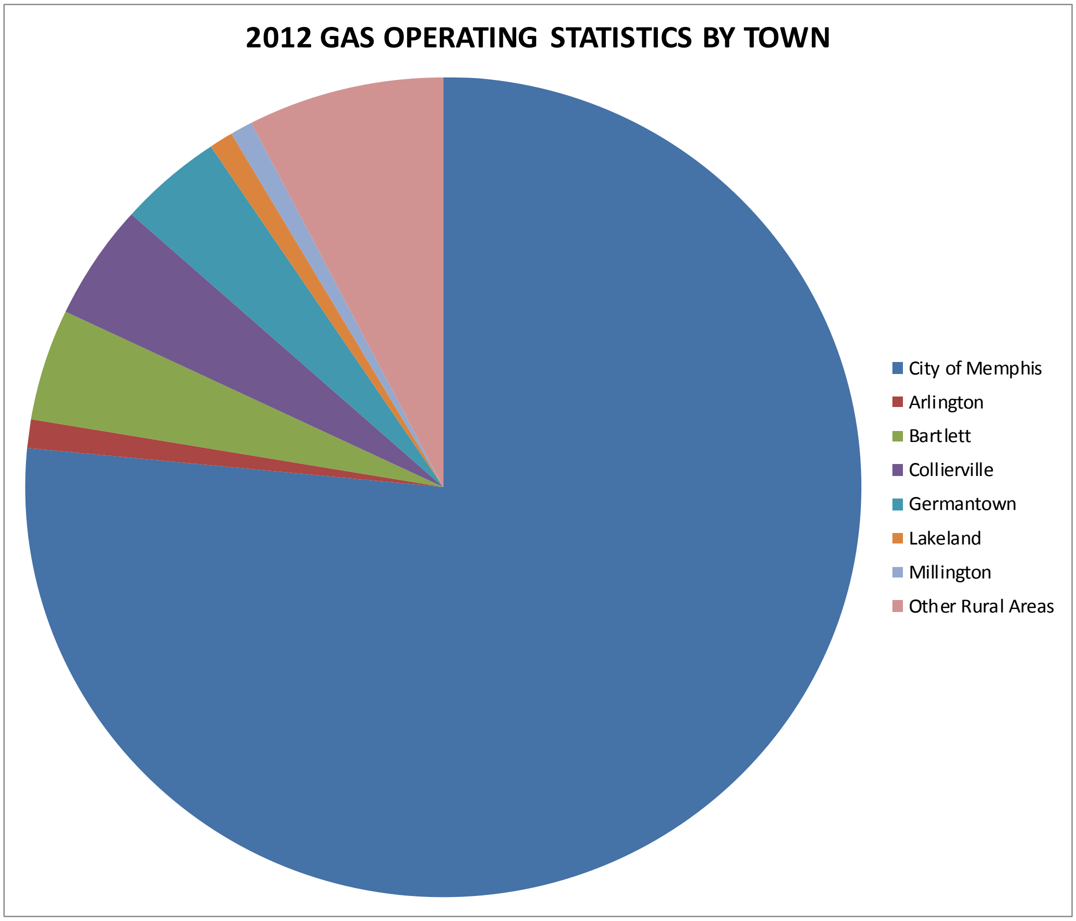
Operating Statistics by Towns:

	ELECTRIC AMOUNT			ELECTRIC KWH		
	2012	2011	2010	2012	2011	2010
City of Memphis	$ 967,153	$ 1,006,255	$ 973,245	10,753,992	10,903,638	11,239,061
Arlington	14,787	14,987	14,510	160,331	162,462	166,036
Bartlett	53,515	54,605	53,958	557,240	564,699	587,209
Collierville	58,815	58,547	57,363	628,159	621,491	640,513
Germantown	50,019	51,888	51,535	527,477	550,578	569,584
Lakeland	9,956	10,355	10,387	104,063	107,962	114,265
Millington	11,276	11,579	11,454	115,592	118,363	123,530
Other Rural Areas	105,045	110,814	109,033	1,210,669	1,262,242	1,309,838
Total	$ 1,270,566	$ 1,319,030	$ 1,281,485	14,057,523	14,291,435	14,750,036



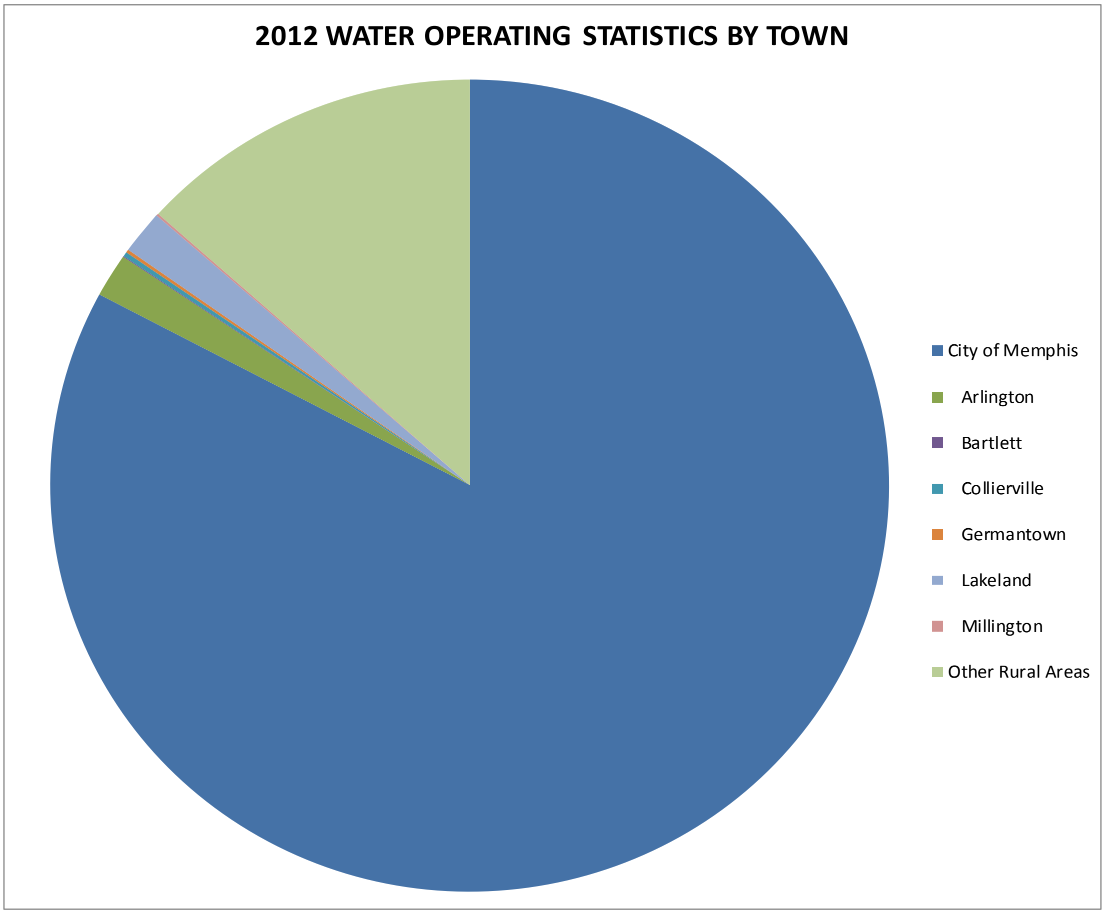
Operating Statistics by Towns:

	GAS AMOUNT			GAS MCF		
	2012	2011	2010	2012	2011	2010
City of Memphis	$ 172,759	$ 211,006	$ 254,014	20,017	25,503	29,516
Arlington	2,549	3,585	4,086	339	410	463
Bartlett	9,952	13,830	15,628	1,164	1,477	1,633
Collierville	10,266	14,233	16,084	1,309	1,609	1,769
Germantown	9,076	13,095	14,870	1,177	1,505	1,654
Lakeland	2,094	2,932	3,259	253	319	348
Millington	1,962	2,807	3,103	243	307	332
Other Rural Areas	17,149	25,346	28,391	2,068	2,756	3,010
Total	$ 225,807	$ 286,834	$ 339,435	26,570	33,886	38,725



Operating Statistics by Towns:

	WATER AMOUNT			WATER CCF		
	2012	2011	2010	2012	2011	2010
City of Memphis	$ 70,279	$ 71,725	$ 70,240	49,804	49,319	52,713
Resale to Other Municipalities:						
Arlington	1,473	1,384	1,317	652	604	619
Bartlett	29	27	26	4	2	1
Collierville	160	-	-	65	-	-
Germantown	99	82	81	112	27	28
Lakeland	1,459	1,396	1,380	635	605	632
Millington	72	65	62	52	29	28
Other Rural Areas	11,329	11,703	11,487	5,125	5,322	5,487
Total	$ 84,900	$ 86,382	$ 84,593	56,449	55,908	59,508



Financial Statements

and Supplementary Information

MLGW

Memphis Light, Gas and Water Division
Years ended December 31, 2012 and 2011
with Independent Auditor's Report

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An Independent CPA Firm

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Independent Auditor's Report

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

Report on the Financial Statements

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 years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Divisions' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 not purport to, and do not, present fairly the financial position of the City of Memphis, Tennessee, as of December 31, 2012 and 2011, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis; schedule of funding progress for OPEB; schedule of employer contributions - OPEB; and schedule of funding progress for pension plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the basic financial statements of each Division. 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 supplementary information shown as the schedule of additions and retirements to utility plant; schedule of long term debt, principal, and interest requirements; and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is 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 do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2013, on our consideration of the Divisions' internal control over financial reporting and on our tests of their 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Divisions' internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Memphis, Tennessee
June 6, 2013

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 Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; the Statements of Cash Flows; and the accompanying Notes. This report also contains required supplementary information in addition to the basic financial statements.

The Statement of Net Position reports the assets and deferred outflows of resources less liabilities and deferred inflows of resources, with the difference being the net position. Net position will be displayed in three components: net investment in capital assets, restricted, and unrestricted. Over time, increases or decreases in net position may serve as an indicator of whether the financial position is improving or declining. The Statements of Revenues, Expenses and Changes in Net Position show how net position changed during each year based on revenues and expenses. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The Statements of Cash Flows report changes in cash and cash equivalents summarized by net changes from operating, capital and related financing and investing activities. The Notes provide additional detailed information to support the financial statements. The statements present the current year and preceding year for comparison. The report also includes Statistical Highlights. These highlights convey significant data that affords the readers a better historical perspective and assists in assessing the current financial status and trends of MLGW. The highlights present a three-year comparison beginning with the current year and preceding two years for the electric, gas and water divisions.

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.

STATISTICAL HIGHLIGHTS-ELECTRIC DIVISION

Years Ended December 31

CATEGORIES	2012	2011	2010
OPERATING REVENUE			
Residential	$ 508,971,517	$ 529,391,733	$ 534,223,080
Commercial - General Service	601,786,489	612,792,482	597,255,867
Industrial	116,010,509	116,452,972	99,990,897
Outdoor Lighting and Traffic Signals	22,669,769	22,634,114	21,632,419
Interdepartmental	10,002,069	9,681,521	9,747,426
Green Power	(639,462)	16,179	73,196
Miscellaneous	32,680,892	32,616,766	32,257,186
Accrued Unbilled Revenue	(14,329,780)	5,173,234	(4,755,997)
Revenue Adjustment for Uncollectibles	(6,585,758)	(9,728,851)	(8,939,192)
TOTAL OPERATING REVENUE	$ 1,270,566,245	$ 1,319,030,150	$ 1,281,484,882
CUSTOMERS			
Residential	361,029	360,353	362,104
Commercial - General Service	43,499	43,467	43,493
Industrial	142	145	145
Outdoor Lighting and Traffic Signals	17,009	16,968	17,056
Interdepartmental	47	46	46
Total Customers	421,726	420,979	422,844
KWH SALES (THOUSANDS)			
Residential	5,326,644	5,523,696	5,875,646
Commercial - General Service	6,521,467	6,601,025	6,796,034
Industrial	1,930,759	1,893,117	1,791,856
Outdoor Lighting and Traffic Signals	161,152	160,197	160,558
Interdepartmental	117,501	113,400	125,942
Total KWH Sales (Thousands)	14,057,523	14,291,435	14,750,036
OPERATING REVENUE/CUSTOMER			
Residential	$ 1,409.78	$ 1,469.09	$ 1,475.33
Commercial - General Service	13,834.49	14,097.88	13,732.15
Industrial	816,975.42	803,123.95	688,010.76
Outdoor Lighting and Traffic Signals	1,332.81	1,333.93	1,268.30
Interdepartmental	212,809.98	210,467.84	212,671.11
OPERATING REVENUE/KWH			
Residential	$ 0.096	$ 0.096	$ 0.091
Commercial - General Service	0.092	0.093	0.088
Industrial	0.060	0.062	0.056
Outdoor Lighting and Traffic Signals	0.141	0.141	0.135
Interdepartmental	0.085	0.085	0.077
KWH/CUSTOMER			
Residential	14,754.07	15,328.57	16,226.42
Commercial - General Service	149,922.23	151,862.91	156,254.91
Industrial	13,596,894.37	13,055,979.31	12,329,281.56
Outdoor Lighting and Traffic Signals	9,474.51	9,441.13	9,413.50
Interdepartmental	2,500,021.28	2,465,217.39	2,747,835.47

**See graph on M-5.*

STATISTICAL HIGHLIGHTS-GAS DIVISION

Years Ended December 31

CATEGORIES	2012	2011	2010
OPERATING REVENUE			
Residential	$ 131,143,391	$ 185,614,701	$ 208,711,584
Commercial - General Service	61,388,162	90,241,910	99,938,314
Industrial	3,192,698	6,638,076	8,483,397
Interdepartmental	190,390	289,998	234,209
Transported Gas	5,696,198	4,620,560	3,763,784
Spot Gas	6,435,704	10,700,934	22,656,163
Miscellaneous	29,466,309	(34,725,612)	11,984,518
Accrued Unbilled Revenue	(10,170,756)	25,696,174	(13,873,377)
Revenue Adjustment for Uncollectibles	(1,535,459)	(2,242,672)	(2,463,276)
TOTAL OPERATING REVENUE	$ 225,806,637	$ 286,834,069	$ 339,435,316
CUSTOMERS			
Residential	290,147	290,866	291,983
Commercial - General Service	22,289	22,374	22,456
Industrial	35	38	37
Interdepartmental	17	16	15
Transported Gas	90	84	73
Spot Gas	38	41	51
Total Customers	312,616	313,419	314,615
MCF SALES			
Residential	15,251,028	19,673,047	21,646,835
Commercial - General Service	8,910,754	10,991,897	11,674,934
Industrial	736,980	1,140,890	1,176,810
Interdepartmental	29,088	38,494	29,229
Spot Gas	1,641,652	2,041,832	4,196,902
Total MCF Sales	26,569,502	33,886,160	38,724,710
OPERATING REVENUE/CUSTOMER			
Residential	$ 451.99	$ 638.15	$ 714.81
Commercial - General Service	2,754.19	4,033.37	4,450.39
Industrial	91,219.93	177,015.36	230,318.48
Interdepartmental	11,199.40	18,609.48	15,191.92
Transported Gas	63,291.09	55,280.88	51,617.61
Spot Gas	169,360.63	264,220.58	445,695.00
OPERATING REVENUE/MCF			
Residential	$ 8.60	$ 9.44	$ 9.64
Commercial - General Service	6.89	8.21	8.56
Industrial	4.33	5.82	7.21
Interdepartmental	6.55	7.53	8.01
Spot Gas	3.92	5.24	5.40
MCF/CUSTOMER			
Residential	52.56	67.64	74.14
Commercial - General Service	399.78	491.28	519.90
Industrial	21,056.57	30,423.69	31,949.60
Interdepartmental	1,711.06	2,470.22	1,895.90
Spot Gas	43,201.39	50,415.60	82,562.01

**See graph on M-5.*

STATISTICAL HIGHLIGHTS-WATER DIVISION

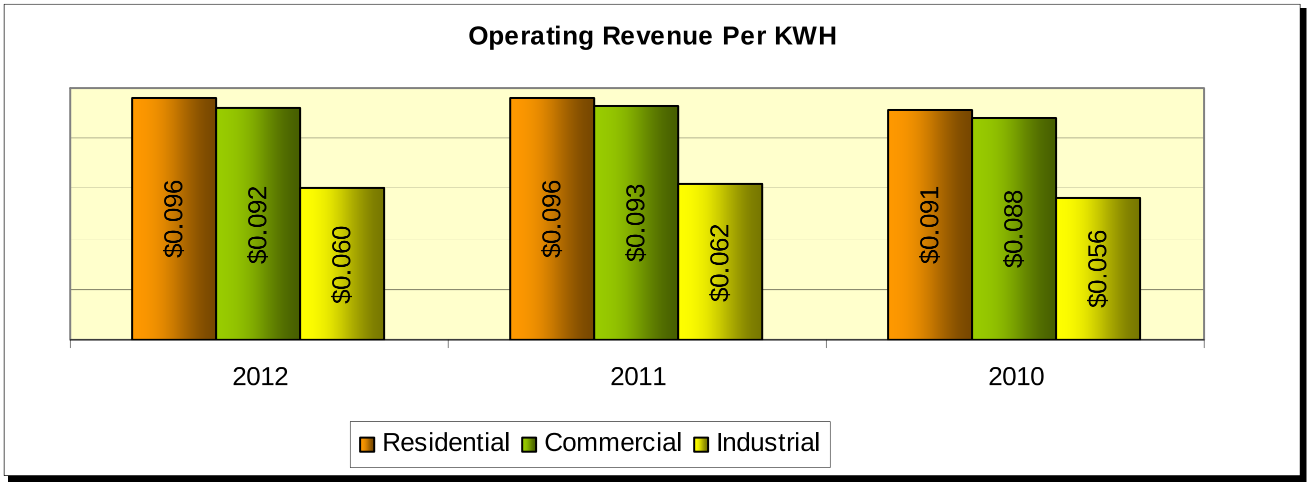
Years Ended December 31

CATEGORIES	2012	2011	2010
OPERATING REVENUE			
Residential	$ 41,439,820	$ 41,676,945	$ 41,763,475
Commercial - General Service	32,843,191	32,316,972	31,778,840
Resale	369,835	413,589	374,808
Fire Protection	3,527,080	3,532,763	3,328,484
Interdepartmental	50,576	53,328	52,592
Miscellaneous	8,418,398	8,307,878	8,563,325
Accrued Unbilled Revenue	(662,407)	1,289,069	70,025
Revenue Adjustment for Uncollectibles	(1,086,475)	(1,208,214)	(1,338,198)
TOTAL OPERATING REVENUE	$ 84,900,018	$ 86,382,330	$ 84,593,351
CUSTOMERS			
Residential	227,961	228,424	229,429
Commercial - General Service	20,313	20,265	20,317
Resale	13	13	13
Fire Protection	4,879	4,884	4,863
Government and Municipal (Free)	618	614	624
Interdepartmental	54	54	54
Total Customers	253,838	254,254	255,300
METERED WATER (CCF)			
Residential	25,647,247	25,813,028	28,039,007
Commercial - General Service	28,609,765	27,925,614	29,073,734
Resale	439,517	405,808	377,513
Government and Municipal (Free)	1,723,320	1,731,614	1,984,626
Interdepartmental	29,156	31,640	33,564
Total CCF Sales	56,449,005	55,907,704	59,508,444
OPERATING REVENUE/CUSTOMER			
Residential	$ 181.78	$ 182.45	$ 182.03
Commercial - General Service	1,616.86	1,594.70	1,564.18
Resale	28,448.83	32,217.39	28,831.35
Fire Protection	722.91	723.36	684.42
Interdepartmental	936.59	981.46	975.44
OPERATING REVENUE/CCF			
Residential	$ 1.616	$ 1.615	$ 1.489
Commercial - General Service	1.148	1.157	1.093
Resale	0.841	1.019	0.993
Interdepartmental	1.735	1.685	1.567
CCF/CUSTOMER			
Residential	112.51	113.00	122.21
Commercial - General Service	1,408.45	1,378.01	1,431.03
Resale	33,809.00	31,615.79	29,039.46
Government and Municipal (Free)	2,788.54	2,820.19	3,179.22
Interdepartmental	539.93	582.30	622.52

