

Turning A Tanker: Transforming A 100 Year-Old Regulated Utility



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Chief Executive Officer**

**Southern Methodist University
December 8, 2005**

Safe Harbor Statement

This presentation contains forward-looking statements, which are subject to various risks and uncertainties. Discussion of risks and uncertainties that could cause actual results to differ materially from management's current projections, forecasts, estimates and expectations is contained in the company's SEC filings.

Regulation G

This presentation includes certain non-GAAP financial measures. A reconciliation of these measures to the most directly comparable GAAP measure is included in the appendix of the version included on the company's website at www.txucorp.com under Investor Resources/Presentations.

Today's Discussion

From



To

About TXU

*Serving North Texas
for over 100 years*

*Serving Texas for
the next 100 years*

**Energy Market
Restructuring**

*Centralized
government planning*

Full customer choice

**TXU
Turnaround**

A regulated monopoly

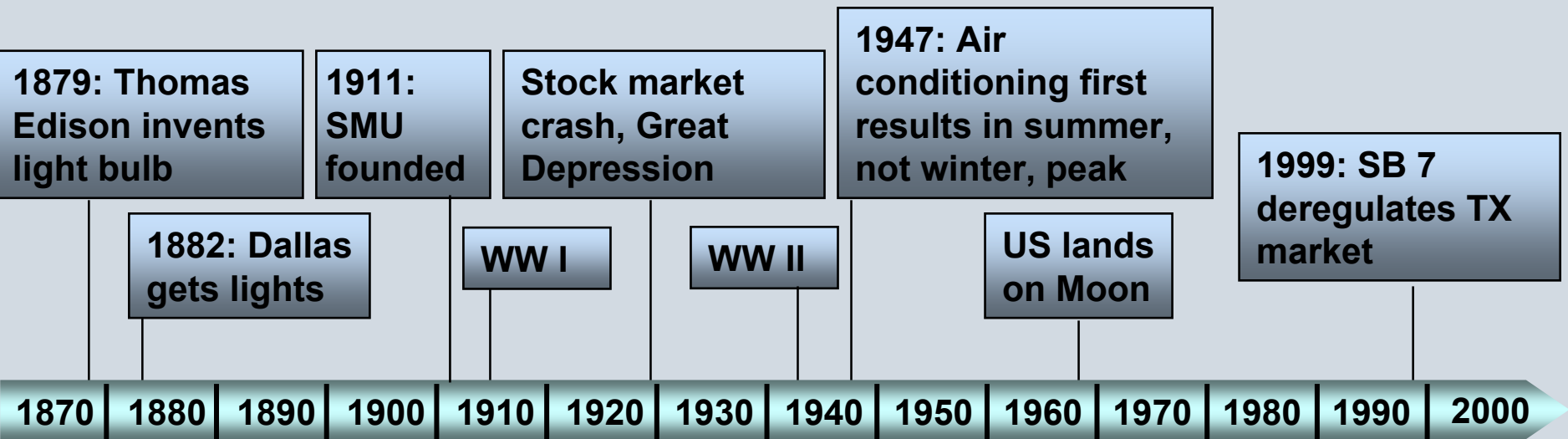
*An industrial
energy company*

**Strategic
Focus**

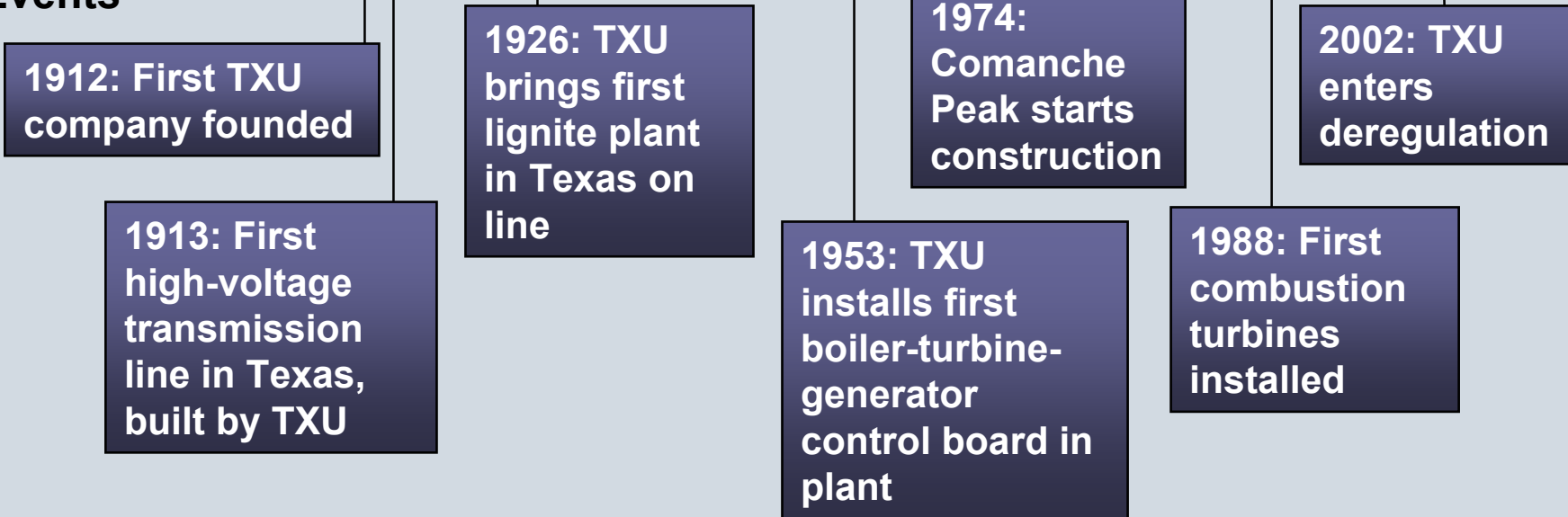
Investing to survive

*Powering Texas'
future*

TXU: A Piece Of Texas History...



TXU Events



...Building On Our Past And Continuing To Serve Our Customers...



Operating 19 power plants with over 18,000 MW of capacity (enough to serve 5.9 million Texas customers)



Mining 23 million tons per year of Texas lignite (enough to fill a coal train that would stretch from Dallas to Ketchikan, Alaska)



Serving 633 Texas cities, over 3 million service points, and almost one-half of Texas' population with regulated electric delivery service



Operating 114,000 miles of transmission and distribution lines (almost half way to the moon)

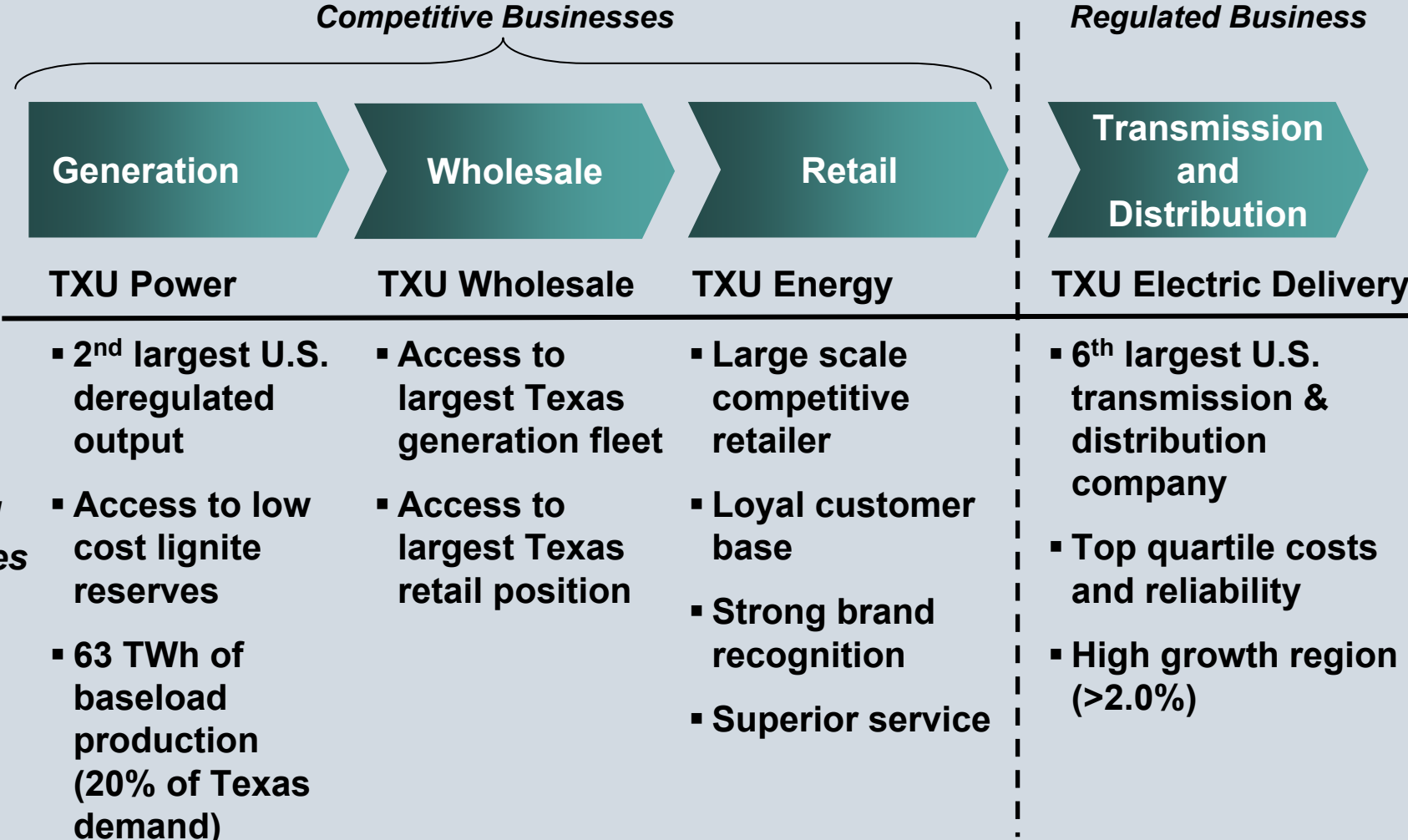


Providing competitive retail electric service for over 2.3 million customers in Texas