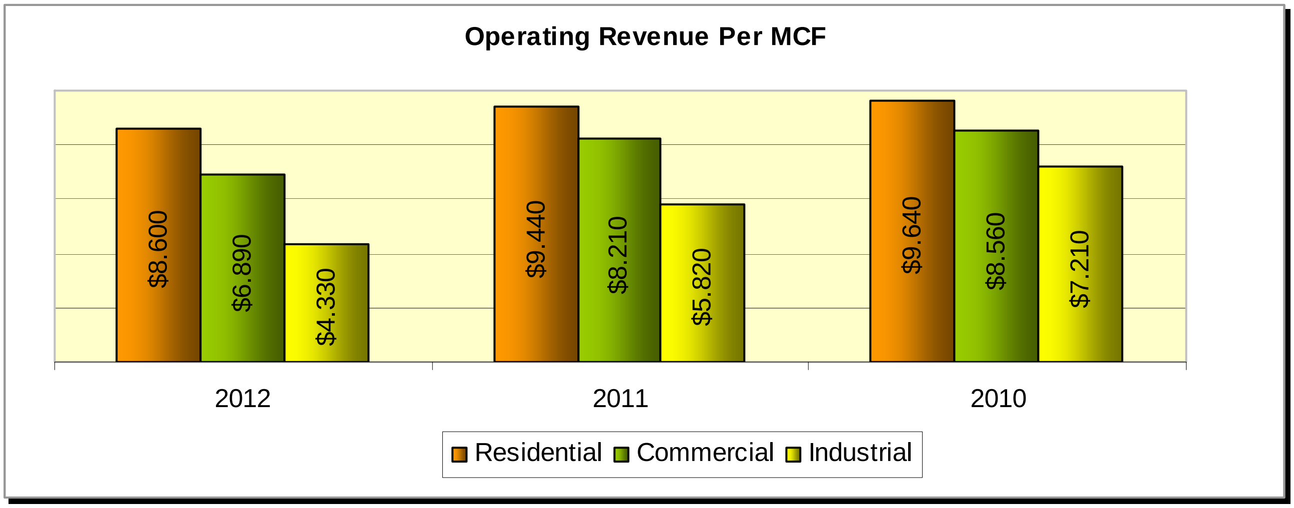
**See graph on M-6.*

GRAPHS

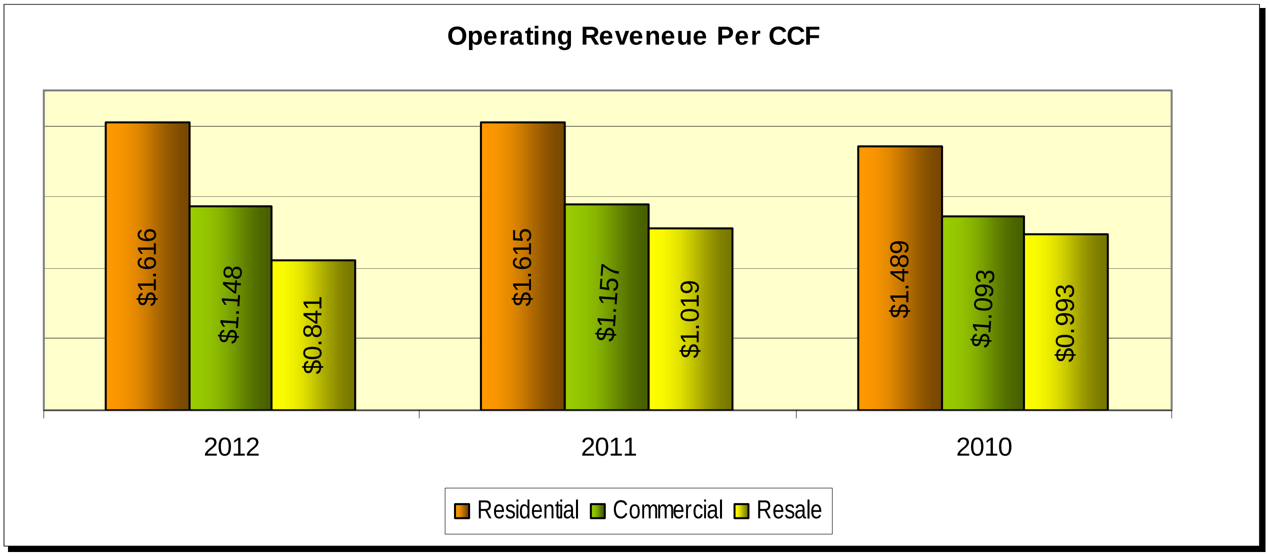
Electric Division



Gas Division



Water Division



Bond Ratings

MLGW's Electric Division continues to maintain strong bond ratings. The Electric Division has debt outstanding of $662,695 as of December 31, 2012. The Water Division bonds were retired in 2012. The Gas Division currently has no debt that is credit rated. In November 2012, Moody's Investors Service re-affirmed MLGW's Aa2 rating on the Electric Division's outstanding debt. Moody's rationale supporting the rating included MLGW's reliable and economical power supply from the Tennessee Valley Authority (TVA) and its well-established record of satisfactory finances and competitive retail rates. MLGW's debt service coverage is 1.66 and is well above the 1.00 required by the Electric Division bond covenant. 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 favorable rates compared to companies with lower ratings.

The following tables show MLGW bond ratings and debt administration for the Electric Division as of December 31, 2012:

Figure 1: Bond Ratings and Debt Administration for Electric Division

MLGW Bond Ratings

	S&P	Moody's	Fitch
Electric			
2003A	AA+	Aa2	AA+
2008	AA+	Aa2	AA+
2010	AA+	Aa2	AA+

Debt Administration (In Thousands)

	Outstanding Balance	Coverage
Electric	$662,695	1.66

Analysis of the Electric Division's Statement of Net Position

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

Table 1
Electric Division Condensed Statements of Net Position
December 31
(In Thousands)

	2012	2011	FY12 - FY11 Percentage Change	2010	FY11 - FY10 Percentage Change
Current assets (excluding restricted funds)	$ 469,548	$ 486,796	-3.5%	$ 478,012	1.8%
Restricted assets	57,537	54,911	4.8%	53,878	1.9%
Other assets	4,254	5,781	-26.4%	7,566	-23.6%
Prepaid power costs - long-term	573,115	680,894	-15.8%	785,243	-13.3%
Utility plant	977,339	948,159	3.1%	929,401	2.0%
Total assets	2,081,793	2,176,541	-4.4%	2,254,100	-3.4%
Current liabilities payable from current assets	$ 307,261	$ 294,165	4.5%	$ 288,514	2.0%
Current liabilities payable from restricted assets	29,987	28,703	4.5%	28,301	1.4%
Long-term debt	592,272	701,531	-15.6%	807,287	-13.1%
Non-current liabilities	33,099	35,212	-6.0%	36,294	-3.0%
Total liabilities	962,619	1,059,611	-9.2%	1,160,396	-8.7%
Net position:					
Net investment in capital assets	977,339	948,159	3.1%	929,401	2.0%
Restricted	16,665	16,206	2.8%	15,748	2.9%
Unrestricted	125,170	152,565	-18.0%	148,555	2.7%
Total Net position	$ 1,119,174	$ 1,116,930	0.2%	$ 1,093,704	2.1%

Assets

2012 Compared to 2011:

As of December 31, 2012, total assets were $2.08 billion, a decrease of $94.7 million, or 4.4%, compared to December 31, 2011. This decrease is due, in part, to a decrease in prepaid power cost of $107.8 million due to amortization (see Note 12), a decrease in other assets of $1.5 million due primarily to amortization of debt expenses, and a decrease in current assets of $17.2 million. The decrease in current assets is primarily the result of decreases in cash and cash equivalents ($4.5 million), investments ($6.1 million), unbilled revenues ($14.3 million), and accounts receivable ($10.7 million), partially offset by increases in inventories ($2.5 million) and collateral held in trust for securities on loan ($12.0 million). These decreases are partially offset by a $29.2 million increase in utility plant as a result of additions to electric plant in-service.

2011 Compared to 2010:

As of December 31, 2011, total assets were $2.18 billion, a decrease of $77.6 million, or 3.4%, compared to December 31, 2010. This decrease is due, in part, to a decrease in prepaid power cost of $100.5 million resulting from amortization (see Note 12). This decrease is partially offset by an $18.8 million increase in utility plant as a result of additions to electric plant in-service and an increase in current assets of $8.8 million. These increases are primarily the results of increases in cash and cash equivalents ($5.4 million), investments ($12.2 million), and unbilled revenues ($5.2 million), partially offset by decreases in accounts receivable ($16.6 million) and other current assets ($1.5 million).

Capital Assets and Construction Activities

2012 Compared to 2011:

The Electric Division's utility plant assets, net of accumulated depreciation were $977.3 million as of December 31, 2012, an increase of $29.2 million (3.1%) over fiscal year 2011. During 2012, the Electric Division expended $72.4 million on capital equipment purchases and construction activities, an increase of $11.5 million or 19.0% compared to fiscal year 2011. Major Electric Division construction activities included substation and transmission projects ($24.5 million), extensions to serve new customers ($5.6 million), and the purchase of transformers ($5.0 million). Other significant Electric Division capital expenditures consisted of purchase of property ($4.8 million), Smart Grid, net of reimbursements ($3.8 million), street lighting and leased outdoor lighting ($3.8 million), replacement of feeder and defective cable ($3.3 million), purchase of meters and metering equipment ($2.6 million), and the customer information system ($2.2 million).

2011 Compared to 2010:

The Electric Division had approximately $948.2 million in utility plant assets, net of accumulated depreciation, as of December 31, 2011, an increase of 2.0% over fiscal year 2010. During 2011, the Electric Division expended $60.9 million on capital equipment purchases and construction activities, a decrease of $0.4 million or 1.2% compared to fiscal year 2010. Major Electric Division construction activities included substation and transmission projects ($16.0 million), extensions to serve new customers ($6.0 million), and the purchase of transformers ($5.8 million). Other significant Electric Division capital expenditures consisted of street lighting and leased outdoor lighting ($4.7 million), replacement of feeder and defective cable ($3.3 million), the purchase of meters and metering equipment ($2.8 million), and Smart Grid, net of reimbursements ($2.4 million).

Liabilities

2012 Compared to 2011:

As of December 31, 2012, total liabilities were $963 million, a decrease of $97 million, or 9.2%, compared to $1.06 billion as of December 31, 2011. This decrease is due to a $109.3 million decrease (15.6%) in long-term debt resulting from principal payments made in 2012 and premium amortization (see Note 11). This decrease was partially offset by a $13.1 million increase (4.5%) in current liabilities payable from current assets attributable primarily to a $12.0 million increase in securities on loan under the Division's securities lending program. Non-current liabilities decreased by $2.1 million due to other deferred credits for long-term pollution remediation.

2011 Compared to 2010:

Total liabilities were $1.06 billion as of December 31, 2011, a decrease of $100.8 million, or 8.7%, compared to $1.16 billion as of December 31, 2010. This decrease is due to a $105.8 million decrease (13.1%) in long-term debt resulting from principal payments made in 2011, and premium amortization (see Note 11). This decrease was partially offset by a $5.7 million increase (2.0%) in current liabilities payable from current assets attributable primarily to a $1.6 million increase in other accounts payable, accrued expenses and deferrals. Non-current liabilities decreased by $1.1 million due to a deferred credit for long-term pollution remediation.

Net Position

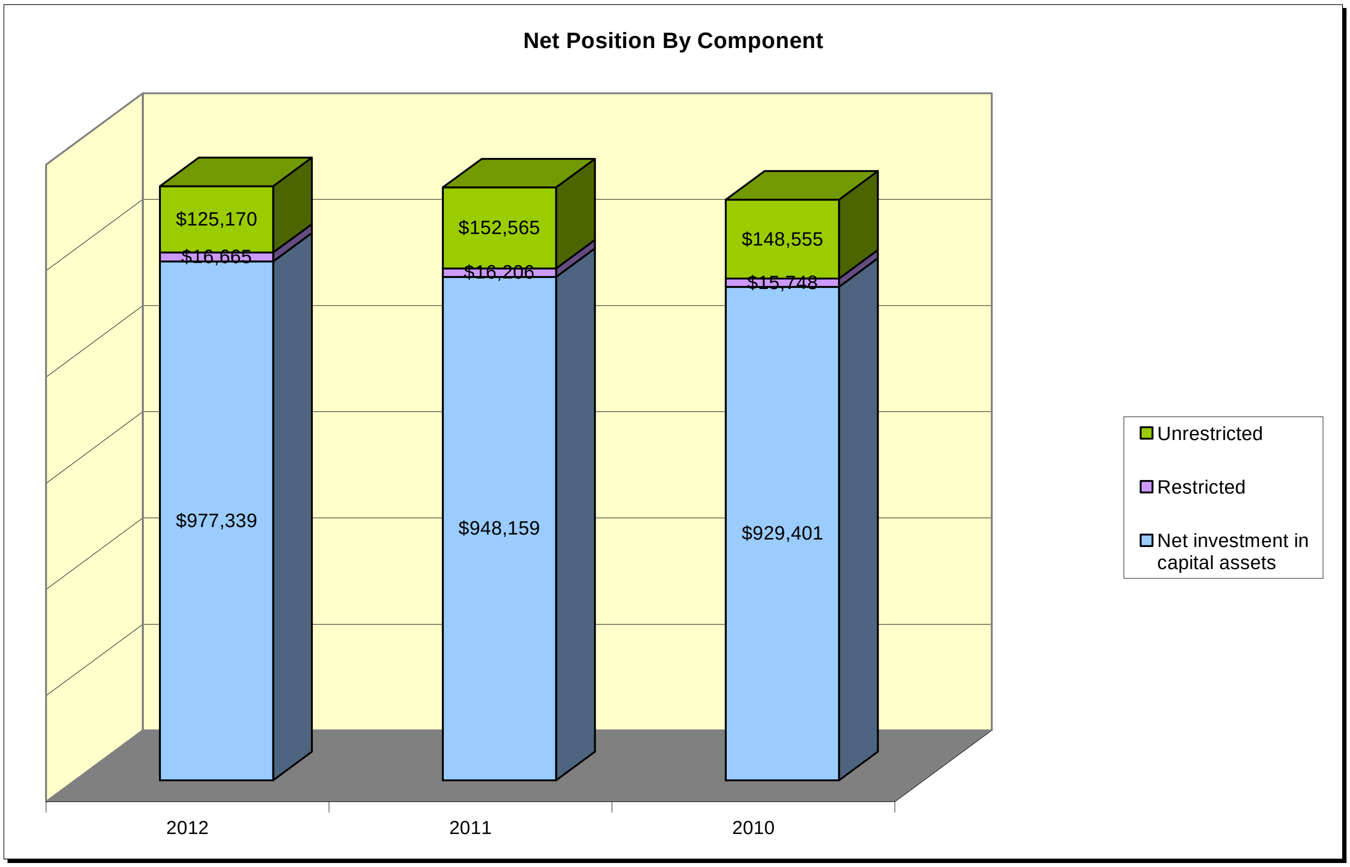
2012 Compared to 2011:

As of December 31, 2012, the Electric Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) was $1.12 billion, an increase of $2.2 million, or 0.2%, compared to December 31, 2011. Eighty-seven percent of the net position was related to utility plant, net of related debt, which accounts for $29.2 million of the increase, partially offset by a decrease in unrestricted net position (used to finance day-to-day operations) of $27.4 million.

2011 Compared to 2010:

For fiscal year 2011, the Electric Division's total net position was $1.12 billion, an increase of $23.2 million, or 2.1%, compared to $1.09 billion as of December 31, 2010. Eighty-five percent of the net position was related to utility plant, net of related debt, which accounts for $18.8 million of the increase and unrestricted net position (used to finance day-to-day operations) contributed $4.0 million to the overall increase in total net position.

Figure 2: Electric Division's Net Position (in thousands):



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

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

Table 2
Electric Division
Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2012, 2011, and 2010
(In Thousands)

	2012	2011	FY12 - FY11 Percentage Change	2010	FY11 - FY10 Percentage Change
Revenues:					
Operating revenues	$ 1,270,566	$ 1,319,030	-3.7%	$ 1,281,485	2.9%
Non-operating revenues	60,970	66,403	-8.2%	66,861	-0.7%
Total revenues	1,331,536	1,385,433	-3.9%	1,348,346	2.8%
Expenses:					
Depreciation expense	44,698	43,833	2.0%	42,100	4.1%
Purchased power	1,045,362	1,073,538	-2.6%	1,032,960	3.9%
Other operating expense	176,407	173,992	1.4%	160,657	8.3%
Non-operating expense	27,847	31,405	-11.3%	34,948	-10.1%
Total expenses	1,294,314	1,322,768	-2.2%	1,270,665	4.1%
Income (loss) before contributions in aid of construction and transfers	37,222	62,665	-40.6%	77,681	-19.3%
Contributions in aid of construction	14,033	10,817	29.7%	7,827	38.2%
Reduction of plant costs recovered through contributions in aid of construction	(14,033)	(10,817)	-29.7%	(7,827)	-38.2%
Transfers to City of Memphis	(34,978)	(39,439)	-11.3%	(38,408)	2.7%
Change in net positon	$ 2,244	$ 23,226	-90.3%	$ 39,273	-40.9%
Net position, beginning of year	$ 1,116,930	$ 1,093,704	2.1%	$ 1,054,431	3.7%
Change in net position	2,244	23,226	-90.3%	39,273	-40.9%
Net position, end of year	$ 1,119,174	$ 1,116,930	0.2%	$ 1,093,704	2.1%

Change in Net Position

2012 Compared to 2011:

As of December 31, 2012, the change in net position was $2.2 million, representing a $21.0 million, or 90.3% decrease, as compared to December 2011. The decrease is mainly due to a decrease in operating revenues of $48.5 million, non-operating revenues of $5.4 million, and increases in other operating expenses of $2.4 million and depreciation expenses of $0.9 million, offset by a decrease in purchased power of $28.2 million, non-operating expenses of $3.6 million, and transfers to the city of $4.5 million.

2011 Compared to 2010:

As of December 31, 2011, the change in net position was $23.2 million representing a $16.0 million, or 40.9%, decrease, as compared to December 31, 2010. This decrease was mainly due to an increase in purchased power costs ($40.6 million) and operation and maintenance expenses ($13.2 million) partially offset by a $37.5 million increase in operating revenues.

Revenues

2012 Compared to 2011:

Total revenues were $1.33 billion for fiscal year 2012, a decrease of $53.8 million (3.9%) from fiscal year 2011. Operating revenues were $1.27 billion in 2012, decreasing by $48.4 million from 2011. The decrease in operating revenues is due to a 1.6% decrease in 2012 electricity sales, lower power costs per unit that are passed along to customers by a fuel cost adjustor, and a change in the method used to estimate accrued/unbilled revenues. There was a corresponding decrease in purchased power costs of $28.1 million due to lower purchased volumes and lower power costs per unit. Non-operating revenues decreased by 8.2% in 2012 as a result of a $3.6 million decrease in other income prepay credit, related to the Electric Prepay Bonds and a $1.7 million decrease in miscellaneous non-operating income.

2011 Compared to 2010:

For fiscal year 2011, total revenues were $1.39 billion, an increase of $37.1 million (2.8%) from fiscal year 2010. Operating revenues were $1.32 billion in 2011, increasing by $37.5 million over 2010. Wholesale rate adjustments increased sales revenues by $33.3 million, despite a 3.1% decrease in 2011 electricity sales. There was a corresponding increase in purchased power costs of $40.6 million. Non-operating revenues decreased by 0.7% in 2011 as a result of a $3.2 million decrease in other income prepay credit, related to the Electric Prepay Bonds, which was offset by a $2.2 million increase in miscellaneous non-operating income.

Expenses

2012 Compared to 2011:

For fiscal year 2012, total expenses were $1.29 billion, a decrease of $28.5 million, or 2.2%, compared to fiscal year 2011. This decrease resulted from a $28.2 million decrease (2.6%) in purchased power costs, a decrease in non-operating expenses of $3.6 million (11.3%), offset in part by increases in other operating expense of $2.4 million (1.4%) and depreciation expense of $0.9 million (2.0%). The decrease in non-operating expenses is the result of savings realized on interest expenses due to the amortization of the Series 2003A Bonds. The increase in other operating expenses is the result of an increase in payment in lieu of taxes of $4.9 million, offset in part by a decrease in operation and maintenance expenses of $2.5 million. (The increase in payment in lieu of taxes is offset by a corresponding decrease in Transfer to the City of Memphis.)

2011 Compared to 2010:

As of December 31, 2011, total expenses were $1.32 billion, an increase of $52.1 million, or 4.1%, compared to fiscal year 2010. This increase resulted from a $40.6 million (3.9%) increase in purchased power costs and a $13.3 million (8.3%) increase in other operating expenses. Non-operating expenses decreased by $3.5 million, or 10.1%, which is the result of savings realized on interest expenses due to the advanced refunding of the Series 2003A Bonds. Other operating expenses increased $3.8 million due to four storms in the Memphis area. Depreciation expense also increased $1.7 million (4.1%).

Contributions in aid of construction

2012 Compared to 2011:

Contributions in aid of construction ("CIAC") were $14.0 million for fiscal year 2012, an increase of $3.2 million (29.7%) from fiscal year 2011. This increase was mainly the result of increases of $2.7 million in construction activity, $2.4 million in grants and economic development, $1.1 million in property damage claims and $0.9 million in cancelled contracts. These increases were partially offset by a decrease of $3.9 million in reimbursement from the Federal Emergency Management Agency (FEMA) for natural disasters.

2011 Compared to 2010:

CIAC were $10.8 million for fiscal year 2011, an increase of $3.0 million (38.2%) from fiscal year 2010. This increase was mainly the result of a $3.0 million increase in reimbursements from FEMA for natural disasters and an increase of $1.5 million for economic development. Federal grants increased by $0.6 million. These increases were partially offset by a reduction in construction activity of $2.1 million.

Transfers to the City of Memphis

2012 Compared to 2011:

MLGW's transfer to the City of Memphis is based on the formula provided by the May 29, 1987 TVA Power Contract Amendment (Supp. No. 8). 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. The transfer for 2012 decreased by $4.5 million due to the City directing payment of $4.6 million directly to Shelby County (see corresponding increase discussed on p. M-12). For 2011, the tax applicable to Shelby County was paid as a transfer to the City and the Electric Division calculation was based on the formula provided by the State of Tennessee Municipal Electric System Tax Equivalent Law of 1987.

2011 Compared to 2010:

For the year ended December 31, 2011, transfers to the City were $39.4 million. This represents a $1.0 million increase compared to fiscal year 2010. Of this, $0.5 million is attributed to an increase in net plant. The remaining $0.5 million is due to an increase in the three-year average net operating revenues.

Analysis of the Gas Division's Statement of Net Position

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

Table 3
Gas Division Condensed Statements of Net Position
December 31
(In Thousands)

	2012	2011	FY12 - FY11 Percentage Change	2010	FY11 - FY10 Percentage Change
Current assets (excluding restricted funds)	$ 229,718	$ 233,663	-1.7%	$ 262,353	-10.9%
Restricted assets	16,900	13,321	26.9%	14,801	-10.0%
Other assets	3,850	5,280	-27.1%	6,530	-19.1%
Utility plant	306,868	306,255	0.2%	299,687	2.2%
Total assets	557,336	558,519	-0.2%	583,371	-4.3%
Deferred outflows of resources					
Accumulated decrease in fair value of hedging derivatives	1,439	2,366	-39.2%	1,983	19.3%
Total assets and deferred outflows	558,775	560,885	-0.4%	585,354	-4.2%
Current liabilities payable from current assets	$ 87,359	$ 87,449	-0.1%	$ 119,615	-26.9%
Current liabilities payable from restricted assets	5,440	5,162	5.4%	5,989	-13.8%
Non-current liabilities	7,779	8,066	-3.6%	8,567	-5.8%
Total liabilities	100,578	100,677	-0.1%	134,171	-25.0%
Net position:					
Net investment in capital assets	306,868	306,255	0.2%	299,687	2.2%
Restricted	9,346	5,623	66.2%	5,950	-5.5%
Unrestricted	141,983	148,330	-4.3%	145,546	1.9%
Total Net position	$ 458,197	$ 460,208	-0.4%	$ 451,183	2.0%

Assets

2012 Compared to 2011:

As of December 31, 2012, total assets were $557.3 million, a decrease of $1.2 million, or 0.2%, compared to December 31, 2011. This decrease is due, in part, to a decrease in current assets of $4.0 million, a decrease in other assets of $1.4 million, and a decrease in the fair value of hedging derivatives of $0.9 million, partly offset by an increase in restricted assets of $3.6 million. The decrease in current assets is primarily the result of decreases in accounts receivable ($13.8 million), unbilled revenue ($10.2 million), inventory ($9.4 million), and other current assets ($3.3 million), partly offset by increases in cash and cash equivalents ($10.8 million), investments ($6.1 million), and collateral held in trust for securities on loan ($15.0 million). Restricted assets increased by $3.6 million for fiscal year 2012 due to increases in insurance reserves – injuries and damages ($0.5 million) and insurance reserves – casualties and general ($4.1 million), partially offset by a decrease in customer deposits ($0.7 million). Other assets decreased by $1.4 million primarily as a result of notes receivable and other payments per the scheduled amortization activity associated with the Valero pipeline lease (see Note 3).

2011 Compared to 2010:

As of December, 31 2011 total assets were $558.5 million, a decrease of $24.8 million or 4.3% from December 31, 2010. Current assets decreased by $28.7 million for fiscal year 2011 due to decreases in cash and cash equivalents ($9.1 million), accounts receivable, less allowance for doubtful accounts ($4.4 million) and unbilled revenue ($15.9 million). This decrease was partially offset by an increase in other current assets ($0.8 million). Restricted assets decreased by $1.5 million for fiscal year 2011 due to decreases in insurance reserves – injuries and damages ($0.9 million) and customer deposits ($0.6 million). Other assets decreased by $1.3 million primarily as a result of the scheduled amortization activity associated with the Valero pipeline lease (see Note 3).

Capital Assets and Construction Activities

2012 Compared to 2011:

The Gas Division's utility plant assets, net of accumulated depreciation, were $306.9 million as of December 31, 2012, an increase of $0.6 million (0.2%) over December 31, 2011. During 2012, the Gas Division expended $16.0 million on capital equipment purchases and construction activities, a decrease of $4.1 million, or 20.4%, compared to fiscal year 2011. Major Gas Division construction activities include meters and metering equipment ($2.1 million), pipeline integrity ($1.4 million), extensions to serve customers ($1.2 million), and relocation of facilities to accommodate road improvements ($0.2 million). A substantial portion of the Gas Division's expenditures was also attributed to retrofitting of cast iron systems and steel taps ($4.4 million), purchase of transportation and power-operated equipment ($2.7 million), and buildings and structures ($1.5 million).

2011 Compared to 2010:

The Gas Division had approximately $306.3 million in utility plant assets, net of accumulated depreciation, as of December 2011, an increase of $6.6 million, or 2.2%, from December 31, 2010. During 2011, the Gas Division expended $20.1 million on capital equipment purchases and construction activities, an increase of $0.9 million or 4.7% compared to fiscal year 2010. Major Gas Division construction activities include retrofitting of cast iron systems and steel taps ($3.4 million), pipeline integrity ($1.4 million), extensions to serve customers ($0.9 million), and relocation of facilities to accommodate road improvements ($0.6 million). Additionally, a substantial portion of the Gas Division's expenditures was also attributed to meters and metering equipment ($6.0 million), purchase of transportation and power-operated equipment ($3.6 million), and buildings and structures ($1.4 million).

Liabilities

2012 Compared to 2011:

As of December 31, 2012, total liabilities were $100.6 million compared to $100.7 million as of December 31, 2011, a $0.1 million decrease (0.1%). Current liabilities payable from current assets decreased 0.1% or $0.1 million, as a result of decreases in derivative financial instruments ($0.9 million), and other liabilities, accounts payable and accrued expenses ($16.6 million), largely attributable to lower PGA. This decrease was partially offset by a $15.0 million increase in collateral subject to return to borrowers and accounts payable-purchased gas ($2.5 million). The $0.3 million increase in current liabilities payable from restricted assets is due to increases in insurance reserves – injuries and damages ($0.5 million), partially offset by decreases in customer deposits ($0.3 million).

2011 Compared to 2010:

For fiscal year 2011, total liabilities were $100.7 million as compared to $134.2 million as of December 31, 2010, a $33.5 million decrease (25.0%). Current liabilities payable from current assets decreased by $32.2 million, or 26.9%, as a result of decreases in accounts payable for purchased gas ($15.6 million) and other deferred credits related to purchased gas adjustments ($18.2 million). This decrease was partially offset by a $1.3 million increase in collateral subject to return to borrowers. The $0.8 million decrease in current liabilities payable from restricted assets was due to decreases in insurance reserves – injuries and damages ($0.9 million).

Net Position

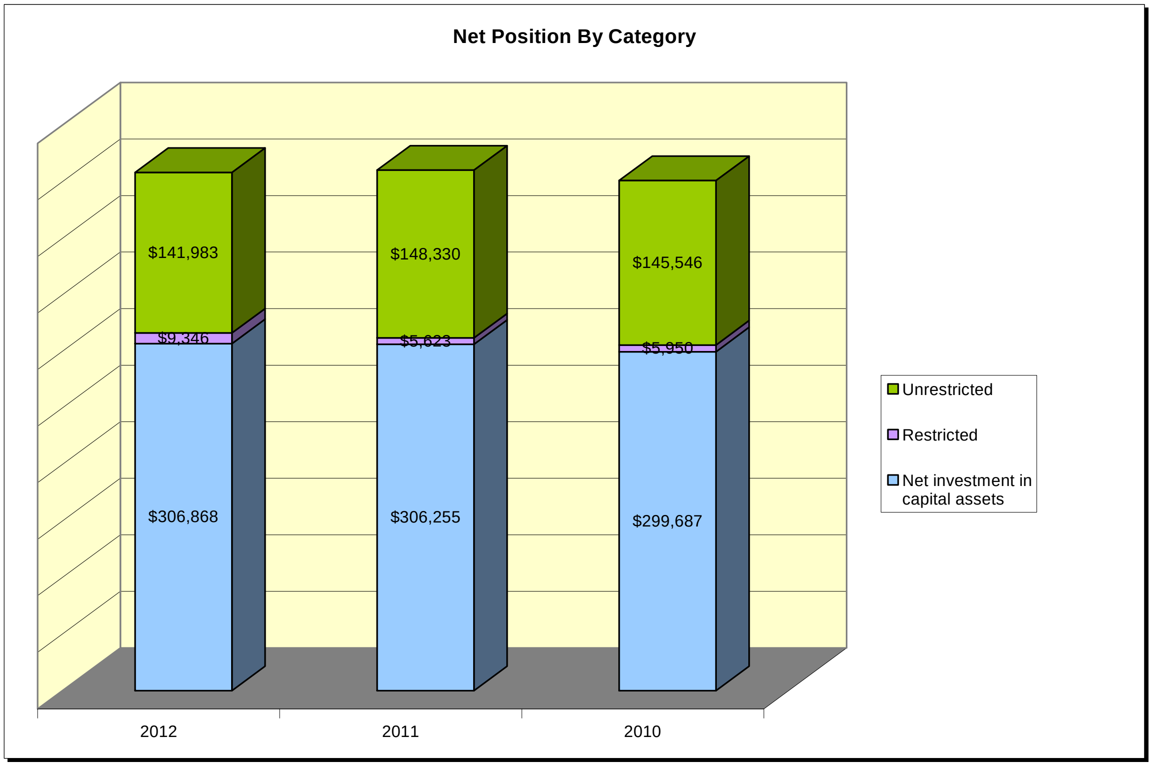
2012 Compared to 2011:

As of December 31, 2012, the Gas Division's total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) decreased by $2.0 million, or 0.4%, compared to fiscal year 2011. This decrease is due to decreases in unrestricted net position ($6.3 million), partially offset by an increase in restricted net position of $3.7 million. Utility plant, net of related debt, represents 67.0% of total net position.

2011 Compared to 2010:

For fiscal year 2011, net position increased by $9.0 million, or 2.0% over fiscal year 2010. This increase was due to increases in utility plant, net of related debt ($6.6 million) and unrestricted net position ($2.8 million) partially offset by a decrease in restricted net position of $0.3 million. Utility plant, net of related debt, represents 66.5% of total net position.

Figure 3: Gas Division's Net Position (in thousands):



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

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

Table 4
Gas Division
Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2012, 2011, and 2010
(In Thousands)

	2012	2011	FY12 - FY11 Percentage Change	2010	FY11 - FY10 Percentage Change
Revenues:					
Sales, service and other operating revenues	$ 219,444	$ 281,124	-21.9%	$334,548	-16.0%
Transported gas revenue	6,362	5,710	11.4%	4,887	16.8%
Non-operating revenues	589	1,575	-62.6%	1,915	-17.8%
Total revenues	226,395	288,409	-21.5%	341,350	-15.5%
Expenses:					
Depreciation expense	13,261	12,709	4.3%	12,266	3.6%
Purchased gas	112,051	168,189	-33.4%	213,538	-21.2%
Other operating expense	88,432	82,623	7.0%	78,943	4.7%
Non-operating expense	-	197	-100.0%	48	310.4%
Total expenses	213,744	263,718	-18.9%	304,795	-13.5%
Income (loss) before contributions in aid of construction and transfers	12,651	24,691	-48.8%	36,555	-32.5%
Contributions in aid of construction	542	406	33.5%	16	2437.5%
Reduction of plant costs recovered through contributions in aid of construction	(542)	(406)	-33.5%	(16)	-2437.5%
Transfers to City of Memphis	(14,662)	(15,666)	-6.4%	(15,640)	-0.2%
Change in net positon	$ (2,011)	$ 9,025	-122.3%	$ 20,915	-56.8%
Net position, beginning of year	460,208	451,183	2.0%	430,268	4.9%
Change in net position	(2,011)	9,025	-122.3%	20,915	-56.8%
Net position, end of year	$ 458,197	$ 460,208	-0.4%	$451,183	2.0%

Change in Net Position

2012 Compared to 2011:

As of December 31, 2012, the change in net position was a loss of $2.0 million. This represents an $11.0 million, or 122.3% decrease, compared to $9.0 million change as of December 31, 2011. This decrease is mainly due to a decrease in sales, service and other operating revenues of $61.7 million, an increase of other operating expenses of $5.8 million, offset in part by a decrease in purchased gas cost of $56.1 million.

2011 Compared to 2010:

As of December 31, 2011, the change in net position was $9.0 million. This represents an $11.9 million, or 56.8% decrease, as compared to $20.9 million as of December 31, 2010. This decrease was attributable to a decrease in operating margin.

Revenues

2012 Compared to 2011:

Total revenues were $226.4 million for fiscal year 2012, a decrease of 21.5% from fiscal year 2011. Sales, service and other operating revenues were $219.4 million, decreasing by $61.7 million (21.9%) from 2011. The decrease in sales, service, and other operating revenues is due to a 21.6% decrease in 2012 gas sales and lower gas cost per unit that are passed along to customers by a purchased gas adjustor. This was partially offset by a change in the method of estimating accrued unbilled revenue. There was a corresponding decrease in purchased gas cost of $56.1 million (33.4%) due to lower purchased volumes and lower gas costs per unit. Transported gas revenue increased by 11.4% in 2012 resulting from a 13.4% increase in volumes transported. The 62.6% decrease in 2012 non-operating revenues is attributed to a decrease in other income.

2011 Compared to 2010:

Total revenues were $288.4 million for 2011, a decrease of 15.5% from 2010. There was a 16.0% decrease in sales, service and other operating revenues in 2011, which can be attributed to lower wholesale gas prices and a 12.5% decrease in sales. A corresponding 21.2% decrease in purchased gas cost occurred. Transported gas revenue increased by 16.8% in 2011 resulting from a 5.4% increase in volumes transported. The 17.8% decrease in 2011 non-operating revenues is attributed to a decrease in other income.

Expenses

2012 Compared to 2011:

For fiscal year 2012, total expenses were $213.7 million, a decrease of $50.0 million, or 18.9%, from fiscal year 2011. This decrease is mainly due to a $56.1 million decrease in purchased gas resulting from a significant decrease in the average cost of natural gas offset, in part, by an increase of $5.1 million in operations and maintenance expenses and an increase in payment in lieu of taxes of $0.8 million (The increase in payment in lieu of taxes is offset by a corresponding decrease in Transfer to the City of Memphis.)

2011 Compared to 2010:

For fiscal year 2011, total expenses were $263.7 million, a decrease of $41.1 million, or 13.5%, from fiscal year 2010. This decrease is mainly due to a $45.3 million decrease in purchased gas resulting from a significant decrease in the average cost of natural gas offset, in part, by an increase of $4.2 million in maintenance expenses. Non-operating expenses increased by $0.1 million in 2011 as a result of an increase in interest expense.

Contributions in aid of construction

2012 Compared to 2011:

CIAC were $0.5 million for fiscal year 2012, an increase of $0.1 million (33.5%) from fiscal year 2011, due to increased construction activity by developers and other agencies.

2011 Compared to 2010:

For fiscal year 2011, CIAC were $0.4 million, an increase of $0.4 million (2437.5%) from fiscal year 2010, resulting from increased construction activity by developers and other agencies.

Transfers to the City of Memphis

2012 Compared to 2011:

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 power costs (three-year average). Transfers to the City represent the Gas Division's in lieu of tax payment. For fiscal year 2012, transfers to the City were $14.7 million. This represents a $1.0 million decrease from prior year costs. This decrease is due, primarily, to the City directing the Gas Division to pay $0.8 million direct to Shelby County. For 2011 the tax applicable to Shelby County was paid as a transfer to the City.

2011 Compared to 2010:

For fiscal year 2011, transfers to the City were $15.7 million. This represents a $0.03 million increase above prior year costs due to an increase in the three-year average net operating revenues.

Analysis of the Water Division's Statement of Net Position

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

Table 5
Water Division Condensed Statements of Net Position
December 31
(In Thousands)

	2012	2011	FY12 - FY11 Percentage Change	2010	FY11 - FY10 Percentage Change
Current assets (excluding restricted assets)	$ 42,009	$ 40,043	4.9%	$ 43,066	-7.0%
Restricted assets	11,719	17,691	-33.8%	13,669	29.4%
Other assets	2,095	1,682	24.6%	1,849	-9.0%
Utility plant	256,712	255,211	0.6%	254,329	0.3%
Total assets	312,535	314,627	-0.7%	312,913	0.5%
Current liabilities payable from current assets	$ 21,095	$ 18,731	12.6%	$ 19,042	-1.6%
Current liabilities payable from restricted assets	3,935	6,390	-38.4%	3,412	87.3%
Long-term debt	-	-	-	1,612	-100.0%
Non-current liabilities	7,947	7,560	5.1%	7,887	-4.1%
Total liabilities	32,977	32,681	0.9%	31,953	2.3%
Net position:					
Net investment in capital assets	256,712	253,585	1.2%	252,716	0.3%
Restricted	7,100	10,663	-33.4%	9,624	10.8%
Unrestricted	15,746	17,698	-11.0%	18,620	-5.0%
Total Net position	$ 279,558	$ 281,946	-0.8%	$ 280,960	0.4%

Assets

2012 Compared to 2011:

As of December 31, 2012, total assets were $312.5 million, a decrease of $2.1 million compared to December 31, 2011. The decrease is due, in part, to a decrease in restricted assets of $6.0 million, or 33.8%, which was primarily the result of decreases in construction reserves ($3.3 million) and bond reserves and debt service ($3.7 million), offset partially by an increase in insurance reserves-injuries and damages ($0.6 million). Additionally, there were increases in current assets ($2 million) due to increases in cash and cash equivalents ($1 million) and collateral held in trust for securities on loan ($1.2 million), and increases in utility plant ($1.5 million) that partially offset the overall decrease in total assets.

2011 Compared to 2010:

Total assets were $314.6 million as of December 31, 2011, an increase of $1.7 million over December 31, 2010. This increase is due, in part, to an increase in restricted assets of $4.0 million, which was primarily the result of increases in construction ($2.2 million) and bond reserves and debt service ($1.7 million). These increases were partially offset by a decrease in cash and cash equivalents ($2.8 million).

Capital Assets and Construction Activities

2012 Compared to 2011:

The Water Division's utility plant assets, net of accumulated depreciation, were $256.7 million as of December 31, 2012, an increase of 0.6% as compared to December 31, 2011. During 2012, the Water Division expended $12.2 million on capital equipment purchases and construction activities, an increase of $0.2 million or 1.6% compared to fiscal year 2011. Major Water Division construction activities include extensions to serve new customers ($2.1 million) and upgrades to McCord Pumping Station ($1.5 million). The Water Division's major equipment purchases were meters ($1.5 million), data processing equipment ($1.5 million), and transportation and power-operated equipment ($1.1 million).