Answering about 10 million customer service calls per year

...With Structurally Advantaged Businesses Across The Texas Electric Value Chain



TXU ranks in top 100 largest market capital companies in United States

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Texas Legislators And Regulators Were Ahead Of Their Time Recognizing The Need To Bring Market Solutions To The Electric Sector

1

Volatile and capital intensive global energy market

2

Failure of regulated markets to drive sustained productivity improvements

3

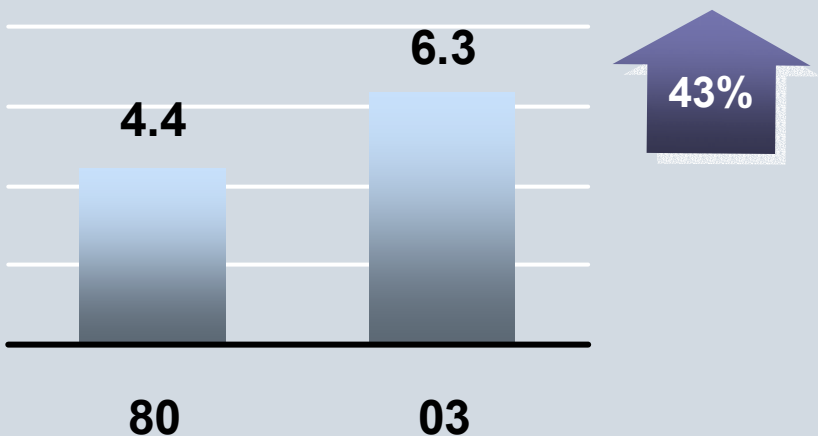
Lack of consumer choice and limited innovation

Restructuring
Leveraging a markets solution to drive efficiency, innovation and investment

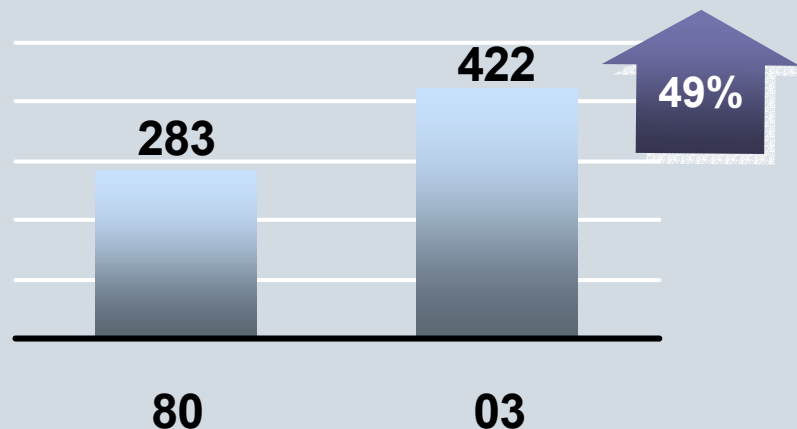
Texas regulators realized that a restructured electric market would be better able to deal with the complex challenges of a global energy market

Increases In Global Population And Relative Wealth Have Driven Higher Energy Usage

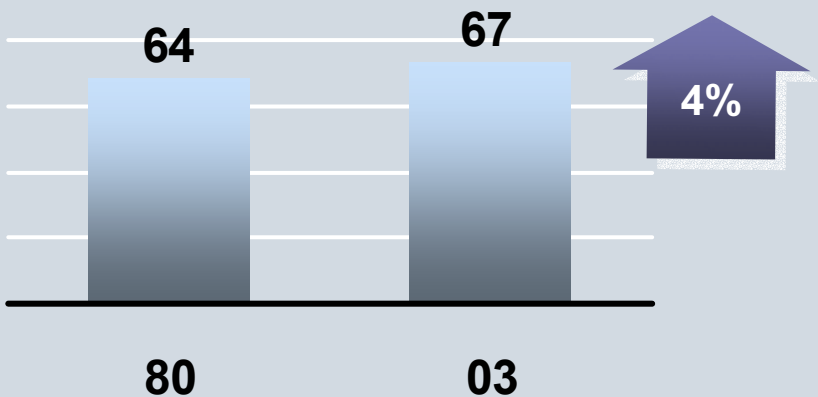
Multiplying masses: World population 80-03; Billions of people



Lighting up: World energy usage 80-03; Billion MMBtu



Greater wealth: World energy intensity 80-03; MMBtu per capita

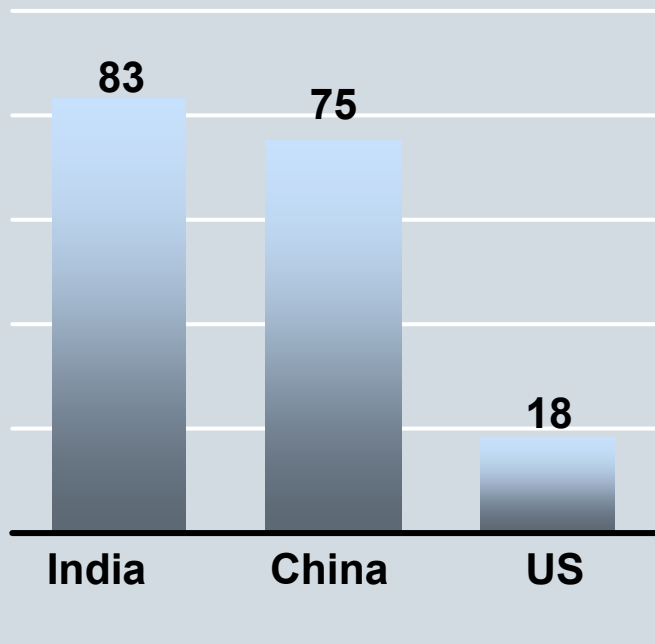


Bringing electricity to the world has significant health and welfare benefits:

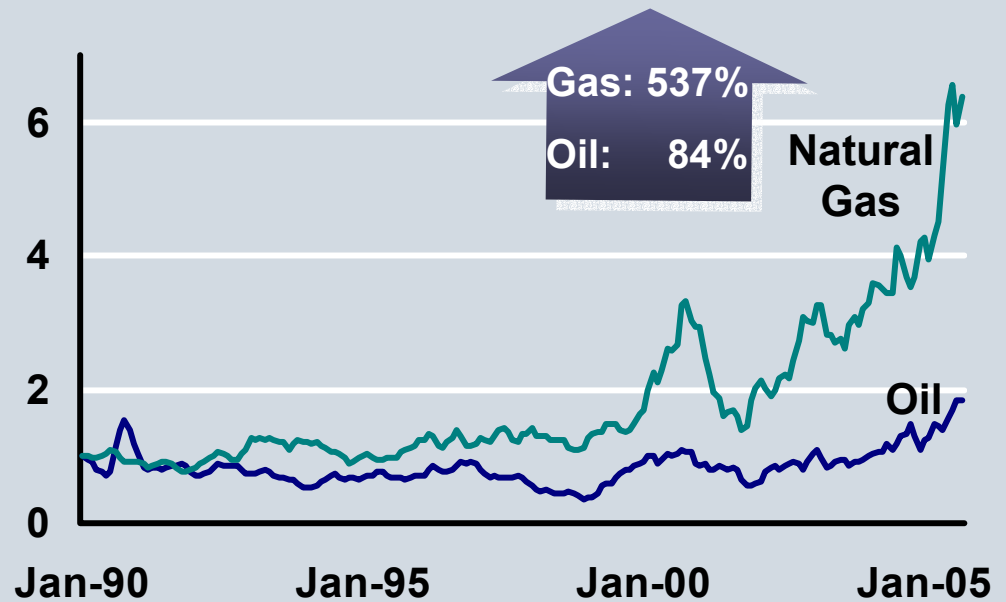
- *Access to heat and air conditioning*
- *Ability to refrigerate and thoroughly cook food*
- *Ability to store vaccines and medications*

Demand Has Temporarily Outpaced Supply, Leading To Higher And Increasingly Volatile Oil And Gas Prices

Increased demand for energy 90-04; Percent growth



Rapidly rising oil and natural gas prices 90-05; Index (January 1990=1)

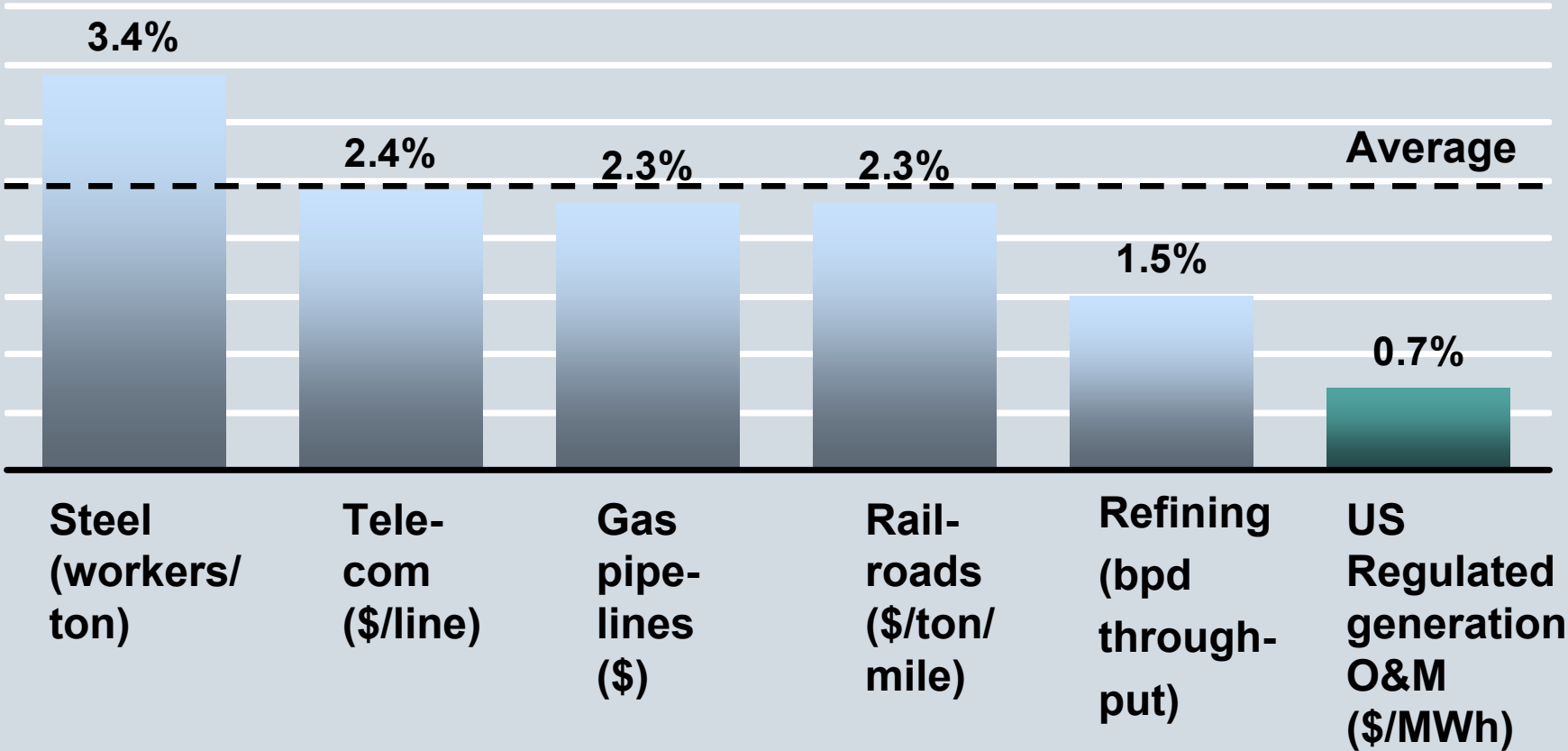


Increases in world hydrocarbon demand have outpaced supply increases driving both higher prices and higher volatility

Regulators Saw An Industry That Historically Lagged Other Competitive Sectors In Productivity Improvements...

Industry productivity improvements (CAGR)

83-03¹; Percent

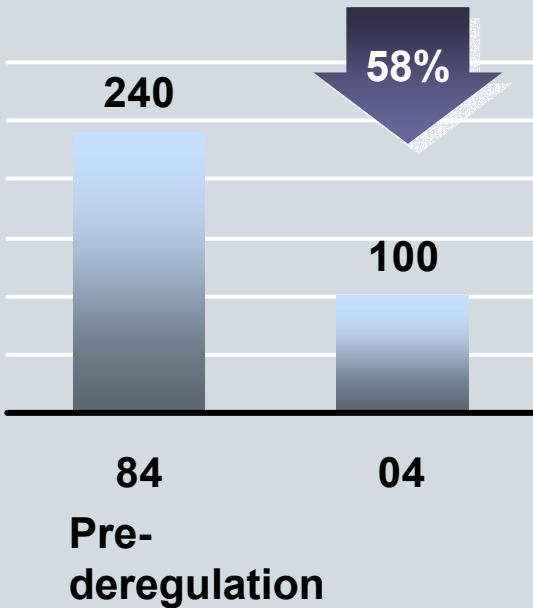


TXU Power is planning for cost improvement that matches other competitive industries

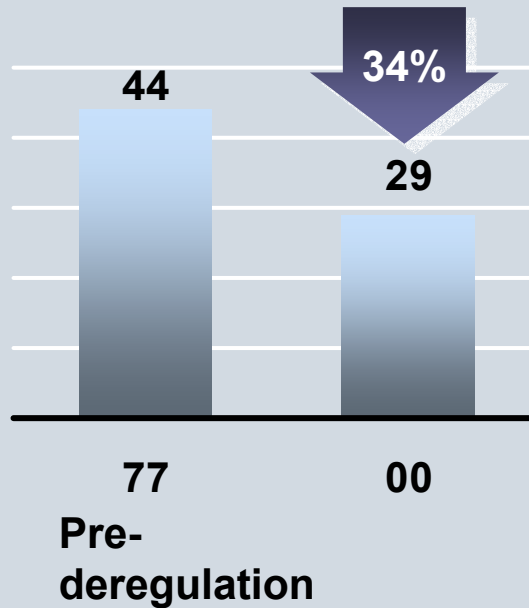
¹ Steel is for the period 1990-2001; Gas pipelines for 1980-2003; Refining is for 1985-2004

...And Saw How Restructuring Of Other Capital Intensive Markets Led To Step Changes In Productivity...

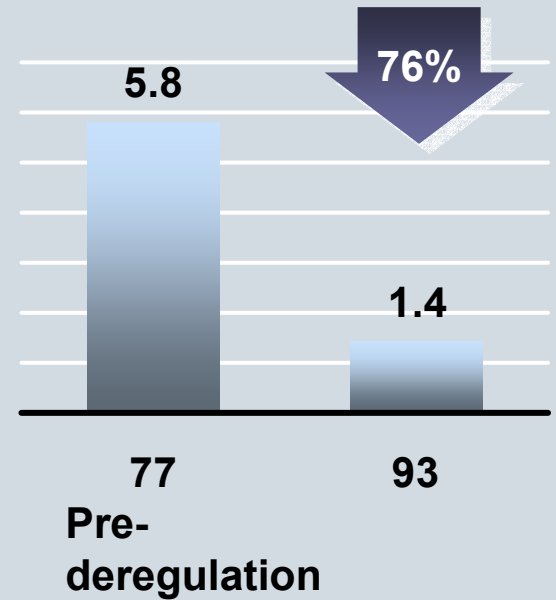
**Smaller workforce:
British Telecom employees
84-04; Thousands**



**Higher utilization: Percent of un-
filled available airline seat miles
77-00; Percent**

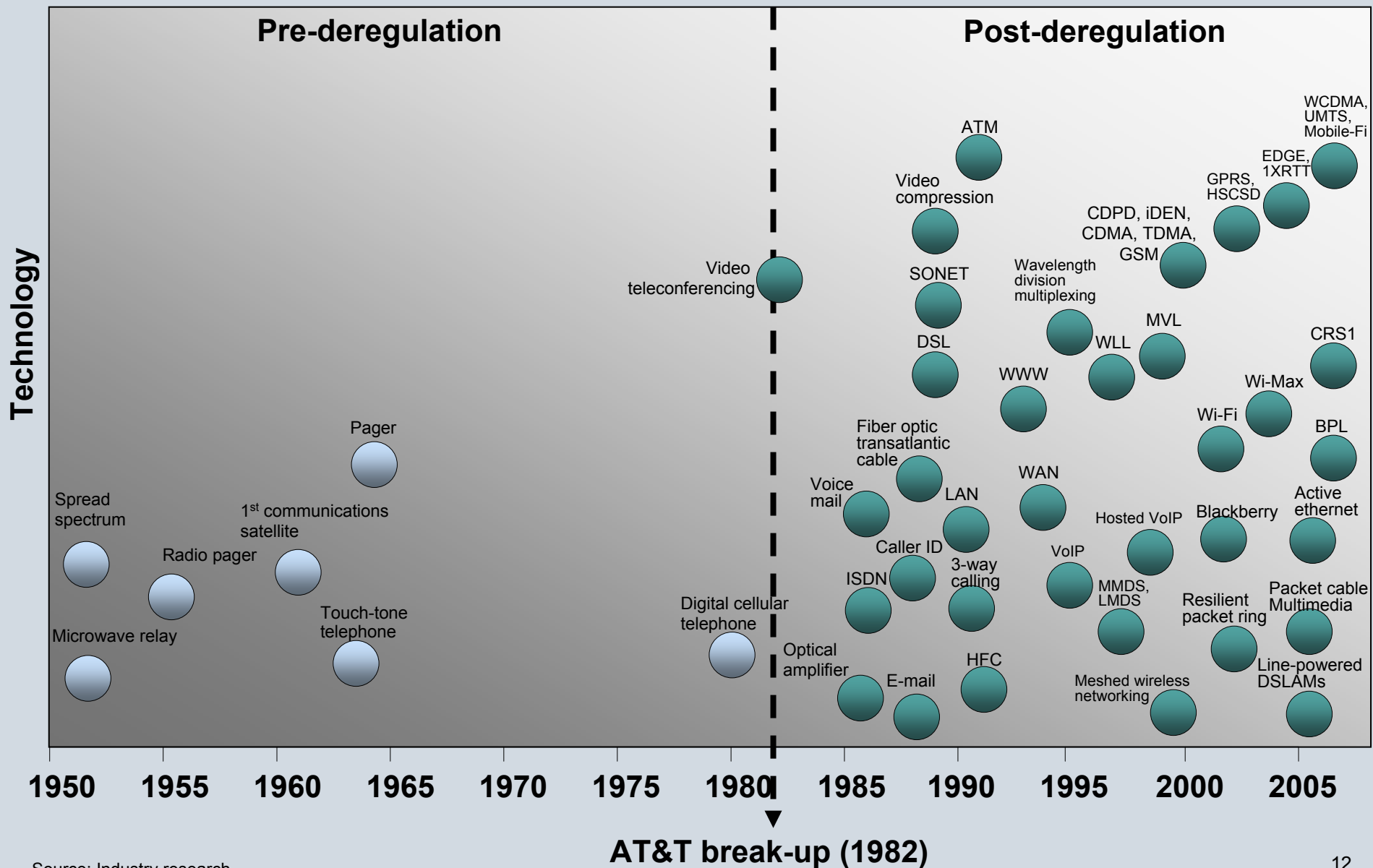


**Leaner cost structure:
Interstate trucking
operating costs
77-93; Real \$/mile**



*A competitive market provides clear incentives and
accountability for constant improvement*