2011 Compared to 2010:

The Water Division had $255.2 million in utility plant assets, net of accumulated depreciation, as of December 31, 2011, an increase of 0.3%. During 2011, the Water Division expended $12.0 million on capital equipment purchases and construction activities, an increase of $0.2 million, or 1.7%, compared to fiscal year 2010. Major Water Division construction activities included upgrades to Lichterman Pumping Station ($1.8 million), extensions to serve new customers ($1.6 million) and the relocation of facilities to accommodate road improvements ($1.0 million). The Water Division's major equipment purchases were the purchase of data processing equipment ($1.4 million) and the purchase of transportation and power-operated equipment ($0.6 million).

Liabilities

2012 Compared to 2011:

As of December 31, 2012, total liabilities were $33.0 million, representing an increase of $0.3 million, or 0.9%, compared to December 31, 2011. Total liabilities increased due to an increase in current liabilities payable from current assets, primarily as a result of an increase of $1.3 million in collateral subject to return to borrowers and an increase in other liabilities, accounts payable, and accrued expenses of $1.1 million. These increases were partially offset by a $1.6 million reduction in bonds payable.

2011 Compared to 2010:

Total liabilities were $32.7 million as of December 31, 2011, representing an increase of $0.7 million, or 2.3%, as compared to $32 million as of December 31, 2010. This increase is primarily the result of a $1.3 million increase in current liabilities payable from restricted assets due to an increase in construction. This increase was partially offset by a $0.2 million decrease in insurance reserves for injuries and damages.

Net Position

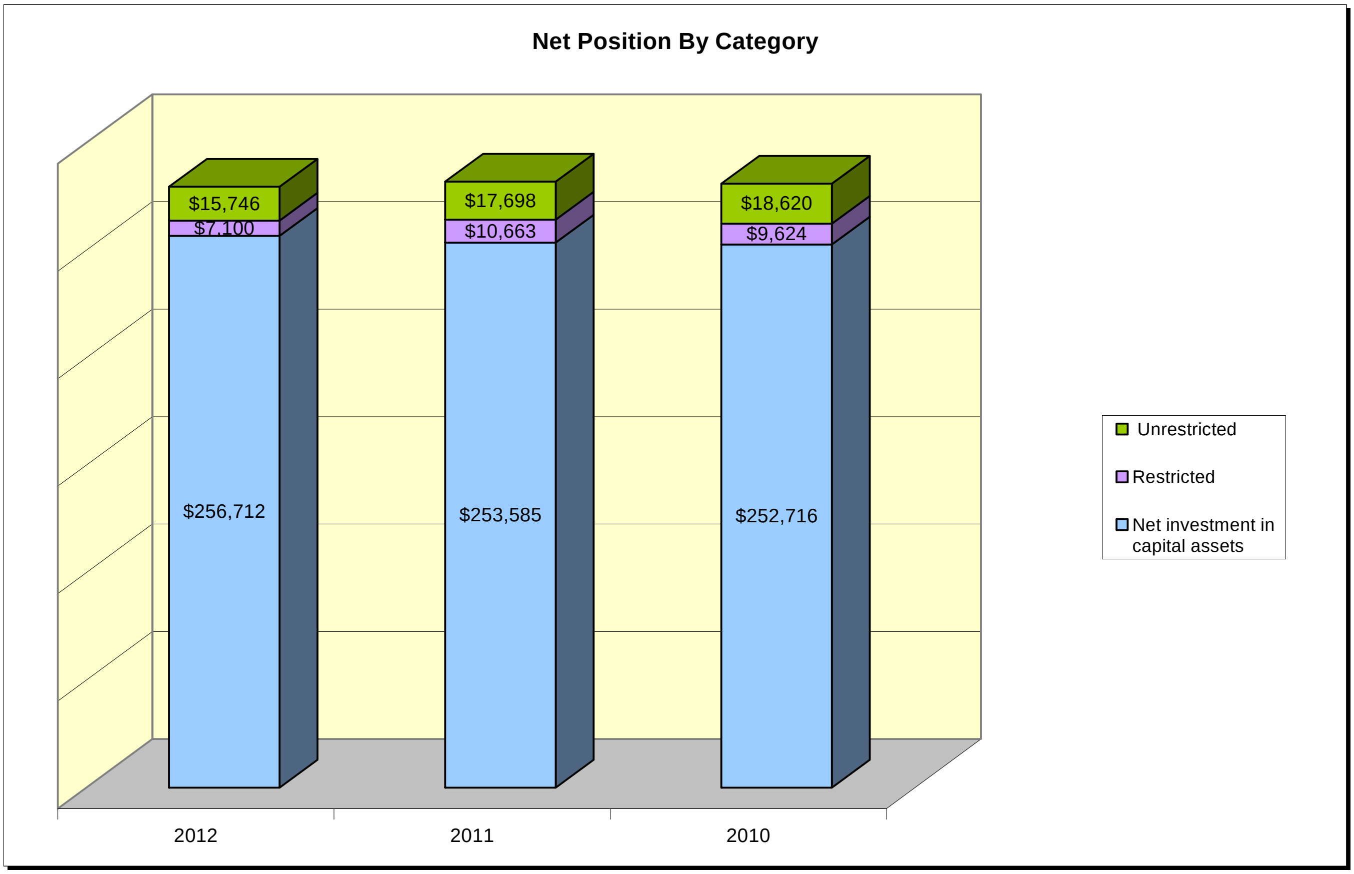
2012 Compared to 2011:

As of December 31, 2012, total net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) decreased by $2.4 million, or 0.8%, to $279.6 million from $281.9 million as of December 31, 2011. Ninety-two percent of the net position was related to net investment in capital assets, net of related debt. The decrease in total net position is reflected as a reduction in restricted net position due to reductions in the master bond reserve ($3.6 million) and unrestricted net position ($2.0 million), offset by an increase of $3.1 million in net investment in capital assets.

2011 Compared to 2010:

As of December 31, 2011, total net position increased by $0.9 million, or 0.4%, to $281.9 million from $281.0 million as of December 31, 2010. The increase in total liabilities and net position is mainly attributable to an increase in net position invested in capital assets, net of related debt.

Figure 4: Water Division's Net Position (in thousands):



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

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

Table 6
Water Division
Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2012, 2011, and 2010
(In Thousands)

	2012	2011	FY12 - FY11 Percentage Change	2010	FY11 - FY10 Percentage Change
Revenues:					
Operating revenues	$ 84,900	$ 86,382	-1.7%	$ 84,593	2.1%
Non-operating revenues	365	505	-27.7%	364	38.7%
Total Revenues	85,265	86,887	-1.9%	84,957	2.3%
Expenses:					
Depreciation expense	10,758	11,274	-4.6%	11,079	1.8%
Other operating expense	74,395	72,029	3.3%	71,908	0.2%
Non-operating expense	-	98	-100.0%	191	-48.7%
Total Expenses	85,153	83,401	2.1%	83,178	0.3%
Income (loss) before contributions in aid of construction and transfers	112	3,486	-96.8%	1,779	96.0%
Contributions in aid of construction	3,499	1,736	101.6%	720	141.1%
Reduction of plant costs recovered through contributions in aid of construction	(3,499)	(1,736)	-101.6%	(720)	-141.1%
Transfers to City of Memphis	(2,500)	(2,500)	0.0%	(2,500)	0.0%
Change in net positon	$ (2,388)	$ 986	-342.2%	$ (721)	236.8%
Net position, beginning of year	$ 281,946	$ 280,960	0.4%	$ 281,681	-0.3%
Change in net position	(2,388)	986	-342.2%	(721)	236.8%
Net position, end of year	$ 279,558	$ 281,946	0.8%	$ 280,960	0.4%

Change in Net Position

2012 Compared to 2011:

As of December 31, 2012, the change in net position was a loss of $2.4 million, a decrease of $3.4 million (342.2%) compared to fiscal year 2011. This decrease is due primarily to a $1.6 million decrease in operating revenues and a $2.4 million increase in other operating expenses, offset by a decrease in depreciation expense of $0.5 million and non-operating expenses of $0.1 million.

2011 Compared to 2010:

As of December 31, 2011, the change in net position was $1.0 million, an increase of $1.7 million (236.8%) over fiscal year 2010. This increase is due primarily to a $1.8 million increase in operating revenues, partially offset by a $0.1 million increase in other operating expenses.

Revenues

2012 Compared to 2011:

For fiscal year 2012, total revenues were $85.2 million, a decrease of 1.9% from 2011. Operating revenues decreased by 1.7% in 2012 and is primarily attributed to a change in the method of estimating accrued unbilled revenue. This change was offset by a 1.0% increase in water sales. Non-operating revenues decreased by 27.7% in 2012, due to decreases in interest income and Medicare part D refunds.

2011 Compared to 2010:

Total revenues were $86.9 million for fiscal year 2011, an increase of 2.3% from fiscal year 2010. Operating revenues increased by 2.1% in 2011 and is attributable to the Division's 5.0% water rate increase effective January 3, 2011, which was offset by a 6.0% decrease in water sales. Non-operating revenues increased by 38.7% in 2011, due to increases in interest income and miscellaneous non-operating income.

Expenses

2012 Compared to 2011:

As of December 31, 2012, total expenses for the Water Division were $85.2 million, an increase of $1.8 million, or 2.1%, compared to fiscal year 2011. The increase resulted from an increase of 3.3% in other operating expense due to increases in operating and production costs. Non-operating expenses decreased by $0.1 million, or 100.0%, in 2012, which is attributed to no interest expense on long term debt in 2012, as the last remaining bonds were retired at the end of fiscal year 2011; depreciation expense decreased $0.5 million, or 4.6%.

2011 Compared to 2010:

Total expenses for the Water Division were $83.4 million as of December 31, 2011, an increase of $0.2 million, or 0.3%, over fiscal year 2010. There was a $0.1 million (0.2%) increase in 2011 other operating expense resulting from increases in operation costs, partially offset by decreases in production and maintenance costs. Non-operating expenses decreased by $0.1 million, or 48.7% in 2011, which is attributed to lower interest expense on long-term debt; depreciation expense increased $0.2 million, or 1.8%.

Contributions in aid of construction

2012 Compared to 2011:

CIAC increased to $3.5 million for the year ended December 31, 2012, representing an increase of $1.8 million as compared to December 31, 2011. This increase was partially due to a $0.6 million contribution for improvements to the water system located within the Town of Arlington. The other $1.2 million increase can be attributed to an increase in water connect fees, claims invoicing and additional service costs.

2011 Compared to 2010:

CIAC increased to $1.7 million for 2011, representing an increase of $1.0 million from 2010. These increases were partially offset by reductions of $0.2 million for the cancellation of an economic development grant and $0.8 million for reduction in developers' and other governmental agency construction activity.

Transfers to the City of Memphis

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.

STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011
(Dollars in Thousands)

	Electric Division		Gas Division		Water Division	
	2012	2011	2012	2011	2012	2011
Assets						
Current assets:						
Cash and cash equivalents	$ 85,317	$ 89,780	$ 73,368	$ 62,551	$ 8,122	$ 7,105
Investments	69,149	75,288	56,856	50,797	6,597	5,966
Restricted funds - current	29,987	28,703	6,021	6,111	3,935	8,152
Accounts receivable, less allowance for doubtful accounts	82,761	93,494	35,494	49,318	14,576	14,740
Unbilled revenues	53,650	67,979	15,764	25,935	3,071	3,734
Prepaid power cost	107,778	104,350	-	-	-	-
Inventories	20,284	17,814	6,441	15,889	2,064	2,055
Collateral held in trust for securities on loan	49,715	37,677	38,483	23,474	6,659	5,404
Other current assets	894	414	3,312	5,699	920	1,039
Total current assets	499,535	515,499	235,739	239,774	45,944	48,195
Non-current assets:						
Restricted funds:						
Futures margin deposits	-	-	580	950	-	-
Construction	-	-	-	-	-	3,251
Insurance reserves - injuries and damages	6,973	6,399	2,103	1,646	2,001	1,377
Insurance reserves - casualties and general	16,665	16,206	8,765	4,673	7,100	6,894
Medical benefits	5,054	4,890	2,254	2,181	1,497	1,448
Customer deposits	17,845	16,397	3,198	3,871	1,121	1,046
Bond reserve and debt service	11,000	11,019	-	-	-	3,675
Total restricted funds	57,537	54,911	16,900	13,321	11,719	17,691
Less restricted funds - current	(29,987)	(28,703)	(6,021)	(6,111)	(3,935)	(8,152)
Restricted funds - non-current	27,550	26,208	10,879	7,210	7,784	9,539
Other assets:						
Prepaid power cost - long term	573,115	680,894	-	-	-	-
Prepayment - In Lieu of Taxes	1,835	1,872	43	43	-	-
Unamortized debt expense	2,419	3,192	-	-	-	-
Notes receivable	-	-	3,807	4,917	2,095	1,470
Other prepayments	-	717	-	320	-	212
Total other assets	577,369	686,675	3,850	5,280	2,095	1,682
Utility plant	1,615,571	1,550,338	585,176	570,333	459,512	451,680
Less accumulated depreciation	(638,232)	(602,179)	(278,308)	(264,078)	(202,800)	(196,469)
Utility plant, net	977,339	948,159	306,868	306,255	256,712	255,211
Total non-current assets	1,582,258	1,661,042	321,597	318,745	266,591	266,432
Total assets	2,081,793	2,176,541	557,336	558,519	312,535	314,627
Deferred outflows of resources						
Accumulated decrease in fair value of hedging derivatives	-	-	1,439	2,366	-	-
Total assets and deferred outflows of resources	$ 2,081,793	$ 2,176,541	$ 558,775	$ 560,885	$ 312,535	$ 314,627

See accompanying notes.

STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011
(Dollars in Thousands)
(Continued)

	Electric Division		Gas Division		Water Division	
	2012	2011	2012	2011	2012	2011
Liabilities						
Current liabilities:						
Accounts payable - purchased power and gas	**$ 116,896**	$ 120,816	**$ 24,725**	$ 22,271	**$ -**	$ -
Other liabilities, accounts payable, and accrued expenses	**49,259**	48,415	**22,712**	39,338	**14,436**	13,327
Derivative financial instruments	**-**	-	**1,439**	2,366	**-**	-
Bonds Payable	**91,391**	87,257	**-**	-	**-**	-
Collateral subject to return to borrowers	**49,715**	37,677	**38,483**	23,474	**6,659**	5,404
Total current liabilities payable from current assets	**307,261**	294,165	**87,359**	87,449	**21,095**	18,731
Current liabilities payable from restricted assets:						
Construction	**-**	-	**-**	-	**-**	1,489
Customer deposits	**6,960**	6,395	**1,083**	1,335	**437**	408
Medical benefits	**5,054**	4,890	**2,254**	2,181	**1,497**	1,448
Insurance reserves - injuries and damages	**6,973**	6,399	**2,103**	1,646	**2,001**	1,377
Bonds payable - accrued interest	**2,691**	3,086	**-**	-	**-**	43
Bonds payable - principal	**8,309**	7,933	**-**	-	**-**	1,625
Total current liabilities payable from restricted assets	**29,987**	28,703	**5,440**	5,162	**3,935**	6,390
Total current liabilities	**337,248**	322,868	**92,799**	92,611	**25,030**	25,121
Non-current liabilities:						
Customer advances for construction	**8,670**	8,535	**1,041**	1,094	**-**	-
Customer deposits	**10,885**	10,002	**2,115**	2,536	**684**	638
Other	**13,544**	16,675	**4,623**	4,436	**7,263**	6,922
Bonds payable	**592,272**	701,531	**-**	-	**-**	-
Total non-current liabilities	**625,371**	736,743	**7,779**	8,066	**7,947**	7,560
Total liabilities	**962,619**	1,059,611	**100,578**	100,677	**32,977**	32,681
Net position						
Net investment in capital assets	**977,339**	948,159	**306,868**	306,255	**256,712**	253,585
Restricted	**16,665**	16,206	**9,346**	5,623	**7,100**	10,663
Unrestricted	**125,170**	152,565	**141,983**	148,330	**15,746**	17,698
Total net position	**1,119,174**	1,116,930	**458,197**	460,208	**279,558**	281,946
Total liabilities and net position	**$ 2,081,793**	$ 2,176,541	**$ 558,775**	$ 560,885	**$ 312,535**	$ 314,627

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollars in Thousands)

	Electric Division		Gas Division		Water Division	
	2012	2011	2012	2011	2012	2011
Operating revenues:						
Sales and service revenues	**$ 1,237,716**	$ 1,286,291	**$ 207,235**	$ 269,299	**$ 76,480**	$ 78,078
Transported gas revenues	**-**	-	**6,362**	5,710	**-**	-
Other revenues	**32,850**	32,739	**12,209**	11,825	**8,420**	8,304
Total operating revenues	**1,270,566**	1,319,030	**225,806**	286,834	**84,900**	86,382
Operating expenses:						
Purchased power and gas for resale	**1,045,362**	1,073,538	**112,051**	168,189	**-**	-
Production	**-**	-	**-**	-	**18,596**	16,791
Operation	**127,447**	127,604	**76,873**	69,399	**47,341**	46,585
Maintenance	**43,354**	45,708	**10,558**	13,017	**8,458**	8,653
Depreciation	**44,698**	43,833	**13,261**	12,709	**10,758**	11,274
Payments in lieu of taxes	**5,606**	680	**1,001**	207	**-**	-
	1,266,467	1,291,363	**213,744**	263,521	**85,153**	83,303
Operating income (loss)	**4,099**	27,667	**12,062**	23,313	**(253)**	3,079
Non-operating revenues (expenses):						
Contributions in aid of construction	**14,033**	10,817	**542**	406	**3,499**	1,736
Reduction of plant costs recovered through contributions in aid of construction	**(14,033)**	(10,817)	**(542)**	(406)	**(3,499)**	(1,736)
Transmission credits	**29,173**	28,400	**-**	-	**-**	-
Investment and other income	**3,950**	6,599	**589**	1,575	**365**	505
Prepay credit	**27,847**	31,404	**-**	-	**-**	-
Interest expense	**(27,847)**	(31,405)	**-**	(197)	**-**	(98)
Total non-operating revenues (expenses)	**33,123**	34,998	**589**	1,378	**365**	407
Income before transfers	**37,222**	62,665	**12,651**	24,691	**112**	3,486
Transfers out - City of Memphis	**(34,978)**	(39,439)	**(14,662)**	(15,666)	**(2,500)**	(2,500)
Change in net position	**$ 2,244**	$ 23,226	**$ (2,011)**	$ 9,025	**$ (2,388)**	$ 986
Net position, beginning of year	**$ 1,116,930**	$ 1,093,704	**$ 460,208**	$ 451,183	**$ 281,946**	$ 280,960
Change in net position	**2,244**	23,226	**(2,011)**	9,025	**(2,388)**	986
Net position, end of year	**$ 1,119,174**	$ 1,116,930	**$ 458,197**	$ 460,208	**$ 279,558**	$ 281,946

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollars in Thousands)

	Electric Division		Gas Division		Water Division	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Cash flows from operating activities:						
Receipts from customers and users	**$ 1,292,752**	$ 1,317,033	**$ 229,105**	$ 286,350	**$ 80,805**	$ 79,666
Payments to suppliers	**(940,873)**	(945,393)	**(118,349)**	(205,284)	**(27,172)**	(23,045)
Payments to/on behalf of employees	**(113,694)**	(119,696)	**(59,854)**	(59,915)	**(42,151)**	(43,626)
Payments from (to) other Division funds	**(23)**	(86)	**(1,581)**	3,132	**1,395**	1,465
Payments for taxes	**(5,793)**	(987)	**(1,001)**	(809)	**-**	-
Net cash provided by operating activities	**232,369**	250,871	**48,320**	23,474	**12,877**	14,460
Cash flows from noncapital financing activities:						
Transfers to City of Memphis	**(34,978)**	(39,439)	**(14,662)**	(15,666)	**(2,500)**	(2,500)
Principal payments on long-term debt	**(95,190)**	(90,420)	**-**	-	**-**	-
Interest expense on bonds	**(37,027)**	(41,199)	**-**	-	**-**	-
Interest payment on notes payable	**-**	-	**-**	(197)	**-**	-
Net cash used in noncapital financing activities	**(167,195)**	(171,058)	**(14,662)**	(15,863)	**(2,500)**	(2,500)
Cash flows from capital and related financing activities:						
Purchase and construction of utility plant	**(87,852)**	(73,511)	**(15,309)**	(20,173)	**(15,984)**	(14,045)
Contributions in aid of construction	**14,033**	10,817	**542**	406	**3,499**	1,736
Principal payments on long-term debt	**-**	-	**-**	-	**(1,625)**	-
Interest payments on debt	**-**	-	**-**	-	**(43)**	(43)
Net cash used in capital and related financing activities	**(73,819)**	(62,694)	**(14,767)**	(19,767)	**(14,153)**	(12,352)
Cash flows from investing activities:						
Sales and maturities of investments	**41,322**	83,602	**40,621**	3,478	**3,872**	1,984
Purchases of investments	**(35,459)**	(96,437)	**(48,667)**	(4,013)	**(3,322)**	(1,751)
Payments received on notes receivable	**-**	-	**1,712**	1,712	**-**	-
Issuance of notes receivable	**-**	-	**-**	-	**(626)**	(18)
Investment income (loss) earned on investments	**669**	1,496	**(147)**	610	**78**	191
Net cash provided by (used in) investing activities	**6,532**	(11,339)	**(6,481)**	1,787	**2**	406
Increase (decrease) in cash and cash equivalents	**(2,113)**	5,780	**12,410**	(10,369)	**(3,774)**	14
Cash and cash equivalents, beginning of year	**134,373**	128,593	**72,988**	83,357	**19,536**	19,522
Cash and cash equivalents, end of year	**$ 132,260**	$ 134,373	**$ 85,398**	$ 72,988	**$ 15,762**	$ 19,536