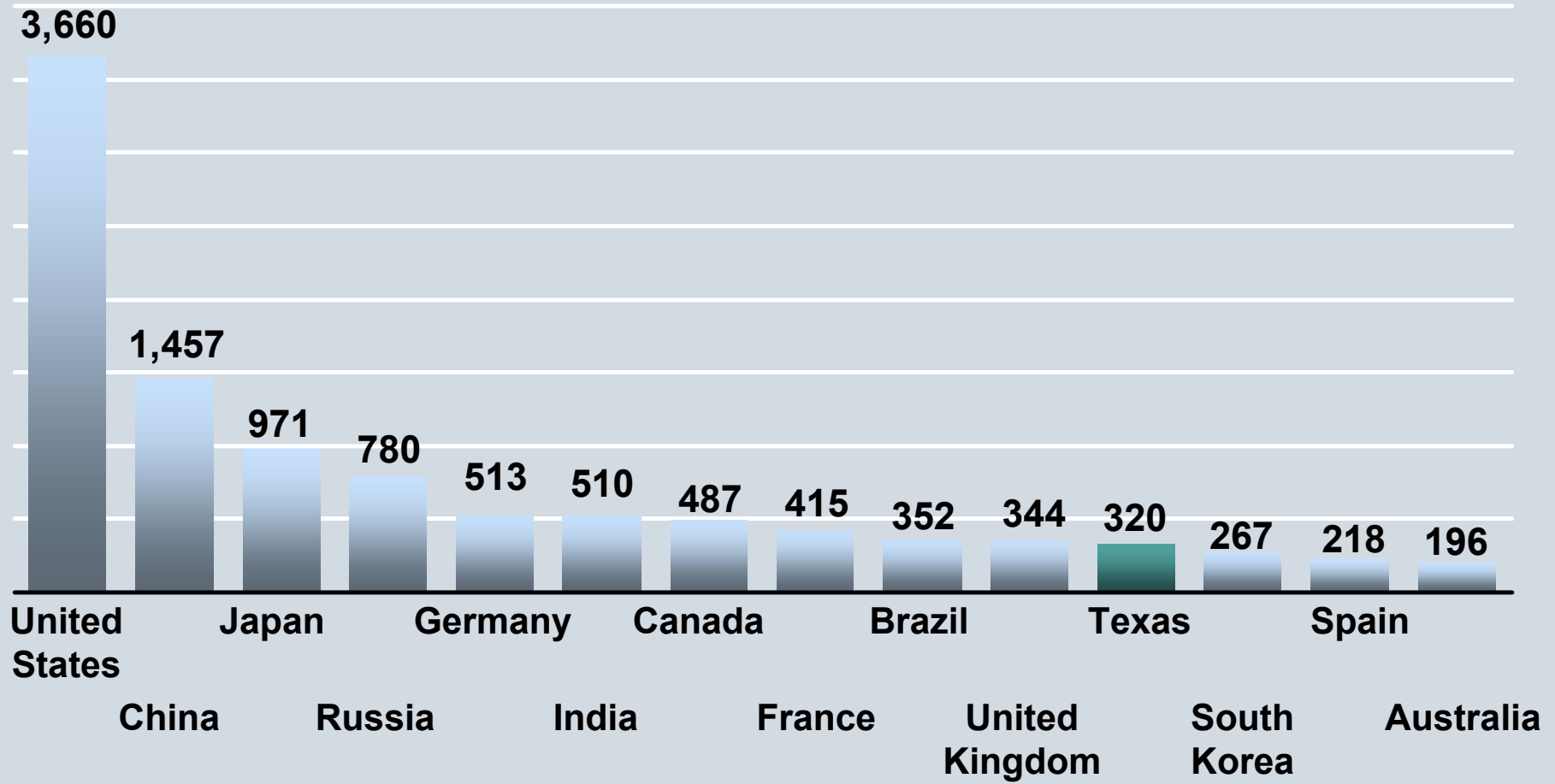
...And Has Provided Customers With Infinitely More Products And Choice



Source: Industry research

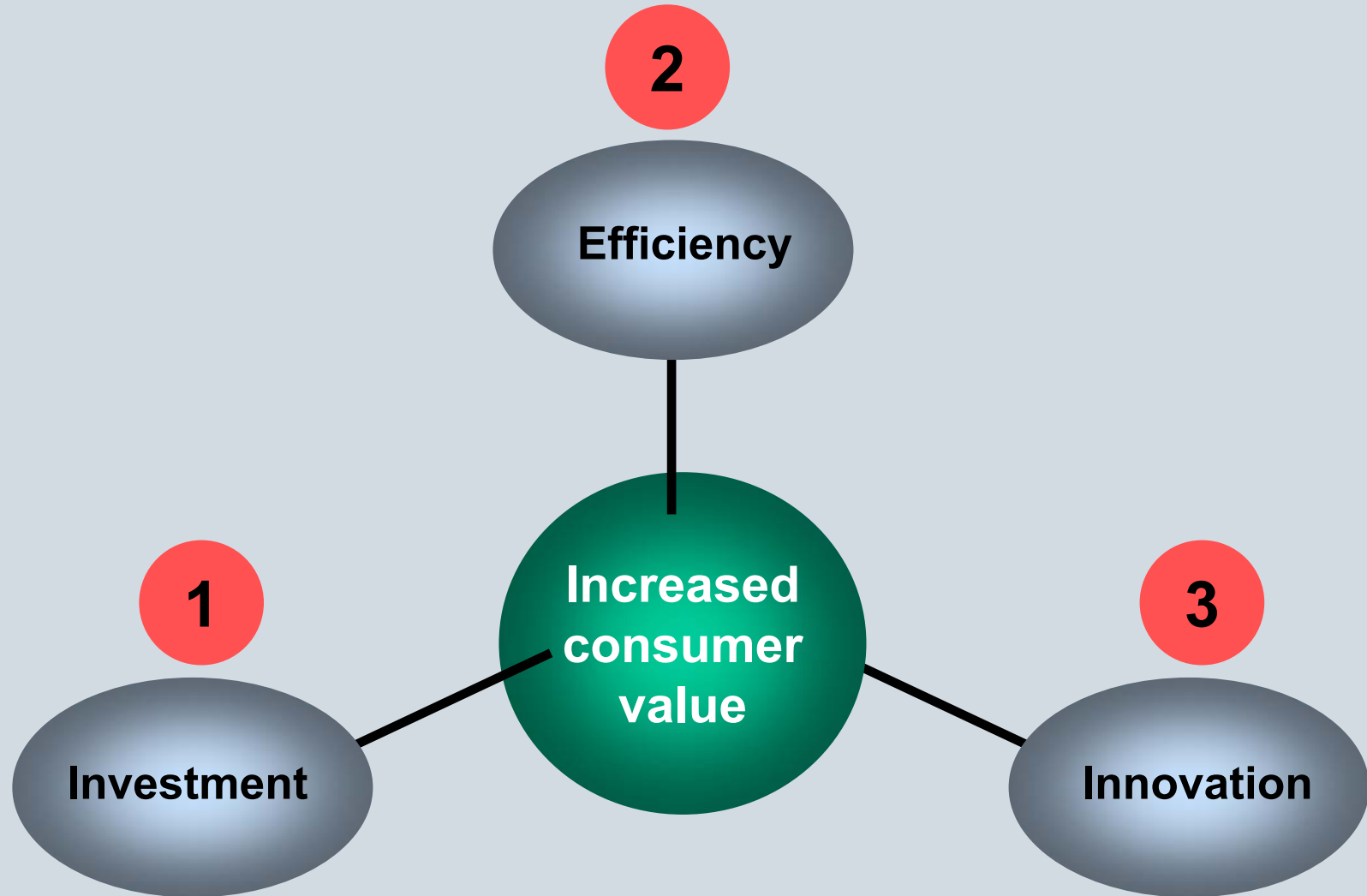
The Texas Electric Market Is One Of The Largest In The World

Electricity consumption
02; TWh



Texas is the 11th biggest market in the world

Restructuring Of The Texas Power Market Has Allowed Texans To Capture The Benefits Of Competition



"Competition on its worst day is better than regulation on its best day." - Pat Wood, former FERC Chairman

Utility Restructuring “Unbundled” The Electric Power Value Chain Creating New Competitive Businesses