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Dollars in Thousands)
(Continued)

	Electric Division		Gas Division		Water Division	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	**$ 4,099**	$ 27,667	**$ 12,062**	$ 23,313	**$ (253)**	$ 3,079
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:						
Depreciation of utility plant	**44,640**	43,936	**14,154**	13,199	**10,982**	11,427
Transmission credits	**29,173**	28,400	**-**	-	**-**	-
Prepay power credits	**27,847**	31,404	**-**	-	**-**	-
Other income (loss)	**3,280**	5,103	**(7)**	100	**288**	314
(Increase) decrease in assets:						
Accounts receivable	**11,451**	17,200	**13,825**	4,412	**166**	1,008
Unbilled revenues	**14,330**	(5,173)	**10,171**	15,934	**663**	(1,289)
Prepaid power cost	**104,349**	100,504	**-**	-	**-**	-
Prepayments - In Lieu of Taxes	**37**	33	**1**	1	**-**	-
Unrecovered purchased gas cost	**-**	-	**-**	433	**-**	-
Inventories	**(2,470)**	500	**9,448**	1,281	**(10)**	(145)
Other assets	**(480)**	1,515	**3,774**	(384)	**332**	(631)
Increase (decrease) in liabilities:						
Accounts payable - purchased power and gas	**(3,920)**	(1,130)	**2,454**	(15,628)	**-**	-
Other accounts payable and accrued expenses	**843**	1,620	**(16,626)**	(18,242)	**1,250**	608
Customer deposits	**1,448**	284	**(673)**	(553)	**75**	8
Insurance reserves	**574**	(330)	**457**	(865)	**624**	(183)
Medical benefit accrual	**164**	594	**73**	266	**49**	176
Other	**(2,996)**	(1,256)	**(793)**	207	**(1,289)**	88
Total adjustments	**228,270**	223,204	**36,258**	161	**13,130**	11,381
Net cash provided by operating activities	**$ 232,369**	$ 250,871	**$ 48,320**	$ 23,474	**$ 12,877**	$ 14,460
Reconciliation of cash and cash equivalents per statements of cash flows to the statements of net position:						
Restricted funds	**$ 57,537**	$ 54,911	**$ 16,900**	$ 13,321	**$ 11,719**	$ 17,691
Less investments included in restricted funds	**(10,594)**	(10,318)	**(4,870)**	(2,884)	**(4,079)**	(5,260)
Cash and cash equivalents included in restricted funds	**46,943**	44,593	**12,030**	10,437	**7,640**	12,431
Current assets - cash and cash equivalents	**85,317**	89,780	**73,368**	62,551	**8,122**	7,105
Total cash and cash equivalents	**$ 132,260**	$ 134,373	**$ 85,398**	$ 72,988	**$ 15,762**	$ 19,536

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 of America 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, a division 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 7 or the Other Postemployment Benefits ("OPEB") discussed in Note 8.

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.

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)

MLGW prepares its financial statements in accordance with the provisions of GASB Statements No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 476-500, for regulated operations. These paragraphs recognize that accounting for rate regulated enterprises should reflect the relationship of costs and revenues introduced by rate regulation.

Regulatory Accounting

Regulatory accounting allows a regulated utility to defer 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 Statements of Net Position.

In the event MLGW no longer meets the criteria for regulated operations under GASB Statement No. 62, MLGW would be required to recognize the effects of any regulatory change in assets or liabilities in its Statement of Revenues, Expenses and Changes in Net Position. The following are the regulatory assets and liabilities included in the Statements of Net Position:

		2012	2011
Assets:			
Electric Division	Pollution remediation	**$ 176**	$ 230
Gas Division	Pollution remediation	**922**	1,501
Water Division	Pollution remediation	**920**	1,039
Liabilities:			
Gas Division	Purchased gas adjustment	**$ 6,250**	$ 23,202

Fair Value of Financial Instruments

Fair value is the amount at which an asset could be sold or liability extinguished in a current transaction between willing parties, other than in a forced sale or liquidation. 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. All

1. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

investments are carried at fair value and changes in the fair values of investments are included in investment income in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Cash and cash equivalents

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

Accounts Receivable

Accounts receivables result from charges for both utilities and other ancillary services provided by MLGW, and include wholesale, commercial, industrial and government customers in the Memphis, Tennessee, geographic areas. Accounts receivable are potentially exposed to concentrations of credit risk. As a general policy, customer deposits are required for receivables unless or until the customer has established a good credit history. Accounts receivable are stated at the amount management expects to collect from outstanding balances.

As of December 31, 2012 and 2011, accounts receivable and allowances for doubtful accounts were as follows:

	Electric Division		**Gas Division**		**Water Division**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Accounts Receivable	**$ 92,459**	$ 102,241	**$ 36,618**	$ 50,775	**$ 15,474**	$ 15,670
Allowance for doubtful accounts	**(9,698)**	(8,747)	**(1,124)**	(1,457)	**(898)**	(930)
Total A/R, net of allowance	**$ 82,761**	$ 93,494	**$ 35,494**	$ 49,318	**$ 14,576**	$ 14,740

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 amounts netted against operating revenues are as follows:

	2012	**2011**
Electric	**$ 6,586**	$ 9,729
Gas	**1,535**	2,243
Water	**1,086**	1,208

1. Summary of Significant Accounting Policies (continued)

Unbilled Revenues

MLGW customers are spread across twenty-one different billing cycles. Each cycle can range from twenty-five to thirty-five days. The summation of these twenty-one cycles represents a revenue month. Billing cycles do not correspond to a calendar month and, thus, have days that fall into two or more calendar months. Revenue is reported on a calendar month basis. Unbilled revenue represents management's estimate of the revenue earned for days of service that have not been billed as of year-end. MLGW changed its approach to estimating unbilled revenue at December 31, 2012. The new approach is based on a calculation of average revenue per day for each billing cycle multiplied by the number of days within the billing cycle that fall into the current month. The revenue impact due to this change was a decrease of $14,463 in the Electric Division, an increase of $6,055 in the Gas Division and a decrease of $214 in the Water Division.

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. 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 using the interest method based on the debt service requirements of the associated debt. Total prepaid power cost at December 31, 2012 and 2011 was $680,893 and $785,244, respectively. See Note 11 (Bonds) and Note 12 (Rates and Energy Supplies) for further disclosure of the revenue bonds and subsequent refinancing.

Inventories

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

Restricted Funds and Related Reserves

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.

1. Summary of Significant Accounting Policies (continued)

Restricted Funds and Related Reserves (continued)

The Gas Division maintains a cash margin account with its futures clearing member. The clearing member requires that a minimum cash margin be maintained based on the value of the Division's outstanding futures positions. The minimum cash margin requirements are considered restricted and are reflected in restricted assets in the accompanying Statements of Net Position. 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.

The insurance reserves for injuries and damages are maintained for estimated liabilities incurred and risks assumed on claims for injuries and damages. 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.

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.

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.

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

1. Summary of Significant Accounting Policies (continued)

Utility Plant (continued)

funds used during construction. Costs are reduced by contributions in aid of construction. Donated assets are valued at fair market value at time of donation. 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 costs recovered through contributions in aid of construction. See Note 4 (Utility Plant).

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% for the Electric Division, 2.5% for the Gas Division and 2.7% for the Water Division. Computations of the estimated service lives are the result of various depreciation studies and comparisons with industry standards.

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.

Futures, Options and Swap Contracts

The Gas Division enters into futures contracts, swaps, and options on futures contracts as cash flow hedges to manage the risk of volatility in the market price of natural gas on anticipated purchase transactions. The market values of the open derivative positions are reported on the Statements of Net Position as derivative financial instruments. The changes in fair market value are recognized as deferred inflows (gains) or deferred outflows (losses) until the related gas purchases are recognized in the Statement of Revenues, Expenses and Changes in Net Position.

Bond Premiums, Discounts and Issuance Costs

Bond premiums and discounts, as well as issuance costs, are deferred and amortized using 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 deferred and amortized over the term of the related debt.

Net Position

Net position is classified into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. There was no debt related to capital assets in 2012.

1. Summary of Significant Accounting Policies (continued)

Net Position (continued)

- Restricted net position – This component of net position consists of restricted assets reduced by restricted liabilities and deferred inflows of resources related to those assets.

- Unrestricted net position – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Revenues and Expenses

Revenues are recognized when earned which generally occurs when power, gas, or water is delivered to the customer. 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 changed its approach to estimating unbilled revenue as of December 31, 2012. The new approach is based on a calculation of average revenue per day for each billing cycle multiplied by the number of days within the billing cycle that fall into the current month. This new approach reduces the volatility of the estimate of unbilled revenues at month-end.

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 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.

Related Parties

MLGW conducts business with related parties as "arm's length" transactions: generally, MLGW provides utility and related services to and receives payments from these parties in the same manner as other non-related customers. Major related party entities include the City of Memphis government. For the years ending 2012 and 2011, receivables from related parties for utility construction, pole rentals and utility related services, excluding utility bills, were $2,252 and $2,302.

The only free service provided to the City is water for public purposes, such as Memphis City Schools and fire hydrants. The free water provided to the City is estimated to be $2,076 and $2,109 for 2012 and 2011, respectively.

1. Summary of Significant Accounting Policies (continued)

Related Parties (continued)

The Electric, Gas and Water Divisions make transfers to the City. See Note 14 (Transfers to City).

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.

Events occurring after reporting date

Management has evaluated events and transactions that have occurred between December 31, 2012 and June 6, 2013, 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 2011 financial statements have been reclassified to conform to the 2012 presentation.

Recent Accounting Standards

Effective for fiscal year 2012, MLGW adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain FASB and American Institute of Certified Public Accountants' ("AICPA") accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

GASB Statement No. 62 also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Effective for fiscal year 2012, MLGW adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This

1. Summary of Significant Accounting Policies (continued)

Recent Accounting Standards (continued)

Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Effective for fiscal year 2012, MLGW adopted the provisions of GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an Amendment of GASB Statement No. 53.* This Statement addresses interest rate and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. When these swap agreements have been reported as hedging instruments, Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* requires a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of GASB Statement No. 65 are effective for financial statements for periods beginning after December 15, 2012. MLGW has not elected early implementation of this standard and has not completed the process of evaluating the impact of this statement on its financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an Amendment of GASB Statements No. 10 and No. 62.* The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62 by

1. Summary of Significant Accounting Policies (continued)

Recent Accounting Standards (continued)

modifying the specific guidance on accounting for (1) operating lease payments, (2) determining the differences between purchase price of an investment and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. MLGW has not elected early implementation of this standard and has not completed the process of evaluating the impact of this statement on its financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions.* This statement improves financial reporting by state and local governments for pension plans. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, the statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information are also addressed. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2014. MLGW has not elected early implementation of this standard and has not completed the process of evaluating the impact of this statement on its financial statements.

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 the 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.

2. Deposits and Investments (continued)

Custodial Credit Risk (continued)

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, 2012, MLGW deposits with financial institutions were $11,695 and gas margin deposits were $3,946. Deposits of $11,695 were maintained in collateralized accounts or covered by federal depository insurance, and were not exposed to custodial credit risk. The margin deposits of $3,946 were exposed to custodial credit risk as they were uninsured and uncollateralized.

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; domestic and international 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.

2. Deposits and Investments (continued)

Custodial Credit Risk (continued)

The following table presents the investments and maturities of MLGW's investment portfolio as of December 31, 2012:

		Remaining Maturities (in Years)	
Investment Type	**Fair Value**	**Maturities < 1 year**	**Maturities 1 to 5 years**
U.S. Treasuries	$ 11,713	$ 800	$ 10,913
Federal Agency (Fixed Rate)	8,854	757	8,097
Municipal Obligations	2,463	100	2,363
Corporate Bonds/Notes (medium term)	13,927	4,697	9,230
Corporate Bonds/Notes (Callable)	758	-	758 [1]
Asset - Backed Securities	21,188	822	20,366
Money Market Mutual Funds	91,782	91,782	-
Commercial Paper (Rated A or higher)	125,589	125,589	-
Securities held by Brokers-Dealers under Securities Loans for Cash Collateral:			
U.S. Treasuries	91,505	6,180	85,325
Corporate Bonds/Notes (medium term)	1,738	637	1,101
Total Investments	**$ 369,517**	**$ 231,364**	**$ 138,153**

[1] Bonds mature and are callable in fiscal year 2015.

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 Statements of Net Position. 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 as of December 31, 2012 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.

2. Deposits and Investments (continued)

Interest Rate Risk (continued)

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, 2012, MLGW had purchased no investments in debt securities that were outside of the policy guidelines. 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 securities are most sensitive to changes in interest rates as their repayments can vary significantly with interest rate changes. These securities represent 5.7% of the total investment portfolio with a fair market value of $21,188 as of year-end 2012.

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 $165,663, or 44.8% of total investments. Of this amount, $131,845 has a remaining maturity of one year or less.

2. Deposits and Investments (continued)

Credit Risk (continued)

MLGW's ratings and policy limits as of December 31, 2012 are as follow:

Investment Type	Fair Value	S&P Rating	Moody Rating
Municipal Obligations	$ 999	AAA	Aaa
Municipal Obligations	1,012	AA	Aa3
Municipal Obligations	100	AA	Aa2
Municipal Obligations	251	AA	Aa1
Municipal Obligations	101	AA-	Aa2
Corporate Bonds/Notes	1,011	AAA	Aaa
Corporate Bonds/Notes	1,013	AA+	Aaa
Corporate Bonds/Notes	3,776	AA+	A1
Corporate Bonds/Notes	2,011	AA	Aa2
Corporate Bonds/Notes	502	AA	Aa1.
Corporate Bonds/Notes	1,567	AA-	Aa3
Corporate Bonds/Notes	3,257	A+	Aa3
Corporate Bonds/Notes	1,008	A+	Aa2
Corporate Bonds/Notes	501	A+	Aa1
Corporate Bonds/Notes	1,777	NA	Aaa
Asset-Backed Securities	3,699	AAA	Aaa
Asset-Backed Securities	10,430	AAA (sf)	NA
Asset-Backed Securities	1,738	AA+	Aaa
Asset-Backed Securities	5,321	NA	Aaa (sf)
Commercial Paper	18,798	AAA	Aaa
Commercial Paper	2,200	AA+	Aa2
Commercial Paper	5,500	AA	Aa3
Commercial Paper	20,799	AA	Aa2
Commercial Paper	46,395	AA-	Aa3
Commercial Paper	13,099	AA-	Aa1
Commercial Paper	18,798	A+	Aa2
Total credit risk debt securities	165,663		
U.S. Treasuries	500	AA +u	Aaa
U.S. Treasuries	11,000 [1]	AAAm	Aaa-mf
U.S. Treasuries (explicitly guaranteed)	102,718	AA +u	Aaa
Federal Agency (Fixed Rate)	8,854	AA+	Aaa
Federal Agency (Fixed Rate)	80,782 [2]	AAAm	Aaa-mf
U.S. Government and Agencies	203,854		
Total debt securities investments	**$ 369,517**		

Non-Rating Description	
NA	Not Available

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[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.

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.

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 A or higher)	90%	maximum
Banker's Acceptance (Rated AA or higher)	60%	maximum
Corporate Notes	15%	maximum
Certificates of Deposit	20%	maximum
Municipal Obligations	20%	maximum
Tennessee LGIP and Mutual Funds	40%	maximum
Asset - Backed Securities	50%	maximum

As of December 31, 2012, the investments in any one issuer of corporate bonds, asset-backed securities and commercial paper that represent 5% or more of MLGW's investments are as follows:

Issuer	Reported Amount	Percentage of Portfolio
Toyota Motor Credit	$ 20,150	5.5%
Bank of Nova Scotia	19,299	5.2%
Total	**$ 39,449**	

2. Deposits and Investments (continued)

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.

As of December 31, 2012, MLGW had no credit risk exposure to borrowers because the amounts MLGW owed the borrowers exceeded the amounts the borrowers owed MLGW. The maturities of the investments made with cash collateral do not necessarily match the maturities of the securities on loan. There are no restrictions on the amount of securities that can be lent at one time or to one borrower. 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.

As of December 31, 2012, 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. Government Fixed	$ 47,957	$ 37,124	$ 6,424	$ 91,505	$ 48,782	$ 37,761	$ 6,534	$ 93,077
Corporate Bonds	911	705	122	1,738	933	722	125	1,780
Total	**$ 48,868**	**$ 37,829**	**$ 6,546**	**$ 93,243**	**$ 49,715**	**$ 38,483**	**$ 6,659**	**$ 94,857**

* Market value of securities on loan includes accrued interest.

2. Deposits and Investments (continued)

Restricted and Unrestricted Funds

Restricted funds, cash and cash equivalents, and investments consisted of the following as of December 31, 2012 and 2011:

	Electric Division		**Gas Division**		**Water Division**	
	2012	2011	**2012**	2011	**2012**	2011
Restricted funds:						
Cash and cash equivalents	**$ 46,943**	$ 44,593	**$ 12,030**	$ 10,437	**$ 7,640**	$ 12,432
Investments	**10,594**	10,318	**4,870**	2,884	**4,079**	5,259
Total restricted funds	**$ 57,537**	$ 54,911	**$ 16,900**	$ 13,321	**$ 11,719**	$ 17,691
Unrestricted funds:						
Cash and cash equivalents	**$ 85,317**	$ 89,780	**$ 73,368**	$ 62,551	**$ 8,122**	$ 7,105
Investments	**69,149**	75,288	**56,856**	50,797	**6,597**	5,966
Total unrestricted funds	**$ 154,466**	$ 165,068	**$ 130,224**	$ 113,348	**$ 14,719**	$ 13,071

3. Long-Term Receivables

In 2002, MLGW and the Valero Refining Group ("Valero") 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, ending on October 1, 2016.

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

2013	$ 1,712
2014	1,712
2015	1,712
2016	1,139
	$ 6,275

The Valero lease receivable is included in notes receivable in the accompanying 2012 Gas Division's Statement of Net Position, except for the current portion of $1,712, which is included in other current assets.

4. Utility Plant

Utility plant activity for the years ended December 31, 2012 and 2011 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2012				
Electric Division				
Capital assets not being depreciated:				
Land	$ 29,901	$ 7,087	$ -	$ 36,988
Land - Non-utility	15,345	-	-	15,345
Construction in progress	73,787	72,440	(72,870)	73,357
Total capital assets not being depreciated	119,033	79,527	(72,870)	125,690
Capital assets being depreciated or amortized:				
Structures and improvements	57,158	2,180	(65)	59,273
Transmission and distribution plant equipment	1,216,698	58,196	(6,857)	1,268,037
General plant equipment	157,449	5,407	(285)	162,571
Total capital assets being depreciated or amortized	1,431,305	65,783	(7,207)	1,489,881
Less accumulated depreciation and amortization	(602,179)	(48,722)	12,669	(638,232)
Total capital assets being depreciated or amortized, net	829,126	17,061	5,462	851,649
Total capital assets, net	$ 948,159	$ 96,588	$ (67,408)	$ 977,339
Gas Division				
Capital assets not being depreciated:				
Land	$ 7,502	$ 36	$ -	$ 7,538
Land - Non-utility	66	-	-	66
Construction in progress	10,199	16,036	(13,858)	12,377
Plant held for future use	212	-	-	212
Total capital assets not being depreciated	17,979	16,072	(13,858)	20,193
Capital assets being depreciated or amortized:				
Structures and improvements	57,304	1,579	(282)	58,601
Processing and distribution plant equipment	431,429	8,606	(1,040)	438,995
General plant equipment	63,421	3,850	(84)	67,187
Non-utility plant equipment	200	-	-	200
Total capital assets being depreciated or amortized	552,354	14,035	(1,406)	564,983
Less accumulated depreciation and amortization	(264,078)	(16,853)	2,623	(278,308)
Total capital assets being depreciated or amortized, net	288,276	(2,818)	1,217	286,675
Total capital assets, net	$ 306,255	$ 13,254	$ (12,641)	$ 306,868

4. Utility Plant (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2012				
Water Division				
Capital assets not being depreciated:				
Land	$ 3,328	$ -	$ -	$ 3,328
Construction in progress	15,592	12,225	(12,651)	15,166
Total capital assets not being depreciated	18,920	12,225	(12,651)	18,494
Capital assets being depreciated or amortized:				
Structures and improvements	48,663	406	-	49,069
Pumping, transmission and distribution plant equipment	324,369	8,840	(1,003)	332,206
General plant equipment	66,952	3,405	(4,354)	66,003
Total capital assets being depreciated or amortized	439,984	12,651	(5,357)	447,278
Less accumulated depreciation and amortization	(196,469)	(12,234)	5,903	(202,800)
Less acquisition adjustment	(7,224)	964	-	(6,260)
Total capital assets being depreciated or amortized, net	236,291	1,381	546	238,218
Total capital assets, net	$ 255,211	$ 13,606	$ (12,105)	$ 256,712

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2011				
Electric Division				
Capital assets not being depreciated:				
Land	$ 29,912	$ (11)	$ -	$ 29,901
Land - Non-utility	15,345	-	-	15,345
Construction in progress	68,159	60,877	(55,249)	73,787
Total capital assets not being depreciated	113,416	60,866	(55,249)	119,033
Capital assets being depreciated or amortized:				
Structures and improvements	57,007	252	(101)	57,158
Transmission and distribution plant equipment	1,180,172	46,535	(10,009)	1,216,698
General plant equipment	151,014	8,473	(2,038)	157,449
Total capital assets being depreciated or amortized	1,388,193	55,260	(12,148)	1,431,305
Less accumulated depreciation and amortization	(572,208)	(48,212)	18,241	(602,179)
Total capital assets being depreciated or amortized, net	815,985	7,048	6,093	829,126
Total capital assets, net	$ 929,401	$ 67,914	$ (49,156)	$ 948,159

4. Utility Plant (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2011				
Gas Division				
Capital assets not being depreciated:				
Land	$ 7,502	$ -	$ -	$ 7,502
Land - Non-utility	66	-	-	66
Construction in progress	12,829	20,076	(22,706)	10,199
Plant held for future use	212	-	-	212
Total capital assets not being depreciated	20,609	20,076	(22,706)	17,979
Capital assets being depreciated or amortized:				
Structures and improvements	55,687	1,628	(11)	57,304
Processing and distribution plant equipment	414,702	17,211	(484)	431,429
General plant equipment	62,812	3,867	(3,258)	63,421
Non-utility plant equipment	200	-	-	200
Total capital assets being depreciated or amortized	533,401	22,706	(3,753)	552,354
Less accumulated depreciation and amortization	(254,323)	(13,856)	4,101	(264,078)
Total capital assets being depreciated or amortized, net	279,078	8,850	348	288,276
Total capital assets, net	$ 299,687	$ 28,926	$ (22,358)	$ 306,255
Water Division				
Capital assets not being depreciated:				
Land	$ 3,304	$ 24	$ -	$ 3,328
Construction in progress	11,635	12,028	(8,071)	15,592
Total capital assets not being depreciated	14,939	12,052	(8,071)	18,920
Capital assets being depreciated or amortized:				
Structures and improvements	48,585	78	-	48,663
Pumping, transmission and distribution plant equipment	319,979	5,295	(905)	324,369
General plant equipment	64,939	2,674	(661)	66,952
Total capital assets being depreciated or amortized	433,503	8,047	(1,566)	439,984
Less accumulated depreciation and amortization	(185,925)	(12,513)	1,969	(196,469)
Less acquisition adjustment	(8,188)	964	-	(7,224)
Total capital assets being depreciated or amortized, net	239,390	(3,502)	403	236,291
Total capital assets, net	$ 254,329	$ 8,550	$ (7,668)	$ 255,211

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 2013 are estimated as follows (unaudited):

Electric Division	$ 97,768
Gas Division	63,915
Water Division	20,327

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.

5. Futures, Options and Swap Contracts

The Gas Division enters into futures contracts, swaps, and options on futures contracts as cash flow hedges to manage the risk of volatility in the market price of natural gas on anticipated purchase transactions. The market values of the open derivative positions are reported on the Statements of Net Position as derivative financial instruments.

The schedule below shows the market values and notional amounts of the open futures, swaps, and options on futures contracts for the Gas Division as of December 31, 2012 and 2011.

	December 31, 2012		December 31, 2011	
Type	**Market Value**	**Notional Amount**	Market Value	Notional Amount
Futures	**($955)**	**$7,933**	($1,206)	$9,626
Swaps	**($484)**	**$4,301**	($1,160)	$5,488
Total	**($1,439)**	**$12,234**	($2,366)	$15,114

5. Futures, Options and Swap Contracts (continued)

The schedule below reflects the deferred gains (losses) as of year end associated with recording open derivative positions.

	December 31, 2012	December 31, 2011
Type	**Deferred Gains (Losses)**	Deferred Gains (Losses)
Futures	**($955)**	($1,206)
Swaps	**($484)**	($1,160)
Total	**($1,439)**	($2,366)

Deferred costs as of year end associated with gains (losses) on closed derivative positions are shown below.

	December 31, 2012	December 31, 2011
Type	**Deferred Gains (Losses)**	Deferred Gains (Losses)
Futures	**($35)**	($761)
Swaps	**($70)**	($1,400)
Total	**($105)**	($2,161)

The deferred gains (losses) as of year end for the open derivative positions are reported on the Statements of Net Position as deferred outflows of resources and closed derivative positions are reported as other liabilities.

Natural gas margin account balances with MLGW's New York Mercantile Exchange clearing member as of December 31, 2012 and 2011, were $3,946 and $3,009, respectively.

MLGW's derivative instruments are potentially exposed to concentrations of credit. 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.

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.

6. Deferred Compensation Plan (continued)

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 Statements of Net Position.

7. 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.

The MLGW Pension Plan covers permanent full time employees and appointed officials of MLGW. Membership consisted of the following as of December 31, 2012 and 2011:

	2012	**2011**
Retirees and beneficiaries receiving benefits	**2,549**	2,532
Terminated plan members entitled to but not yet receiving benefits	**42**	35
Active members fully vested	**1,146**	1,150
Active members not vested	**1,444**	1,434
Total	**5,181**	5,151

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

7. Employee Retirement System (continued)

Funding Policy (continued)

estimated by the actuary. MLGW also funds the 8% pension plan member's contribution on behalf of the president and vice presidents. For 2012, MLGW contributed 19.5% of the annual covered payroll.

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 2012 and 2011:

	2012	**2011**
Annual required contribution ("ARC")	**$ 30,067**	$ 26,208
Interest on net pension asset	**(1,226)**	(1,206)
Adjustment to annual required contribution	**975**	942
Annual pension cost	**29,816**	25,944
Contributions made	**(30,063)**	(26,213)
Change in net pension asset	**(247)**	(269)
Net pension asset at beginning of fiscal year	**(16,348)**	(16,079)
Net pension asset at end of fiscal year	**$ (16,595)**	$ (16,348)

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation (Asset)
December 31, 2012	$ 29,816	100.8%	$ (16,595)
December 31, 2011	25,944	101.0%	(16,348)
December 31, 2010	27,947	98.0%	(16,079)

7. Employee Retirement System (continued)

Funded Status and Funding Progress

As of January 1, 2013, the most recent actuarial valuation date, the MLGW Pension Plan was 79.6% funded. The actuarial accrued liability ("AAL") for benefits was $1,414,641, and the actuarial value of assets was $1,126,309, resulting in an unfunded actuarial accrued liability ("UAAL") of $288,332. The covered payroll (annual payroll of active employees covered by the pension plan) was $154,347, and the ratio of the UAAL to the covered payroll was 186.8%.

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, 2013 actuarial valuation using the entry age normal cost method. Actuarial methods and significant assumptions were as follows:

Valuation Date	January 1, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Remaining Amortization Period	28 years remaining as of January 1, 2013
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
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

8. 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 coverage for 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.

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 currently are 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 Codification Section P50: *Postemployment Benefits Other Than Pension Benefits – Employer Reporting*. 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 2012, employer contributions were $39,747 to the Plan. Plan members receiving benefits contributed $5,912 through their required contribution of $67.46 to $620.54 (dollars)

8. Other Postemployment Benefits (continued)

Funding Policy (continued)

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, 2011. 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, 2012 and 2011:

	2012	**2011**
Annual required contribution	**$ 42,427**	$ 44,666
Interest on net OPEB obligation	**(94)**	(174)
Adjustment to annual required contribution	**78**	138
Annual OPEB cost	**42,411**	44,630
Contributions made	**(39,747)**	(43,554)
Change in net OPEB asset	**2,664**	1,076
Net OPEB asset at beginning of fiscal year	**(1,249)**	(2,325)
Net OPEB liability (asset) at end of fiscal year	**$ 1,415**	$ (1,249)

8. Other Postemployment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

MLGW's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2012 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, 2012	$	42,411	93.7%	$	1,415
December 31, 2011		44,630	97.6%		(1,249)
December 31, 2010		43,651	99.6%		(2,325)

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 30% funded. The actuarial accrued liability (AAL) for benefits was $602,175 and the actuarial value of assets was $181,211, resulting in an unfunded actuarial accrued liability (UAAL) of $420,965. The covered payroll (annual payroll of active employees covered by the Plan) was $154,036, and the ratio of the UAAL to the covered payroll was 273.3%.

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.

8. 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, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay, 30 years
Remaining Amortization Period	25 years as of December 31, 2011
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Inflation Rate	3.25%
Projected Salary Increases	Ultimately, 7.60% at age 24 graded to 3.25% at age 60 and older
Medical Cost Trend Rate for PPO (starting 1/1/2012)	8.50% graded to 5.00% over 7 years
Medical Cost Trend Rate for POS	7.75% graded to 5.00% over 6 years
Medical Cost Trend Rate for HMO	8.25% graded to 5.00% over 7 years
Drug Cost Trend Rate	6.50% graded to 5.00% over 3 years

9. Pollution Remediation Obligation

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. These estimates assume no expected change orders.

MLGW annually evaluates current conditions, remediation plan updates and changes in legal or regulatory requirements to revise MLGW's estimated liability. Regulatory accounts are used to capture the net effect of the changes in estimates for each Division. See Note 1 (Regulatory Accounting).

The schedule below shows the balances as of December 31, 2012 and 2011 for each pollution liability by Division:

		2012	2011
Electric			
	PCB	**$ 871**	$ 1,424
	Asbestos	**1,282**	1,341
	Lead	**8,354**	9,355
	Storm Water	**30**	255
Total Electric		**10,537**	12,375
Gas			
	Asbestos	**224**	183
	Lead	**2,844**	3,076
	Storm Water	**-**	46
Total Gas		**3,068**	3,305
Water			
	Asbestos	**1,304**	1,304
	Lead	**5,116**	4,863
	Storm Water	**-**	34
Total Water		**6,420**	6,201
Total Liability		**$ 20,025**	$ 21,881
Total PCB		**$ 871**	$ 1,424
Total Asbestos		**2,810**	2,828
Total Lead		**16,314**	17,294
Total Storm Water		**30**	335
Total Liability		**$ 20,025**	$ 21,881

10. Self-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. 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 personal injuries are $300 per person and $700 for two or more persons per accident. Property damages are limited to $100 per accident.

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 part administrator and MLGW's Legal Department. 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 and injuries and damages for the years ended December 31, 2012 and 2011 are as follows:

	Medical Benefits			**Injuries and Damages**		
	Electric Division	**Gas Division**	**Water Division**	**Electric Division**	**Gas Division**	**Water Division**
Balances -- December 31, 2010	$ 4,296	$ 1,916	$ 1,272	$ 6,729	$ 2,511	$ 1,560
Payments	(30,221)	(13,479)	(8,950)	(4,230)	(1,645)	(783)
Incurred claims expense	30,815	13,744	9,126	3,900	780	600
Balances -- December 31, 2011	4,890	2,181	1,448	6,399	1,646	1,377
Payments	**(30,663)**	**(13,676)**	**(9,081)**	**(3,526)**	**(493)**	**(96)**
Incurred claims expense	**30,827**	**13,749**	**9,130**	**4,100**	**950**	**720**
Balances -- December 31, 2012	**$ 5,054**	**$ 2,254**	**$ 1,497**	**$ 6,973**	**$ 2,103**	**$ 2,001**

11. Bonds

Bonds as of December 31, 2012 and 2011 consist of the following:

	Interest Rates	**2012**	2011
Electric Division:			
Electric System Revenue Bonds:			
Series 2003A, due serially 2011-2018	3.125-5.00%	**$ 105,715**	$ 200,905
Series 2008, due serially 2017-2018	4.00-5.00%	**96,930**	96,930
Series 2010, due serially 2014-2018	2.50-5.00%	**460,050**	460,050
Premium on revenue bonds		**43,222**	56,588
Unamortized cost on bond refunding		**(13,945)**	(17,752)
Total		**691,972**	796,721
Less: current portion of bonds		**(99,700)**	(95,190)
		$ 592,272	$ 701,531
Water Division:			
Revenue Refunding Bonds:			
Series 1998, due serially 2011-2012	5.25%	**$ -**	$ 1,625
Total		**-**	1,625
Less: current portion of bonds		**-**	(1,625)
		$ -	$ -

Principal payments on bonds are due annually on January 1 or December 1. Debt service requirements as of December 31, 2012, are as follows:

	Electric Division	
	Principal	**Interest**
2013	$ 99,700	$ 32,291
2014	102,765	27,431
2015	107,775	22,417
2016	112,935	17,151
2017	117,195	11,554
2018	122,325	5,777
Total	$ 662,695	$ 116,621

MLGW, at its option, may redeem bonds prior to maturity at premiums and prices specified in the indentures. The Series 2003A, Series 2008, and Series 2010 bonds are subject to mandatory redemption

11. Bonds (continued)

upon early termination of the Supplement to the Power Contract ("Supplement") with TVA as discussed in Note 12.

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.

The estimated fair value of long-term debt for the Electric and Water based on quoted market prices is as follows as of December 31, 2012 and 2011:

	2012	2011
Electric Division	**$ 843,086**	$ 863,605
Water Division	**-**	1,625

During 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, with a cash savings of $18,809 over the life of the bonds. 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 bear interest at annual fixed rates ranging from 2.50% to 5.00%. The Series 2010 Bonds are not subject to optional redemption, but will be subject to extraordinary redemption prior to maturity.

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 12. The Series 2003A revenue bonds bear interest at annual fixed rates ranging from 2.00% to 5.00%. The Series 2003B revenue bonds were auction rate securities that bore interest for 35-day auction periods. The Series 2003B revenue bonds were refunded in 2008, as discussed above.

MLGW's Electric Division bond covenants require that for Series 2003A, 2008 Bonds, and 2010 Bonds the ratio of net revenues to 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, 2012 was 1.66.

11. Bonds (continued)

Long term debt activity for the years ended December 31, 2012 and 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Year ended December 31, 2012:				
Electric Division				
Bonds payable:				
Revenue bonds	**$ 757,885**	**$ -**	**$ (95,190)**	**$ 662,695**
Premium on revenue bonds	**56,588**	**-**	**(13,366)**	**43,222**
Less deferred amounts:				
For issuance discounts and on refunding	**(17,752)**	**-**	**3,807**	**(13,945)**
Total bonds payable	**$ 796,721**	**$ -**	**$ (104,749)**	**$ 691,972**
Water Division				
Bonds payable:				
Revenue bonds	**$ 1,625**	**$ -**	**$ (1,625)**	**$ -**
Total bonds payable	**$ 1,625**	**$ -**	**$ (1,625)**	**$ -**
Year ended December 31, 2011:				
Electric Division				
Bonds payable:				
Revenue bonds	$ 848,305	$ -	$ (90,420)	$ 757,885
Premium on revenue bonds	70,961	-	(14,373)	56,588
Less deferred amounts:				
For issuance discounts and on refunding	(21,559)	-	3,807	(17,752)
Total bonds payable	$ 897,707	$ -	$ (100,986)	$ 796,721
Water Division				
Bonds payable:				
Revenue bonds	$ 1,625	$ -	$ -	$ 1,625
Premium on revenue bonds	2	-	(2)	-
Less deferred amounts:				
For issuance discounts and on refunding	(15)	-	15	-
Total bonds payable	$ 1,612	$ -	$ 13	$ 1,625

12. Rates and Energy Supplies

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 offered wholesale rate options effective with the October 2012 revenue month. MLGW chose TVA's modified time-of-use rate option which had minimal impacts to wholesale power costs. MLGW implemented changes to its retail rate schedules effective with meters read on or after October 1, 2012. As a result of the new rate option, retail bills increased slightly during the summer season and decreased slightly during both the winter and transition seasons, with the overall effect resulting in no annual increase to customers' bills from the retail rate changes.

TVA implemented a rate adjustment effective with the October 2011 revenue month, increasing the cost of wholesale power (excluding fuel and purchased power) purchased by MLGW by approximately 3.08%. MLGW implemented changes to its retail rate schedules effective with meters read on or after September 30, 2011, 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 1.8% for residential, 1.8% for commercial customers and 1.9% for industrial customers.

TVA implemented a wholesale rate change effective with the April 2011 revenue month, moving from end-use rates to a wholesale rate structure where the cost of power varies based on when electricity is used. The new wholesale rate structure was designed to be revenue neutral for TVA. MLGW implemented changes to its retail rate schedules effective with meters read on or after March 31, 2011. New retail rates had minimal impacts to customers’ bills, but rates now change seasonally. The retail effects varied by customer class, with the approximate annual changes being reduced 0.6% for residential, reduced 0.7% for small and medium commercial customers, reduced 0.2% for large commercial customers and increased 3.1% for industrial customers.

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.

MLGW gas rate schedules are developed using a projected price of natural gas and related gas storage and transportation charges. Retail natural gas rates are adjusted monthly for the Purchased Gas Adjustment ("PGA") rider. 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 schedule.

A Gas Temporary Credit Rate was approved on November 20, 2012 by the City Council as part of the 2013 MLGW Budget. This temporary credit will be applicable to firm gas service customers effective with meters read on or after January 2, 2013 through April 3, 2013. The retail effect will be approximately a 2.31% annual decrease for firm gas customers.

12. Rates and Energy Supplies (continued)

In response to price decreases in the natural gas market, MLGW restructured gas rate schedules by lowering the projected base price used for rate development. New retail rate schedules were effective with meters read on or after August 30, 2012. The effect to retail customers' bills was minimal, the most notable result being less fluctuation in the monthly PGA rate.

MLGW revised the language in all gas rate schedules, except the residential rate schedule, effective for meters read on or after January 3, 2012. These language changes added flexibility to commercial and industrial rate schedules so MLGW could meet customer service needs and foster economic growth. A comperessed natural gas refueling rate schedule (CNG) and a liquified natural gas schedule (LNG) were added. There was no retail effect to customers' bills from these changes.

A water rate increase was approved on November 20, 2012 by the City Council as part of the 2013 MLGW Budget. This rate increase was required due to increased general operating expenses. MLGW will implement new water rate schedules for meters read on or after January 2, 2013. The retail impact will be a 7.1% increase for all customer classes.

MLGW implemented a water rate increase effective with meters read on or after January 3, 2011. This rate increase was required due to increased general operating expenses. The retail impact was 5% to all customer classes.

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 2010, the callable portion of the 2003A Series bonds was refunded by the Series 2010 bonds. See also Note 1 (Prepaid Power Cost) and Note 11 (Bonds).

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.

12. Rates and Energy Supplies (continued)

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 November 2006, Public Energy Authority of Kentucky, Inc. ("PEAK") and MLGW entered into a 5 year gas purchase contract with volume commitments for the term. In October 2011, PEAK and MLGW renewed, for a second term, a 5 year gas purchase contract with volume commitments for the term. This purchase contract began November 1, 2011 and ends June 30, 2016. 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.