Generation

Transmission

Distribution

Restructuring

Generation

Wholesale

Retail

**Transmission
and Distribution**

67 generators and wholesalers

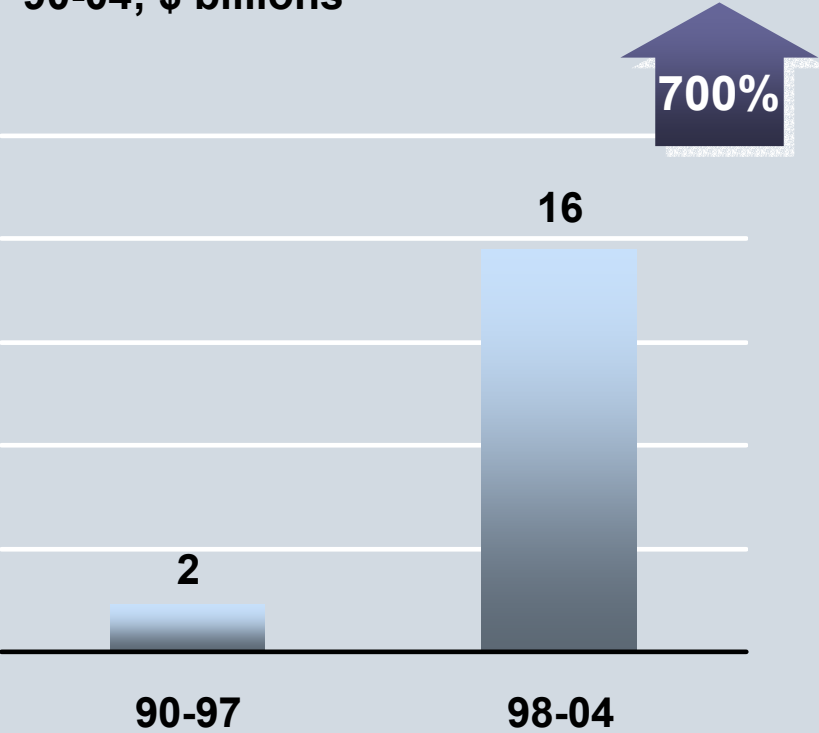
64 active retailers

5 T&D

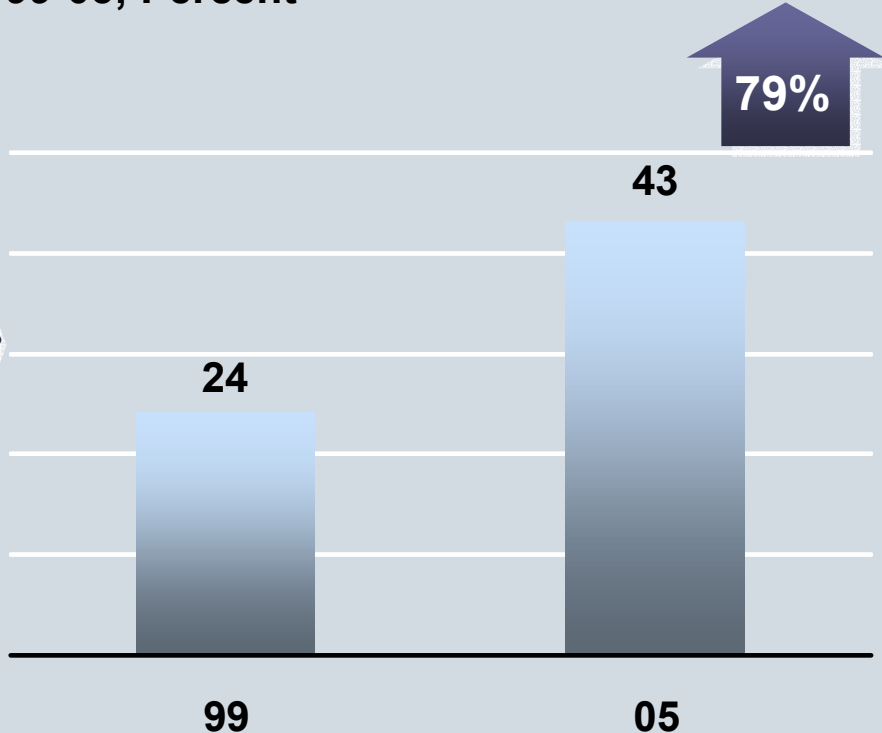
Restructuring has brought a variety of new players into the market and increased customer choice

Competition Has Spurred Massive Generation Investment Leading To A Significant Increase In Market Efficiency

Capacity additions not in rate base
90-04; \$ billions



Texas market efficiency¹
99-05; Percent

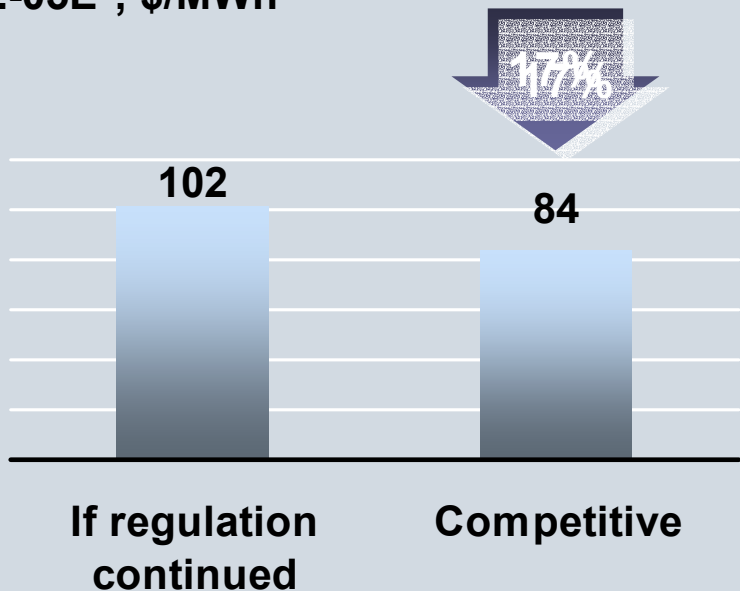


The efficiency improvement would be similar to improving average automobile gas mileage from 20 mpg to 35 mpg

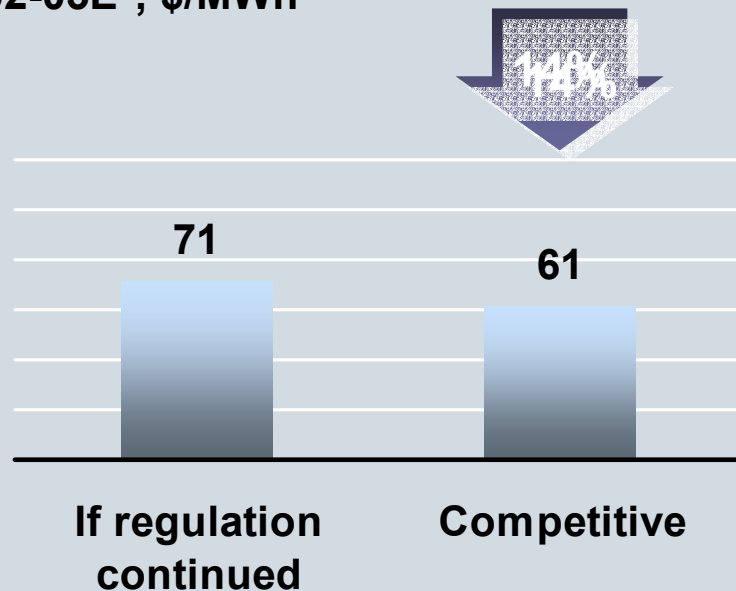
¹ Based on comparison of 7X24 heat rate to heat rate of 100% efficient machine (3.6 MMBtu/MWh)
Source: Energy Velocity; NERC

This Efficiency Has Translated Into Better Prices Relative To Regulation...

Average residential prices¹
02-05E²; \$/MWh



Average large business prices¹
02-05E²; \$/MWh



Even with high natural gas prices, customers have benefited from access to lower electricity prices than they would have experienced under regulation

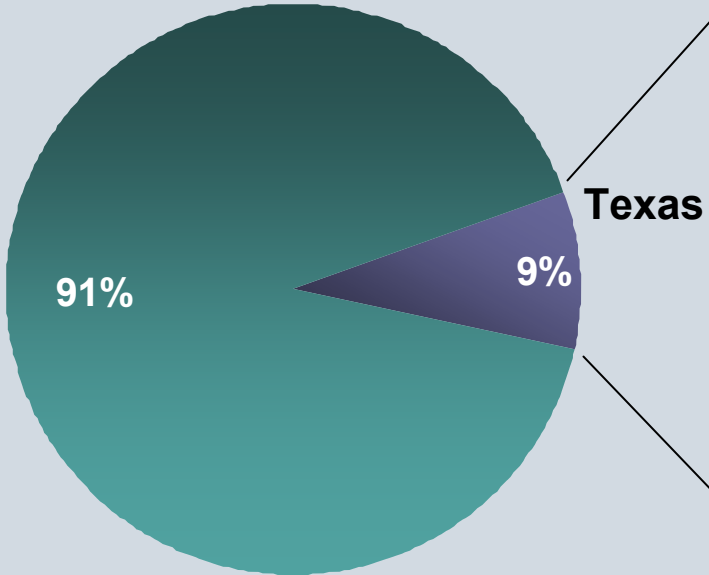
¹ Competitive Residential price based on average 15% discount ('02-'05E) to TXU PTB offered by market competitors. Competitive large business rates include 10% wholesale gross-up and 1% net margin. Regulated world assumes 4.7 GW added capacity in the rate base at a cost of \$600/kw, O&M costs approximately \$38/kw-yr resulting in an average cost of \$129/kw-yr in the rate base, SB7 mandated environmental costs approx. \$400 million resulting in average cost of \$12/kw-yr in the rate base, Comanche Peak stranded costs \$1.2 billion resulting in average cost of \$87/kw-yr in the rate base.

² Based on forward curve as of 10/4/05.

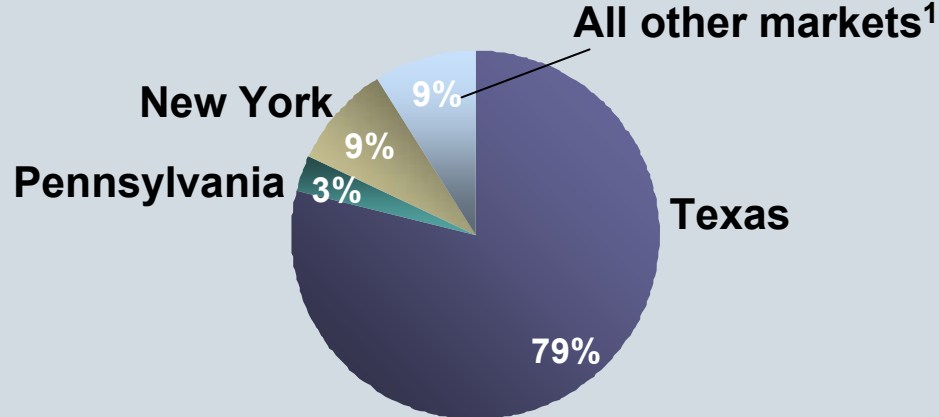
...Enabling The Only True Competitive Electric Retail Market...