13. Federal Grant Contributions

In December 2011, FEMA announced approval of the April 4, 2011 Storm Restoration project (Contract Edison #E 34101-0000008735) under the Public Assistance Grant Award For Cost Incurred during FEMA-1978-DR-TN program. The initial award was for $695. Subsequently, in February 2012, the contract was amended to $2,734, all of which is being federally funded for the Electric Division. In 2011, MLGW booked a receivable of $2,467, representing the grant portion of eligible costs. The schedule below summarizes the grant activity:

	2012	**2011**
Total Expenditures	**$87**	$3,289
Eligible Reimbursement	**$65**	$2,467
Reimbursement Received	**$1,850**	-
Receivable Balance	**($682)**	($2,467)

13. Federal Grant Contributions (continued)

In September 2011, MLGW applied for a disaster assistance grant for the restoration work done after the April 19th storm. In February 2012, FEMA awarded grant contract Edison #E 34101-0000009241 to MLGW for the Storm Restoration project under the Public Assistance Grant Award program for cost incurred during FEMA -1979-DR-TN. The award was $2,357, all of which is being federally funded to the Electric Division. The schedule below summarizes the grant activity:

	2012	2011
Total Expenditures	**-**	$3,142
Eligible Reimbursement	**-**	$2,357
Reimbursement Received	**$1,768**	-
Receivable Balance	**($589)**	($2,357)

In September 2011, MLGW applied for a disaster assistance grant for the restoration work done after the April 26th storm. In March 2012, FEMA awarded grant contract Edison #E 34101-0000009498 for the April 26, 2011 Storm Restoration project under the Public Assistance Grant Award program for cost incurred during FEMA -1974-DR-TN. The award was $1,959, all of which is being federally funded; $1,706 to the Electric Division, $236 to the Gas Division and $17 to the Water Division. The schedules below summarize the grant activity:

Electric	2012	2011
Total Expenditures	**-**	$2,274
Eligible Reimbursement	**-**	$1,706
Reimbursement Received	**$1,303**	-
Receivable Balance	**($403)**	($1,706)

13. Federal Grant Contributions (continued)

Gas	**2012**	**2011**
Total Expenditures	**-**	$315
Eligible Reimbursement	**-**	$236
Reimbursement Received	**$155**	-
Receivable Balance	**($81)**	($236)

Water	**2012**	**2011**
Total Expenditures	**-**	$23
Eligible Reimbursement	**-**	$17
Reimbursement Received	**$11**	-
Receivable Balance	**($6)**	($17)

In December 2009, FEMA awarded disaster assistance grant contract Edison #E 34101-0000001983 to MLGW following the June 2009 storm under the Public Assistance Grant Award program for costs incurred during FEMA 1851-DR-TN. The initial award was $5,102, all of which was federally funded to the Electric Division. The grant contract was amended to $5,937 in January 2010 and finally to $5,932 in January 2012. MLGW booked a receivable of $5,932 in 2009, based on eligible reimbursement. The schedule below summarizes the grant activity:

	2012	**2011**	**2010**	**2009**
Total Expenditures	**-**	-	-	$8,505
Eligible Reimbursement	**-**	-	-	$5,932
Reimbursement Received	**$560**	$919	$4,453	-
Receivable Balance	**-**	($560)	($1,479)	($5,932)

13. Federal Grant Contributions (continued)

In November 2010, FEMA awarded disaster assistance grant contract Edison #E 34101-0000005751 to MLGW following the May 2010 storm under the Public Assistance Grant Award program for costs incurred during FEMA 1909-DR-TN. The award was $543, all of which is federally funded; $538 to the Electric Division and $5 to the Gas Division. In 2012, there was a $2 adjustment to the Electric Division per FEMA closeout of the May 2010 storm. The schedule below summarizes the grant activity:

Electric	**2012**	**2011**	**2010**
Total Expenditures	**$2**	-	$598
Eligible Reimbursement	**$2**	-	$538
Reimbursement Received	**-**	$383	$20
Receivable Balance	**($137)**	($135)	($518)

Gas	**2012**	**2011**	**2010**
Total Expenditures	**-**	-	$5
Eligible Reimbursement	**-**	-	$5
Reimbursement Received	**-**	-	$4
Receivable Balance	**($1)**	($1)	($1)

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 for the Electric Division. The schedule below summarizes the grant activity.

	2012	**2011**	**2010**	**2009**	**2008**
Total Expenditures	**$1,146**	$320	$522	$548	$19
Eligible Reimbursement	**$859**	$240	$392	$411	$14
Reimbursement Received	**$919**	$568	$429	-	-
Receivable Balance	**-**	($60)	($388)	($425)	($14)

13. Federal Grant Contributions (continued)

In 2009, MLGW applied for the Smart Grid Investment Grant (Contract# DE-OE0000281) under the American Recovery and Investment Act ("ARRA") for the Department of Energy's Electricity Delivery and Energy Reliability, Research, Development, and Analysis Program. The grant was awarded in 2010. The grant will allow MLGW to install a communications system that will enable the observation and control of its network electric grid. The total grant was for $13,112 with $5,063 being federally funded. The schedule below summarizes the grant activity.

	2012	2011	2010
Total Expenditures	**$5,048**	$1,751	$711
Eligible Reimbursement	**$2,423**	$841	$341
Reimbursement Received	**$2,250**	$753	$164
Receivable Balance	**($438)**	($265)	($177)

In 2010, MLGW applied for the Network System Transformer Seismic Retrofit Grant (Contract# E-29504). The grant was awarded in 2011 under the Pre-Disaster Mitigation Competitive Program. The grant will allow MLGW to retrofit 482 network system transformers. The grant was awarded in the amount of $603 of which $453, or 75%, will be federally funded. The schedule below summarizes the grant activity.

	2012	2011
Total Expenditures	**$5**	-
Eligible Reimbursement	**$3**	-
Reimbursement Received	**-**	-
Receivable Balance	**($3)**	-

In 2009, The City of Memphis, in conjunction with MLGW, applied for a grant under the American Recovery and Investment 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, planning began with no funds expended in 2009. As of December 31, 2012, MLGW had expended $4,418 of the $5,000 million allocated. Receivables for 2012 totaled $0.

14. Transfers to City

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

The Electric Division calculation is based on the formula provided by the May 29, 1987 TVA Power Contract Amendment (Supp. No. 8). The formula includes a property tax equivalency calculation plus 4 % of operating revenue less power costs (three year average). For 2012, the City directed the Electric Division to pay $4,632 directly to Shelby County. For 2011, the tax applicable to Shelby County was paid as a transfer to the City and the Electric Division calculation was based on the formula provided by the State of Tennessee Municipal Electric System Tax Equivalent Law of 1987.

The Gas Division calculation 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). For 2012, the City directed the Gas Division to pay $760 directly to Shelby County. For 2011, the tax applicable to Shelby County was paid as a transfer to the City.

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. Commitments and Contingencies

The Gas Division has 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 the New York Mercantile Exchange (“NYMEX”) or the Intercontinental Exchange (“ICE”).

MLGW pays a Transfer to the City and in lieu of taxes to Shelby County Government and 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 12 for discussions of MLGW’s power contract with TVA and gas purchase commitments.

REQUIRED SCHEDULE OF FUNDING PROGRESS FOR PENSION PLAN
DECEMBER 31, 2012
(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (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, 2013	$ 1,126,309	$ 1,414,641	$ 288,332	79.6%	$ 154,347	186.8%
January 1, 2012	1,137,615	1,350,812	213,197	84.2%	154,036	138.4%
January 1, 2011	1,171,384	1,324,410	153,026	88.5%	153,509	99.7%

REQUIRED SCHEDULE OF FUNDING PROGRESS FOR OPEB
DECEMBER 31, 2012
(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (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, 2011	$ 181,211	$ 602,175	$ 420,964	30.1%	$ 154,036	273.3%
December 31, 2009	125,234	591,528	466,294	21.2%	153,117	304.5%
December 31, 2007	15,097	674,002	658,905	2.2%	144,756	455.2%

REQUIRED SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
DECEMBER 31, 2012
(Dollars in Thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed
December 31, 2012	$ 42,411	$ 39,747	93.7%
December 31, 2011	44,630	43,554	97.6%
December 31, 2010	43,651	43,476	99.6%

SCHEDULE OF BONDS,
PRINCIPAL AND INTEREST REQUIREMENTS
DECEMBER 31, 2012
(Dollars in Thousands)

	Series 2003A		Series 2008		Series 2010	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
Electric Division:						
2013	$ 99,700	$ 5,099	$ -	$ 4,564	$ -	$ 22,628
2014	-	239	-	4,564	102,765	22,628
2015	1,845	239	-	4,564	105,930	17,614
2016	-	169	-	4,564	112,935	12,418
2017	2,220	169	31,625	4,564	83,350	6,821
2018	1,950	81	65,305	3,043	55,070	2,653
Total	$ 105,715	$ 5,996	$ 96,930	$ 25,863	$ 460,050	$ 84,762

Electric Division Rate Class	Base Charge			Customers
All Electric Rate Schedules Are Subject To Adjustment Under The Provisions of the TVA Fuel Cost and Purchased Power Adjustment Rider.				
Residential – Schedule RS	Effective meters read on or after October 1, 2012.			359,307
Customer Charge:	$11.20 per month, less Hydro Allocation Credit: $1.60			
Energy Charge:	Summer	Winter	Transition	
First 2,000 kWh per month:	$0.06435	$0.06158	$0.05997	
Additional kWh per month:	$0.07289	$0.07012	$0.06851	
	The above rates are subject to adjustment under the provisions of the TVA Fuel Cost and Purchase Power Adjustment Rider.			
Temporary Pilot Time-Of-Use Residential Rate	Effective October 1, 2012 through September 30, 2013			923
Customer Charge:	$11.20 per month, less Hydro Allocation Credit: $1.60			
Energy Charge:	Summer	Winter	Transition	
On-Peak kWh per month:	$0.13164	$0.07626	$0.04490	
Off-Peak kWh per month:	$0.04490	$0.04490	$0.04490	
	The above rates are subject to adjustment under the provisions of the TVA Fuel Cost and Purchase Power Adjustment Rider.			
General Service – Schedule GSA	Effective meters read on or after October 1, 2012.			43,511
	If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12 month period is not more than 50 kW, and (b) customer's monthly energy takings for any month during such period do not exceed 15,000 kWh:			
Customer Charge:	$15.52 per delivery point per month			
Energy Charge:	Summer	Winter	Transition	
	$0.07667	$0.07395	$0.07234	
	If (a) the higher of (i) the customer's currently effective contract demand or (ii) its highest billing demand during the latest 12 month period is greater than 50 kW but not more than 1,000 kW, or (b) if the customer's billing demand is less than 50 kW and its energy takings for any month during such period exceed 15,000 kWh:			
Customer Charge:	$53.42 per delivery point per month			

Electric Division Rate Class (cont.)	**Base Charge**	**Customers**

General Service – Schedule GSA (cont.)

Demand Charge:	Summer	Winter	Transition
First 50 kW of billing demand per month:	$0.00000	$0.00000	$0.00000
Excess over 50 kW of billing demand per month:	$12.42	$11.59	$11.59
Energy Charge:			
First 15,000 kWh per month:	$0.08251	$0.07979	$0.07818
Additional kWh per month:	$0.03524	$0.03266	$0.03171

If the higher of the customer’s currently effective contract demand or its highest billing demand during the latest 12 month period is greater than 1,000 kW:

Customer Charge: $191.84 per delivery point per month

Demand Charge:	Summer	Winter	Transition
First 1,000 kW of billing demand per month:	$11.42	$10.60	$10.60
Excess over 1,000 kW of billing demand per month:	$11.26	$10.44	$10.44
Excess of billing demand over the higher of 2,500 kW or the customer’s contract demand per month:	$11.26	$10.44	$10.44
Energy Charge: All kWh per month:	$0.04017	$0.03760	$0.36650

Electric Division Rate Class (cont.)	**Base Charge**		**Customers**
Time-of-Day General Power Rate - Part A (Schedule TGSA) Effective October 1, 2012			1
	Summer	Non-Summer	
Customer Charge:	$198.95	$198.95	
On-peak per kW of billing demand charges per month:	$11.67	$11.10	
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$1.66	$1.66	
Per kW charge 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	$11.67	$11.10	
On-peak per kWh energy charge:	$0.04985	$0.04306	
Off-peak per kWh energy charge:	$0.03401	$0.03546	

General Power Rate - TDGSA Effective October 1, 2011 — Customers: 0

Customer Charge: $1,500.00 per delivery point per month

TVA Administrative Charge: $350.00 per delivery point per month

	Summer	Winter	Transition
On-peak per kW of billing demand charges per month:	$16.89	$9.79	$0.00
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$4.45	$4.45	$4.45

Electric Division Rate Class (cont.)		**Base Charge**		**Customers**
General Power Rate - TDGSA (cont.)				
Excess per kW charge per month by which billing demand exceeds contract demand:	$16.89	$9.79	$4.45	
On-peak per kWh energy charge:	$0.07387	$0.04321	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.03919	$0.03919	$0.03919	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02053	$0.02053	$0.02053	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00469	$0.00469	$0.00469	
Manufacturing Power Rate - TDMSA	Effective October 1, 2011			1
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			

Electric Division Rate Class (cont.)	Base Charge		Customers

Manufacturing Power Rate - TDMSA (cont.)

	Summer	Winter	Transition
On-peak per kW of billing demand charges per month:	$16.78	$9.68	$0.00
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$4.34	$4.34	$4.34
Excess per kW charge per month by which billing demand exceeds contract demand:	$16.78	$9.68	$4.34
On-peak per kWh energy charge:	$0.05833	$0.02830	$0.00000
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02403	$0.02403	$0.02403
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00537	$0.00537	$0.00537
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.01047)	($0.01047)	($0.01047)

Electric Division Rate Class (cont.)	**Base Charge**			**Customers**
General Power Rate – Part B **(Schedule GSB)**	Effective October 1, 2011			0
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
On-peak per kW of billing demand charges per month:	$16.89	$9.79	$0.00	
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$4.45	$4.45	$4.45	
Excess per kW charge per month by which billing demand exceeds contract demand:	$16.89	$9.79	$4.45	
On-peak per kWh energy charge:	$0.07387	$0.04321	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.03919	$0.03919	$0.03919	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02053	$0.02053	$0.02053	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00469	$0.00469	$0.00469	

Electric Division Rate Class (cont.)	Base Charge			Customers
General Power Rate – Part C (Schedule GSC)	Effective October 1, 2011			1
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
On-peak per kW of billing demand charges per month:	$16.36	$9.26	$0.00	
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$3.92	$3.92	$3.92	
Excess per kW charge per month by which billing demand exceeds contract demand:	$16.36	$9.26	$3.92	
On-peak per kWh energy charge:	$0.07027	$0.04036	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.03657	$0.03657	$0.03657	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.01789	$0.01789	$0.01789	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00205	$0.00205	$0.00205	

Electric Division Rate Class (cont.)	**Base Charge**			**Customers**
General Power Rate – Part D (Schedule GSD)	Effective October 1, 2011			0
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
On-peak per kW of billing demand charges per month:	$16.11	$9.01	$0.00	
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$3.67	$3.67	$3.67	
Excess per kW charge per month by which billing demand exceeds contract demand:	$16.11	$9.01	$3.67	
On-peak per kWh energy charge:	$0.06783	$0.03705	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.03307	$0.03307	$0.03307	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.01441	$0.01441	$0.01441	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.00144)	($0.00144)	($0.00144)	

Electric Division Rate Class (cont.)	Base Charge			Customers
Manufacturing Power Rate – Part B **(Schedule MSB)**	Effective October 1, 2011			3
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
On-peak per kW of billing demand charges per month:	$16.78	$9.68	$0.00	
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$4.34	$4.34	$4.34	
Excess per kW charge per month by which billing demand exceeds contract demand:	$16.78	$9.68	$4.34	
On-peak per kWh energy charge:	$0.05833	$0.02830	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02403	$0.02403	$0.02403	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00537	$0.00537	$0.00537	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.01047)	($0.01047)	($0.01047)	

Electric Division Rate Class (cont.)		**Base Charge**		**Customers**
Manufacturing Power Rate – Part C (Schedule MSC)	Effective October 1, 2011			0
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
On-peak per kW of billing demand charges per month:	$16.25	$9.15	$0.00	
Per kW charge per month for each kW, if any, by which off peak billing demand exceeds on peak billing demand:	$3.81	$3.81	$3.81	
Excess per kW charge per month by which billing demand exceeds contract demand:	$16.25	$9.15	$3.81	
On-peak per kWh energy charge:	$0.05916	$0.02844	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02390	$0.02390	$0.02390	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00524	$0.00524	$0.00524	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.01061)	($0.01061)	($0.01061)	

Electric Division Rate Class (cont.)		**Base Charge**		**Customers**
Manufacturing Power Rate – Part D (Schedule MSD)	Effective October 1, 2011			1
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
On-peak per kW of billing demand charges per month:	$15.99	$8.89	$0.00	
Per kW charge per month for each kW, if any, by which offpeak billing demand exceeds onpeak billing demand:	$3.55	$3.55	$3.55	
Excess per kW charge per month by which billing demand exceeds contract demand:	$15.99	$8.89	$3.55	
On-peak per kWh energy charge:	$0.05686	$0.02599	$0.00000	
First 425 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.02164	$0.02164	$0.02164	
Next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy rate per kWh:	$0.00298	$0.00298	$0.00298	
Hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy rate per kWh:	($0.01286)	($0.01286)	($0.01286)	

Electric Division Rate Class (cont.)	Base Charge			Customers
Seasonal Demand And Energy Power Rate – Part B (Schedule SGSB)	Effective October 1, 2011			8
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
Per kW billing demand charge per month:	$22.08	$15.76	$11.00	
Excess per kW charge per month by which billing demand exceeds contract demand:	$22.08	$15.76	$11.00	
Energy charge per kWh:	$0.02676	$0.02265	$0.02175	
Seasonal Demand And Energy Power Rate – Part C (Schedule SGSC)	Effective October 1, 2011			0
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
Per kW billing demand charge per month:	$21.55	$15.23	$10.47	
Excess per kW charge per month by which billing demand exceeds contract demand:	$21.55	$15.23	$10.47	
Energy charge per kWh:	$0.02689	$0.02269	$0.02182	

Electric Division Rate Class (cont.)	Base Charge	Customers
Seasonal Demand And Energy Power Rate – Part D (Schedule SGSD)	Effective October 1, 2011	0

Customer Charge: $1,500.00 per delivery point per month

TVA Administrative Charge: $350.00 per delivery point per month

	Summer	Winter	Transition
Per kW billing demand charge per month:	$24.87	$18.53	$13.79
Excess per kW charge per month by which billing demand exceeds contract demand:	$24.87	$18.53	$13.79
Energy charge per kWh:	$0.01890	$0.01524	$0.01444

Electric Division Rate Class (cont.)	Base Charge	Customers
Manufacturing Seasonal Demand And Energy Power Rate - Part B (Schedule SMSB)	Effective October 1, 2011	12

Customer Charge: $1,500.00 per delivery point per month

TVA Administrative Charge: $350.00 per delivery point per month

	Summer	Winter	Transition
Per kW billing demand charge per month:	$19.08	$12.75	$7.99
Excess per kW charge per month by which billing demand exceeds contract demand:	$19.08	$12.75	$7.99
Energy charge per kWh:	$0.01873	$0.01408	$0.01300

Electric Division Rate Class (cont.)	**Base Charge**			**Customers**
Manufacturing Seasonal Demand And Energy Power Rate - Part C (Schedule SMSC)	Effective October 1, 2011			2
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
Per kW billing demand charge per month:	$18.55	$12.22	$7.46	
Excess per kW charge per month by which billing demand exceeds contract demand:	$18.55	$12.22	$7.46	
Energy charge per kWh:	$0.01843	$0.01407	$0.01302	
Manufacturing Seasonal Demand And Energy Power Rate Part D (Schedule SMSD)	Effective October 1, 2011			3
Customer Charge:	$1,500.00 per delivery point per month			
TVA Administrative Charge:	$350.00 per delivery point per month			
	Summer	Winter	Transition	
Per kW billing demand charge per month:	$21.18	$14.86	$10.10	
Excess per kW charge per month by which billing demand exceeds contract demand:	$21.18	$14.86	$10.10	
Energy charge per kWh:	$0.01068	$0.00720	$0.00637	
Drainage Pumping Station Rate (Schedule DPS)	Effective October 1, 2012			12
Customer Charge:	$15.52 per delivery point per month			
Energy Charge:	Summer	Winter	Transition	
All kWh per month:	$0.03351	$0.03079	$0.02918	

Electric Division Rate Class (cont.)	Base Charge	Customers
Outdoor Lighting Rate (Schedule LS)	Effective October 1, 2012	17,045

Part A – Charges for street and park lighting systems, traffic signal systems, and athletic field lighting installations.