Total US electricity sales
04; 100% = 3,550 TWh

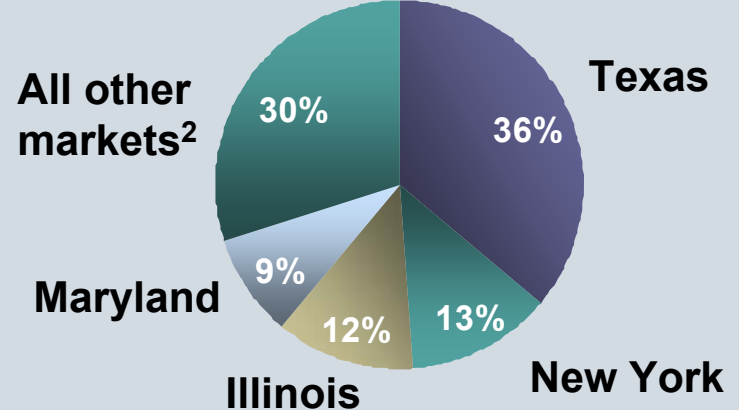
Rest of US



Residential switching by state
04; 100% = ~ 38 TWh



Large commercial switching by state
04; 100% ~ 133 TWh



- While Texas is only 9% of total electric sales in the US, it comprises over 79% of residential switching
- Over 10 million competitive choices have been made in the Texas market

¹ Includes AZ, CA, CT, DC, DE, IL, MA, MD, ME, MI, MT, NH, NJ, NV, OH, OR, RI, VA

² Includes MI, PA, CA, ME

...With Innovative Products And Offerings

From Regulation

To Full Competition

Product

- One meter-driven regulated product
- Basic billing and service

- Customer-driven product proliferation (structure, value add, energy attributes)
- Heightened service focus

Price

- One provider
- One price, cost-plus basis

- Multiple providers in competitive marketplace
- Many prices and terms, supply-demand driven

Promotion

- Energy efficiency and safety focus

- Company branding, innovative alliances and sponsorships
- Segmentation based on customer needs

Placement

- Bill and bill insert
- Limited advertising
- Reactive call center

- Increased customer reach (ads, door to door, Internet, retail)
- Proactive and reactive call center

The market is driving innovation to the residential customer

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TXU's Turnaround Started With An Assessment Of the Major Uncertainties And Current Competitive Position

Element	Key questions for TXU
External industry scan	<ul style="list-style-type: none">▪ How to mitigate the major commodity market uncertainties?▪ How will highly uncertain regulatory/environmental rules impact the industry?▪ Which of the many technologies will be the “winner”?▪ Will hyper-competition continue to transfer value away from the sector?
Current competitive position	<ul style="list-style-type: none">▪ Why had TXU stock underperformed the market for 10 years?▪ How to reduce debt?▪ How to drive operating performance to best in class?▪ How to transform customer service to levels achieved in other industries?

The US Energy Sector Faces Many Forces That Point To An Uncertain Future

Today

In the future

Commodity

- Weather (hurricanes)
- Rapidly growing global demand (China)
- Transportation disruptions

- Long term supply interruptions (Middle East)
- Demand destruction
- Supply upheavals

Regulation/ Environment

- Market design changes
- Federal regulation changes

- Changing emissions standards

Technology

- Choice of fuel (nuclear, coal gas, renewable)
- Demand management

- Breakthroughs in efficiency
- New fuels (H₂, fusion)

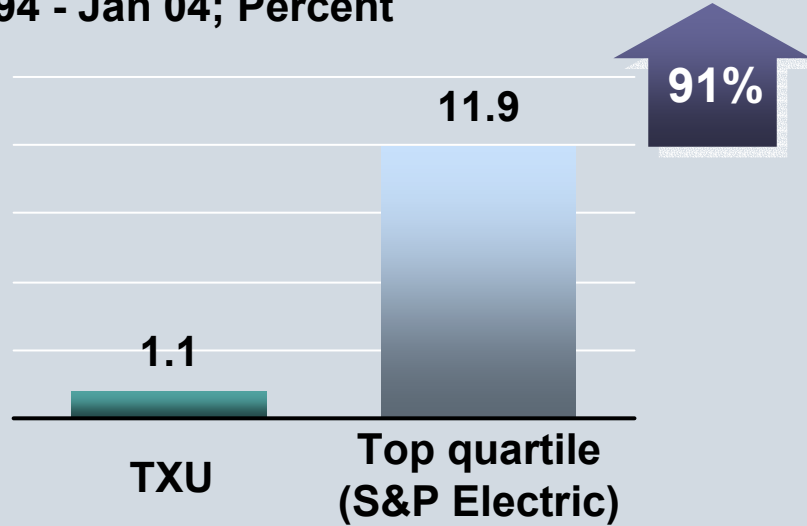
Competition

- Nimble new startups
- Slow-paced former monopolies

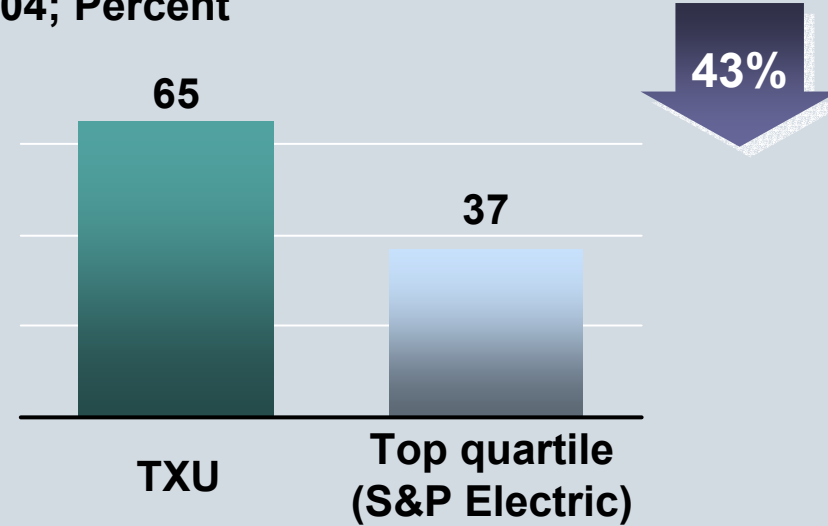
- Hypercompetitive investment
- Breakthrough competitor (Microsoft of electricity)

January 2004: TXU Was Not Positioned Well To Compete Its New Environment

Poor returns: Annual TRS
Jan 94 - Jan 04; Percent



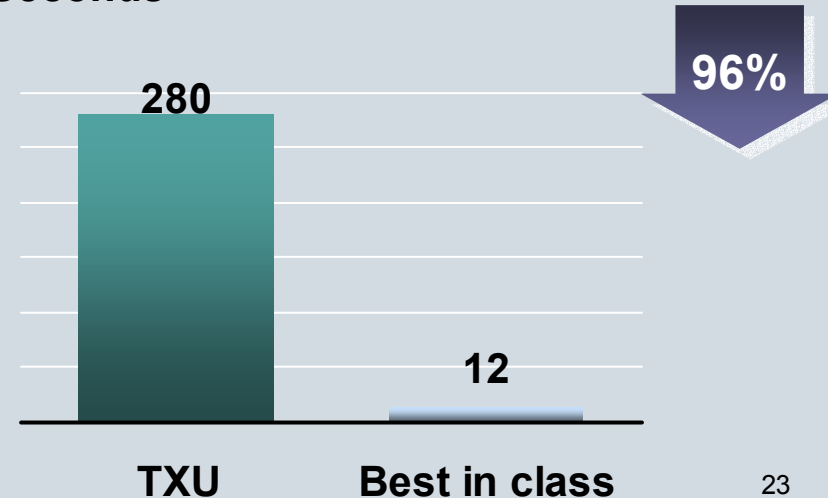
Too much debt: Debt/Total enterprise value
Jan 04; Percent



Costly operations: Nuclear oper. costs
03; \$/MWh



Poor service: Average speed to answer
03; Seconds



TXU's Turnaround Was Based On Three Core Principles...

	Principle	Rationale
1	<i>Long-Term Success In The Energy Sector Is Based On Having Access To Structurally Advantaged Assets</i>	<ul style="list-style-type: none">▪ Energy markets are cyclical; only assets with a structural cost advantage will win over the long term▪ Structurally advantaged positions provide better opportunities
2	<i>An Industrial Skill Set Is Crucial For Continual High Performance</i>	<ul style="list-style-type: none">▪ Superior operational performance can increase ROIC by 200 basis points▪ The sector has not transformed performance levels to reflect a competitive environment
3	<i>Long-Term Winners Must Leverage Not Only Scale But "Quality Scale"</i>	<ul style="list-style-type: none">▪ Like in other capital intensive sectors, scale is necessary for operational improvement▪ "Quality scale" provides access to advantaged new build prospects and enables competitive leadership

...And Implemented Through A Three Phase Transformation Process...

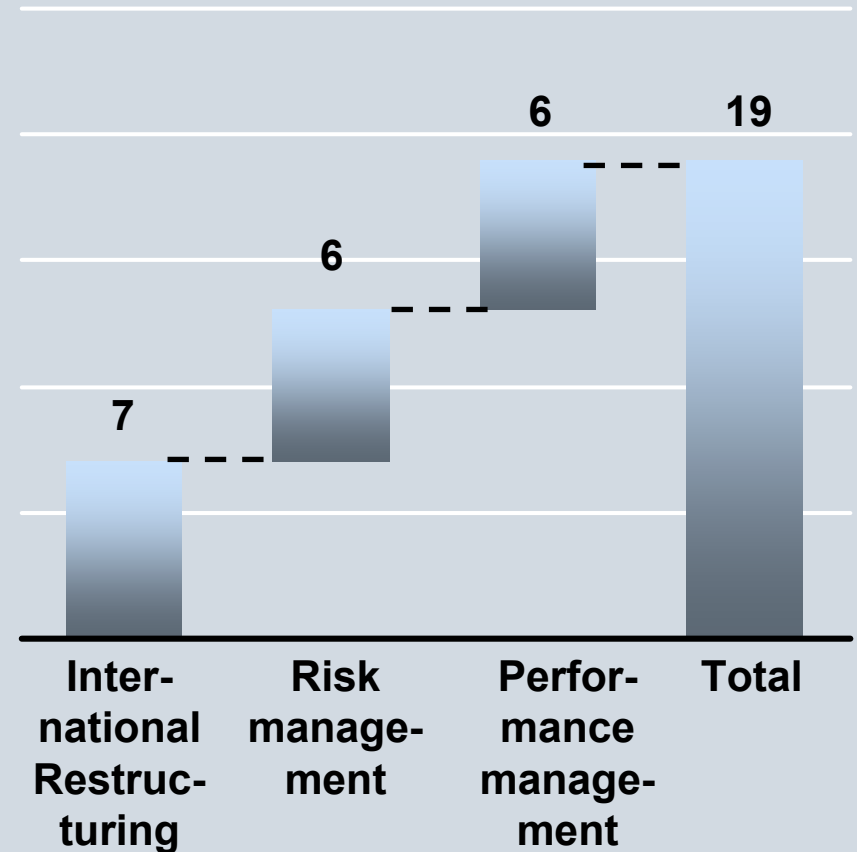
A structured turnaround...

Phase 3:
Sustained
Performance and
Growth

Phase 2:
Strengthen the Core &
Drive Performance
Improvement

Phase 1:
Rationalize,
Restructure & Restore
Financial Strength

...led to significant value creation
04-05; \$ billions



TXU created a significant amount of value by restructuring its international operations and focusing on its core in Texas

...Based Upon The Development Of An Industrial Skill Set



Operational Excellence

- Top decile throughput
- World class industrial production costs
- Industry leading reliability
- Lean corporate SG&A

Market Leadership

- Superior customer service/brand management
- Customer segmentation and pricing
- Distinctive commodity sourcing

Risk/Return Mindset

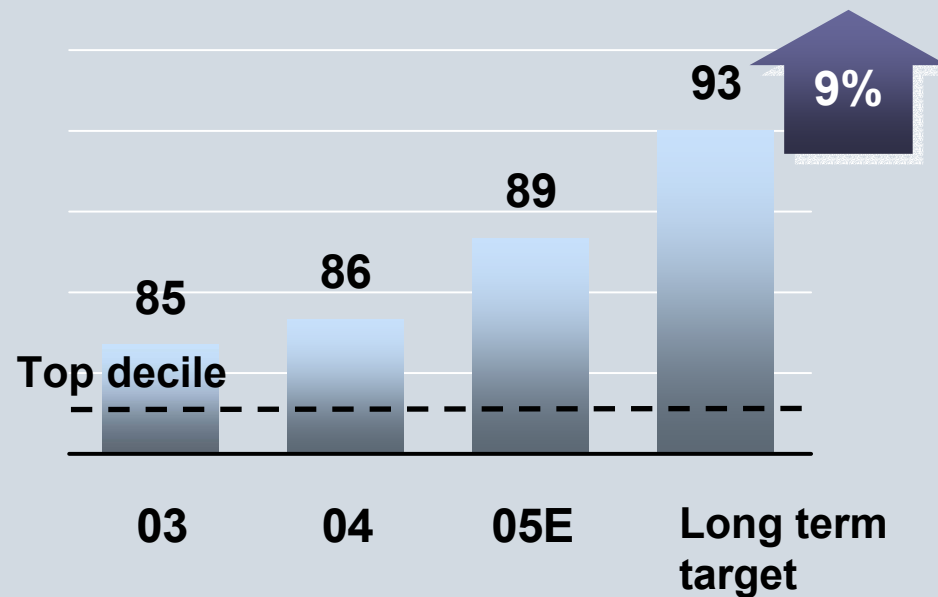
- Strict capital allocation discipline
- Risk/return restructuring
- Commodity risk management

Performance Management

- High performance culture
- Balanced cascading scorecards
- Employee development
- Incentives linked to key value drivers

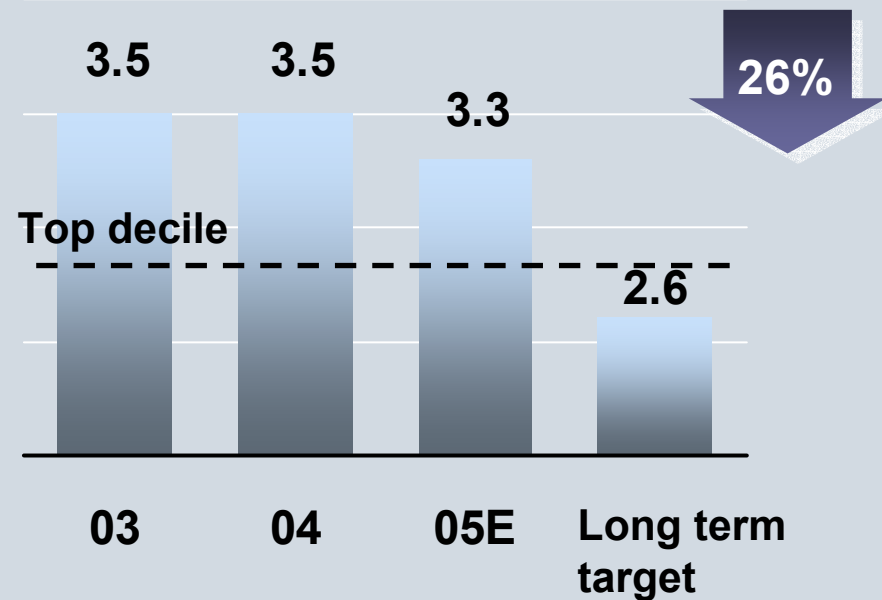
Operational Excellence: "Lean Principles" To Generation...

Lignite capacity factors
03-LT; Percent



Closing the gap 03-Long term ~ \$290MM

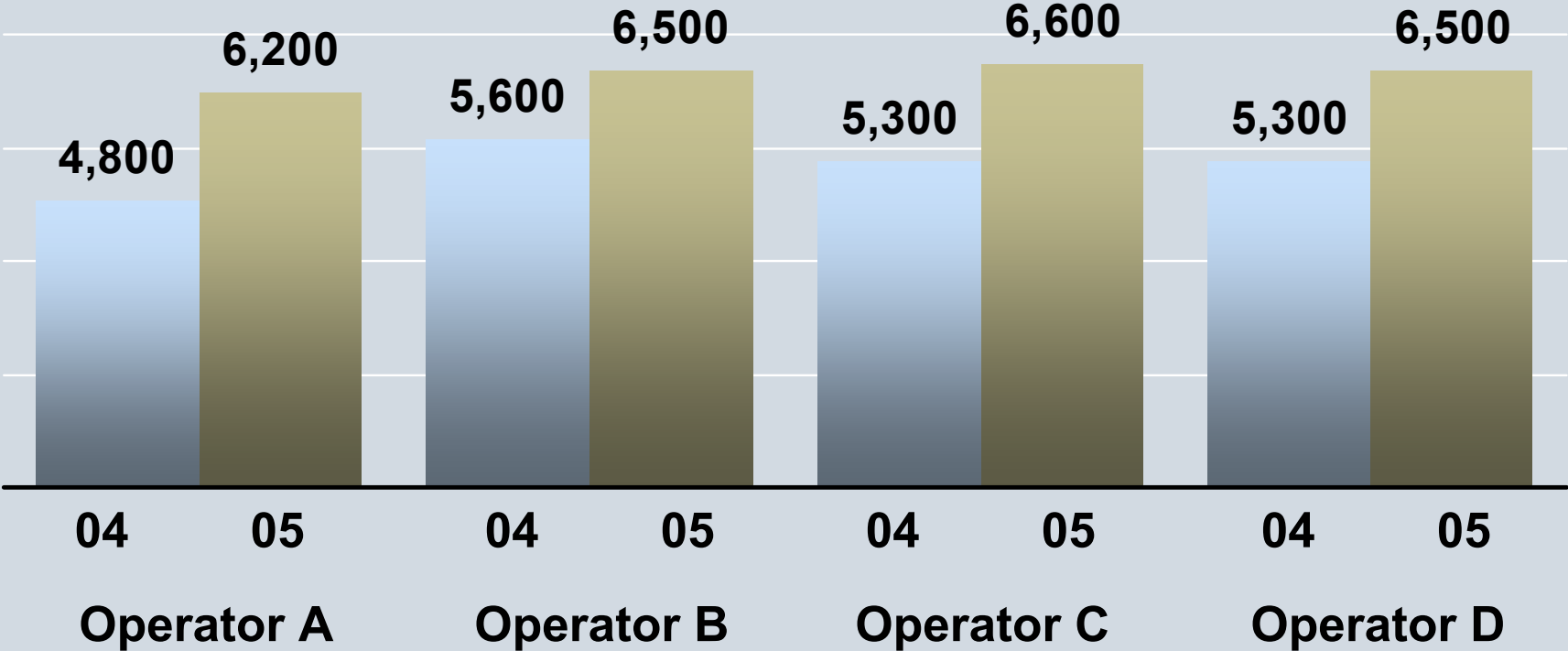
Lignite fuel & operating expense
03-LT; \$/MWh



Closing the gap 03-Long term ~ \$30MM

...Driving Productivity At The Mines...

Digging for gold: Dragline operator productivity performance 04-Oct 05; Average dig yards per hour



Average operator performance has improved by 23% in one year

¹ Excludes all conditions out of the operators' control (e.g., equipment failures, low Btu fuel)

...By Leveraging Innovative Work Practices...

Operators are taped on the job...