Energy Charge:	Summer	Winter	Transition
All kWh per month:	$0.44010	$0.04125	$0.03963

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 of 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 facility charges 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 shall 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 paragraphs.

Electric Division Rate Class (cont.)	**Base Charge**	**Customers**

Outdoor Lighting Rate - (Schedule LS) (cont.)

Part B – Charges for outdoor lighting for individual customers – charges per fixture per month:

(a) Type of fixture	Lamp Size		Rated	
	(Watts)	(Lumens)	(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

(b) Energy Charge: For each lamp size under (a) above per rated kWh per month:

	Summer	Winter	Transition
All rated kWh per month:	$0.44010	$0.04125	$0.03963

Gas Division Rate Class	Base Charge	Customers
Residential G-1 & G-3	Effective meters read on or after August 30, 2012 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.	289,070
Service charge:	$ 10.00 per month, plus	
Commodity charge:	First 100 ccf per month @ $0.591 per ccf Excess over 100 ccf per month @ $0.501 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 August 30, 2012 This rate schedule is available for gas service to all gas customers except residential.	21,702
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: $0.531 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.	

Gas Division Rate Class (cont.)	Base Charge	Customers
Large General Service Firm on-peak G-8 and G-9	Effective meters on or after August 30, 2012	448
	This rate schedule is available for gas service to all customers contracting for not less than 100 Ccf of maximum daily demand.	
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 @ $0.488 ccf	
	Excess over 200,000 Ccf per month @ $0.374 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.	
Large General Service Interruptible Off-peak G-10 and G-12	Effective August 30, 2012	20
	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.	
Service charge:	$500.00 per month, plus	
Commodity Charge:	First 200,000 Ccf per month @ $0.458 Ccf	
	Excess over 200,000 Ccf per month @ $0.374 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 January 3, 2011 For water furnished to premises entirely within the corporate limits of the City of Memphis	185,725
Commodity charge:	All water consumed: $1.376 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	$5.82
3/4" meter	8.39
1" meter	14.89
1-1/2" meter	33.51
2" meter	59.56

Residential – Outside City Rate	Effective meters read on or after January 3, 2011 For water furnished to premises outside the corporate limits of the City of Memphis	22,179
Commodity charge:	All water consumed: $2.142 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	$8.10
3/4" meter	11.64
1" meter	20.73
1-1/2" meter	46.61
2" meter	82.86

General Service – Inside City Rate	Effective meters read on or after January 3, 2011 For water service to all customers within the corporate limits of the City of Memphis, except residential customers	18,735
Commodity charge:	Water consumed per month:	

First 30 Ccf	$1.754 per Ccf
Next 70 Ccf	$1.491 per Ccf
Next 100 Ccf	$1.134 per Ccf
Next 400 Ccf	$0.945 per Ccf
Next 5,400 Ccf	$0.735 per Ccf
Excess over 6,000 Ccf	$0.767 per Ccf

Water Division Rate Class (cont.)		Base Charge	Customers
General Service – Inside City Rate (cont.)			
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:		
	5/8" meter	$11.15	
	3/4" meter	12.99	
	1" meter	22.27	
	1-1/2" meter	44.56	
	2" meter	92.87	
	3" meter	185.68	
	4" meter	277.67	
	6" meter	351.26	
	8" meter	424.86	
	10" meter	880.09	
	12" meter	1,228.02	
	14" meter	1,688.54	
	Battery of 2-2" meters	185.68	
	Battery of 3-2" meters	277.67	
General Service – Outside City Rate	Effective meters read on or after January 3, 2011 For water service to all customers outside the corporate limits of the City of Memphis, except residential customers		802
Commodity charge:	Water consumed per month:		
	First 30 Ccf	$2.636 per Ccf	
	Next 70 Ccf	$2.216 per Ccf	
	Next 100 Ccf	$1.691 per Ccf	
	Next 400 Ccf	$1.418 per Ccf	
	Next 5,400 Ccf	$1.113 per Ccf	
	Excess over 6,000 Ccf	$1.155 per Ccf	
Minimum bill:	The minimum monthly bill shall be determined by the size of the meter installed, as follows:		
	5/8" meter	$17.03	
	3/4" meter	19.88	
	1" meter	34.07	
	1-1/2" meter	68.12	
	2" meter	141.94	
	3" meter	283.91	
	4" meter	424.29	
	6" meter	536.76	
	8" meter	649.22	
	10" meter	1,344.86	
	12" meter	1,876.53	
	14" meter	2,578.47	
	Battery of 2-2" meters	283.91	
	Battery of 3-2" meters	424.29	

Water Division Rate Class (cont.)	Base Charge	Customers
Residential – Shelby County Water Distribution System	Effective meters read on or after January 3, 2011	19,506

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 $2.142 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	$8.10
3/4" meter	11.64
1" meter	20.73
1-1/2" meter	46.61
2" meter	82.86

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

Commercial - Industrial – Shelby County Water Distribution System	Effective meters read on or after June 26, 2008	599

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.

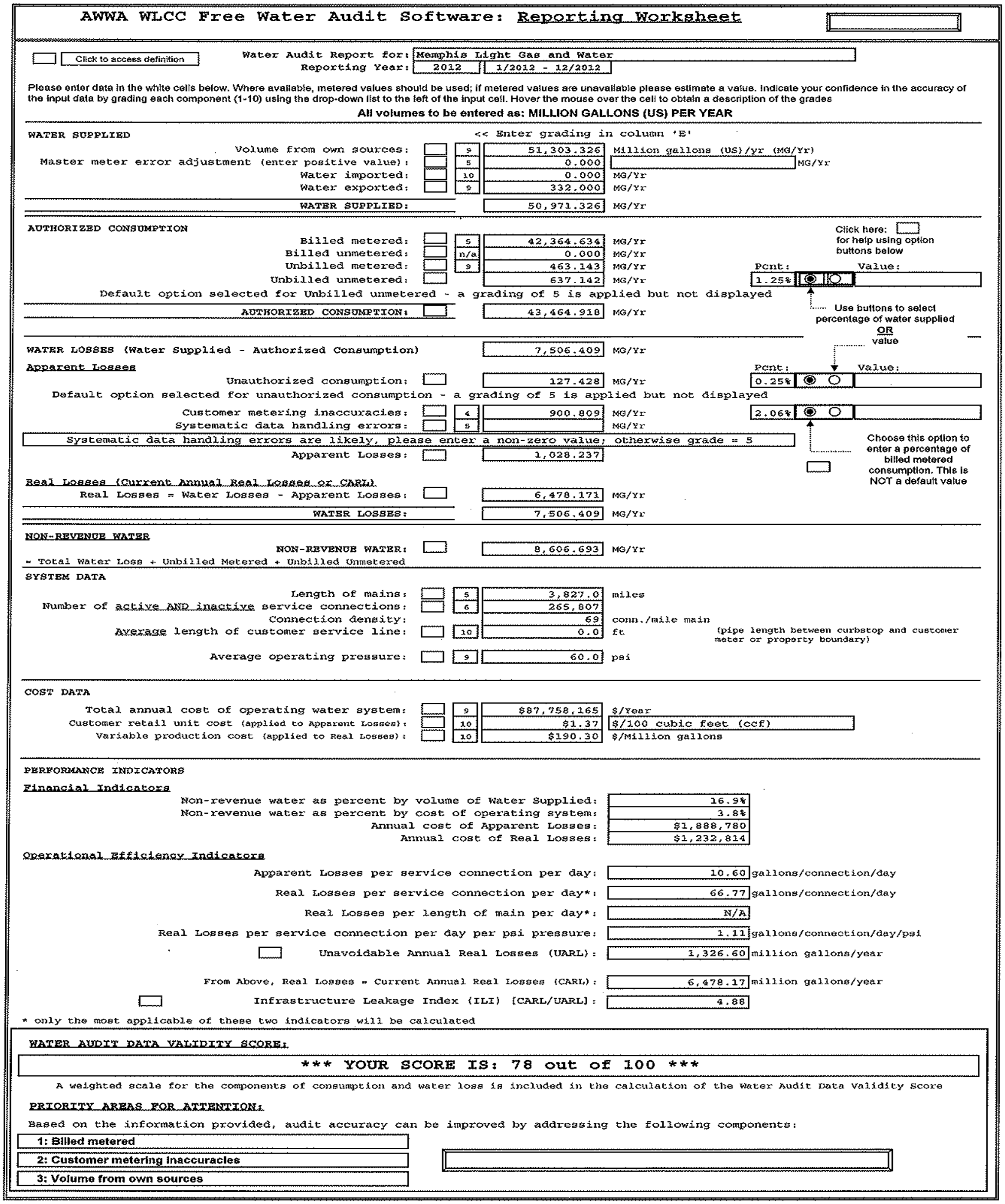
Monthly rate: Water consumed per month:

First 30 Ccf	$2.636 per Ccf
Next 70 Ccf	$2.216 per Ccf
Next 100 Ccf	$1.691 per Ccf
Next 400 Ccf	$1.418 per Ccf
Next 5,400 Ccf	$1.113 per Ccf
Excess over 6000 Ccf	$1.155 per Ccf

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

5/8" meter	$17.03
3/4" meter	19.88
1" meter	34.07
1-1/2" meter	68.12
2" meter	141.94
3" meter	283.91
4" meter	424.29
6" meter	536.76
8" meter	649.22
10" meter	1,344.86
12" meter	1,876.53
14" meter	2,578.47

SCHEDULE OF UNACCOUNTED FOR WATER
FOR THE YEAR ENDED DECEMBER 31, 2012
(Dollars in Thousands)



AWWA WLCC Free Water Audit Software: Reporting Worksheet

☐ Click to access definition

Water Audit Report for: Memphis Light Gas and Water
Reporting Year: 2012 | 1/2012 - 12/2012

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

WATER SUPPLIED << Enter grading in column 'E'

Volume from own sources:	9	51,303.326	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	5	0.000	MG/Yr
Water imported:	10	0.000	MG/Yr
Water exported:	9	332.000	MG/Yr
WATER SUPPLIED:		50,971.326	MG/Yr

AUTHORIZED CONSUMPTION

Click here: ☐ for help using option buttons below

				Pcnt:	Value:
Billed metered:	5	42,364.634	MG/Yr		
Billed unmetered:	n/a	0.000	MG/Yr		
Unbilled metered:	9	463.143	MG/Yr		
Unbilled unmetered:		637.142	MG/Yr	1.25% ● ○	
AUTHORIZED CONSUMPTION:		43,464.918	MG/Yr		

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption) 7,506.409 MG/Yr

Apparent Losses

				Pcnt:	Value:
Unauthorized consumption:		127.428	MG/Yr	0.25% ● ○	
Customer metering inaccuracies:	4	900.809	MG/Yr	2.06% ● ○	
Systematic data handling errors:	5		MG/Yr		
Apparent Losses:		1,028.237			

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Systematic data handling errors are likely, please enter a non-zero value; otherwise grade = 5

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses:		6,478.171	MG/Yr
WATER LOSSES:		7,506.409	MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 8,606.693 MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	5	3,827.0	miles
Number of active AND inactive service connections:	6	265,807	
Connection density:		69	conn./mile main
Average length of customer service line:	10	0.0	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	9	60.0	psi

COST DATA

Total annual cost of operating water system:	9	$87,758,165	$/Year
Customer retail unit cost (applied to Apparent Losses):	10	$1.37	$/100 cubic feet (ccf)
Variable production cost (applied to Real Losses):	10	$190.30	$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	16.9%
Non-revenue water as percent by cost of operating system:	3.8%
Annual cost of Apparent Losses:	$1,888,780
Annual cost of Real Losses:	$1,232,814

Operational Efficiency Indicators

Apparent Losses per service connection per day:	10.60	gallons/connection/day
Real Losses per service connection per day*:	66.77	gallons/connection/day
Real Losses per length of main per day*:	N/A	
Real Losses per service connection per day per psi pressure:	1.11	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	1,326.60	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	6,478.17	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:	4.88	

* only the most applicable of these two indicators will be calculated

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 78 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

1: Billed metered
2: Customer metering inaccuracies
3: Volume from own sources

SCHEDULE OF INSURANCE
DECEMBER 31, 2012
(Dollars in Thousands)

Type of Coverage	Amount of Coverage
Property	$ 600,000
Crime	2,500
Travel Accident	1,000

SCHEDULE OF ADDITIONS AND RETIREMENTS TO UTILITY PLANT
DECEMBER 31, 2012
(Dollars in Thousands)

	Electric Division	Gas Division	Water Division
Utility plant in service, December 31, 2011	$ 1,461,206	$ 559,656	$ 436,088
Additions - Construction	72,870	14,071	12,651
Additions - Acquisition Adjustment	-	-	964
Retirements	(7,207)	(1,406)	(5,357)
Utility plant in service, December 31, 2012	**$ 1,526,869**	**$ 572,321**	**$ 444,346**

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

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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*

Independent Auditor's Report

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

We have audited, in accordance with the 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, 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, 2012, and the related notes to the financial statements, which collectively comprise the Divisions' basic financial statements, and have issued our report thereon dated June 6, 2013.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Divisions' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Divisions' internal control. Accordingly, we do not express an opinion on the effectiveness of the Divisions' internal control.

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* 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Divisions' financial statements are free from material misstatement, we performed tests of the Divisions' 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Divisions' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Divisions' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

Memphis, Tennessee
June 6, 2013

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Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Divisions' major federal program for the year ended December 31, 2012. The Divisions' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Divisions' major federal program based on our audit of the types of compliance requirements referred to above. 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 consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the Divisions' compliance.

Opinion on Each Major Federal Program

In our opinion, the Divisions complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Divisions is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Divisions' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance 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.

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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Divisions as of and for the year ended December 31, 2012, and have issued our report thereon dated June 6, 2013, which contained unmodified opinions on those financial statements. Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Mayer Hoffman McCann P.C.

Memphis, Tennessee
June 6, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Dollars in Thousands)

Federal Grantor/Pass-Through Grantor Federal Awards	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures	Ending Receivable
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.036	34101-0000008735	$ (2,467)	$ 1,850	$ 65	$ (682)
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.036	34101-0000009241	(2,357)	1,768	-	(589)
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.036	34101-0000009498	(1,959)	1,469	-	(490)
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.036	34101-0000001983	(560)	560	-	-
U.S. Department of Homeland Security/ Tennessee Emergency Management	97.036	34101-0000005751	(136)	-	2	(138)
Total Program 97.036			(7,479)	5,647	67	(1,899)
U.S. Department of Homeland Security/ Tennessee Emergency Management Pre-Disaster Mitigation	97.047	Edison #E-18001	(60)	919	859	-
U.S. Department of Homeland Security/ Tennessee Emergency Management Pre-Disaster Mitigation	97.047	E-29504	-	-	3	(3)
Total Program 97.047			(60)	919	862	(3)
ARRA - U.S. Department of Energy/ Smart Grid Investment Grant	81.122	DE-OE0000281	(265)	2,250	2,423	(438)
Total Program 81.122			(265)	2,250	2,423	(438)
Total Federal Awards			**$ (7,804)**	**$ 8,816**	**$ 3,352**	**$ (2,340)**

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, a division of the City of Memphis, Tennessee, for the year ended December 31, 2012. 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.

FEDERAL GRANT CONTRIBUTIONS

As recipients of federal grant contributions, MLGW is subject to examination by various federal and state authorities and the results of such examinations could cause changes to the reported grant contributions. During early 2012, the Office of Inspector General (OIG) began an examination of certain Federal Emergency Management Agency (FEMA) grants received in 2008 and 2009. During the examination process, the OIG questioned certain costs that were incurred without competitive bids. MLGW's position was that a competitive bidding process was not feasible for these costs because of the public exigency or emergency nature of these expenditures. The OIG recommended FEMA disallow costs incurred without a competitive bid process. The Tennessee Emergency Management Agency (TEMA) has indicated all discussions with FEMA have been positive. Management's belief, based on conversations with TEMA, is FEMA will not rule any material cost to be ineligible.

MEMPHIS LIGHT, GAS AND WATER DIVISION

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012

A. Summary of Audit Results

1. The auditor's report expresses unmodified opinions on the financial statements of the Electric, Gas, and Water Divisions (the "Divisions") of Memphis Light, Gas and Water Division.
2. No material weaknesses in internal control were identified relating to the audits of the financial statements as 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 audits.
4. No deficiencies relating to the audit of the major federal award program are reported in the Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for the Divisions expresses an unqualified opinion on the major federal program.
6. There were no audit findings related to the major program that was required to be reported under OMB Circular A-133.
7. The program tested as a major program was:

81.122	ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis

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

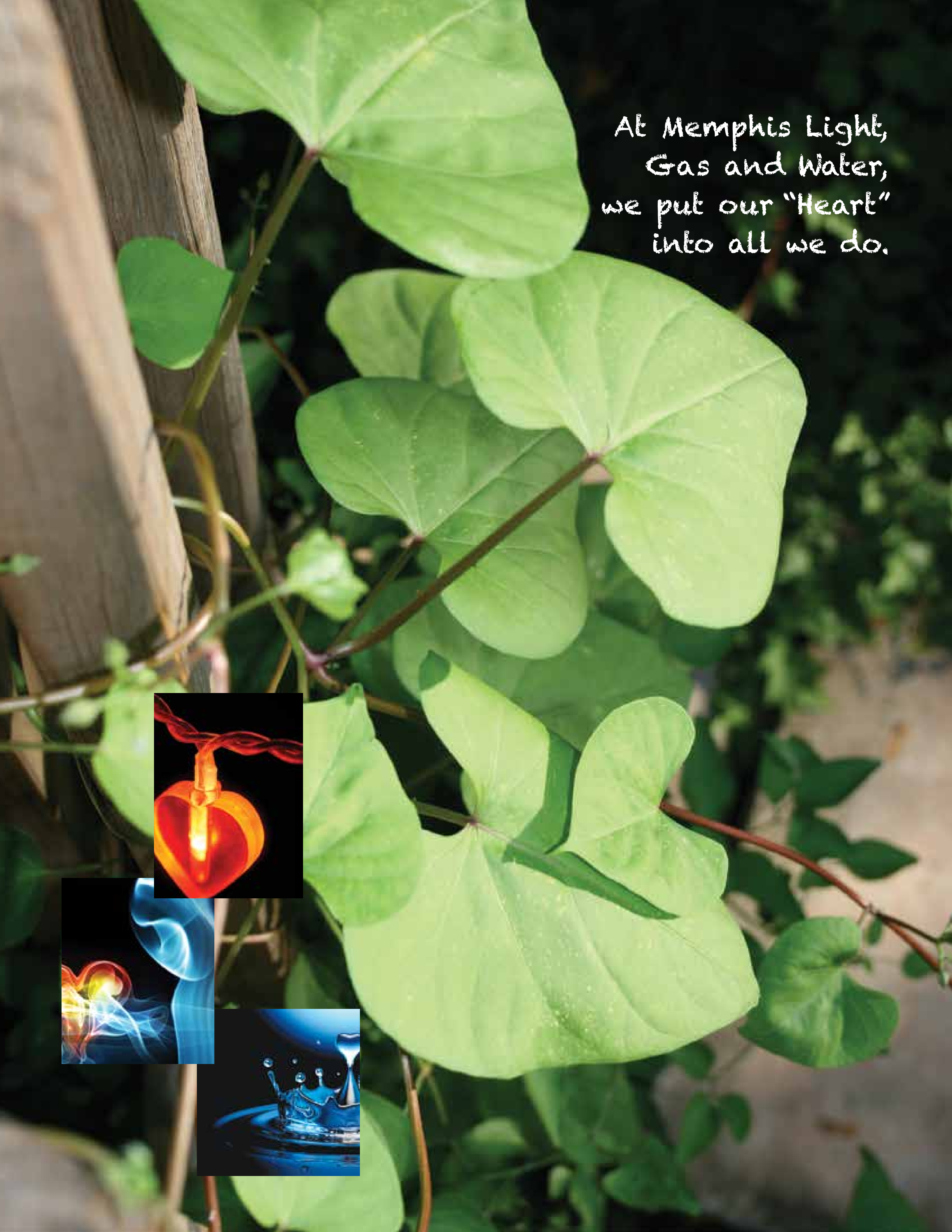
None.

C. Major Federal Award Findings and Questioned Cost Section

None.

Prior year Findings

None.



At Memphis Light,
Gas and Water,
we put our "Heart"
into all we do.

MLGW