...and given feedback in the classroom



***All-time annual record for yards moved
was broken during the first week of November***

...And Technology To Identify Problems Before They Occur

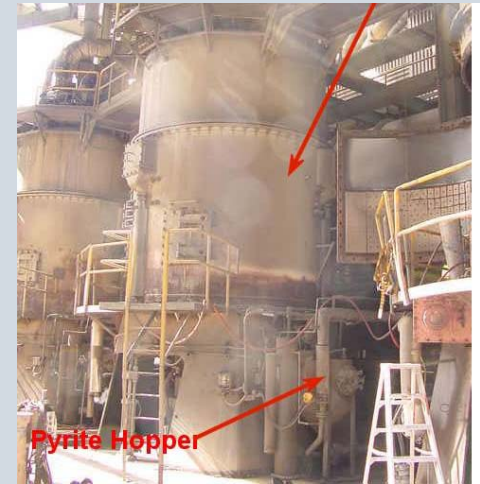
Power Optimization Center

Equipment | Monitoring | Process | Analysis



Alerts | Forecasts | Trends | Recommendations

Bowl mills



Feedwater heaters

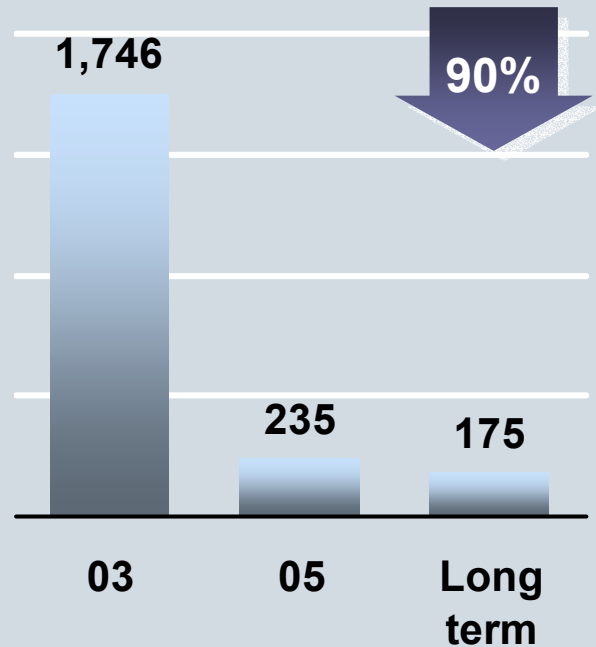


Proactive detection has driven a 0.5% improvement in capacity factor, increasing productivity by \$26 million

TXU's Focus On Operational Excellence Has Also Driven Efficiency Gains At The Corporate Center...

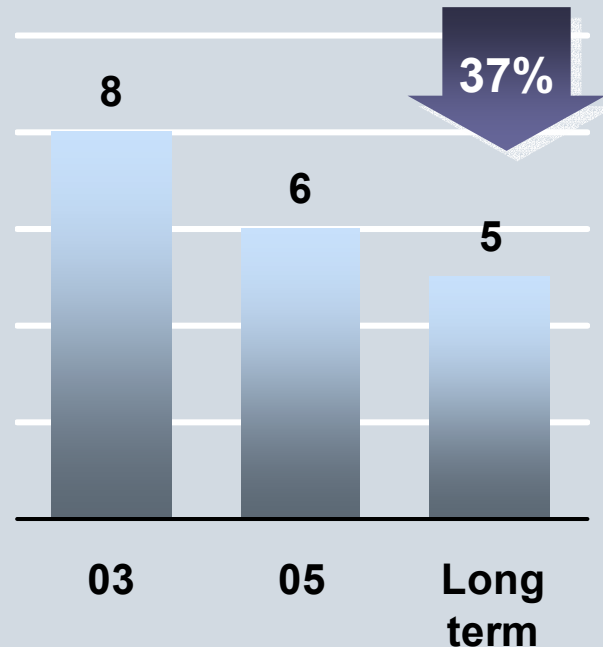
Creating an industrial corporate center...

03-LT; Number of employees



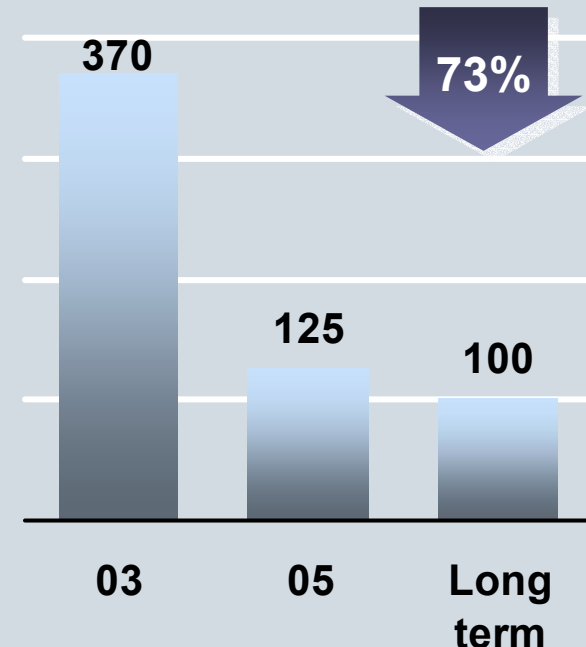
...with less bureaucracy...

03-LT; # of management layers



... and lower costs...

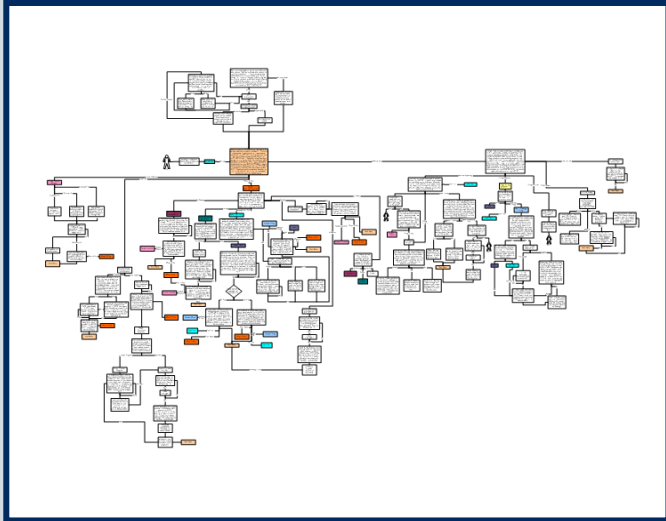
03-LT; \$ millions



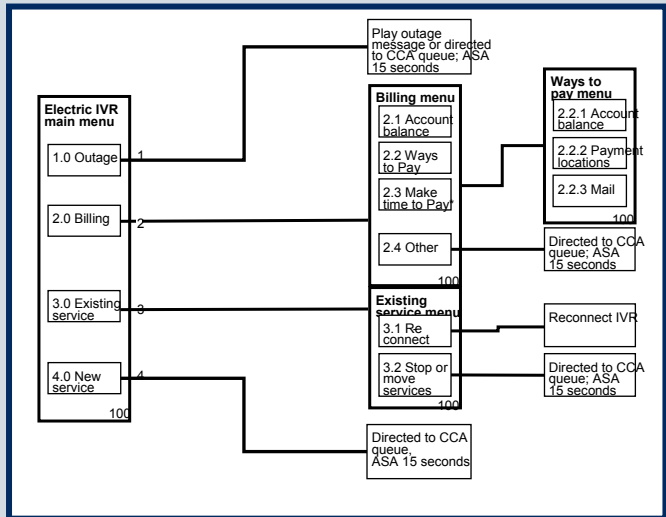
TXU has removed redundancies and focused on value creating opportunities

...And Improved Service For Customers

Simplifying the IVR from a complex maze...



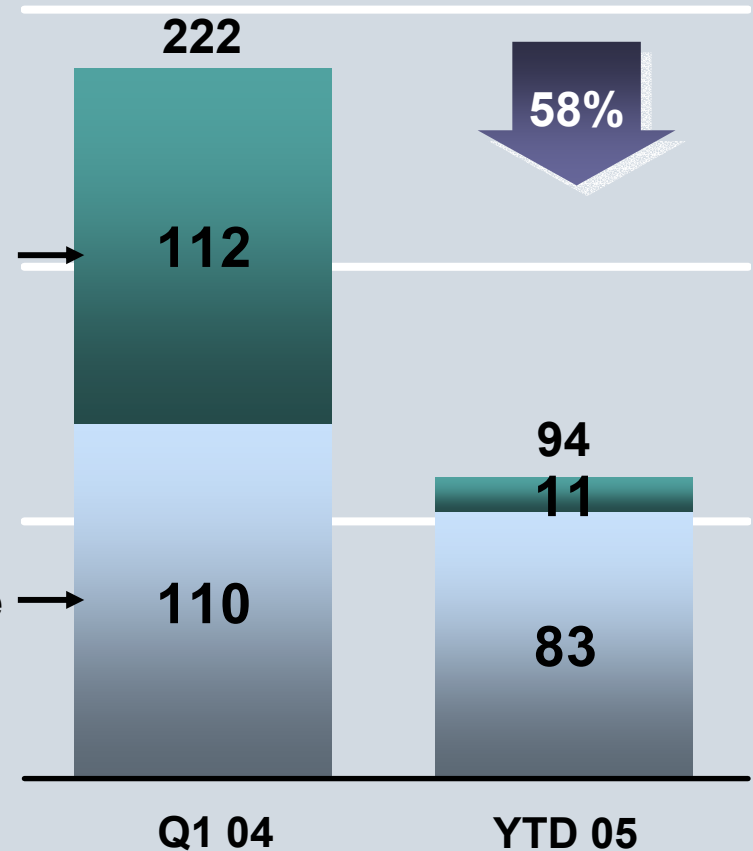
...to a straightforward process...



...leads to quicker pick up

Average time to reach call representative
04-05; Seconds

Average speed of answer



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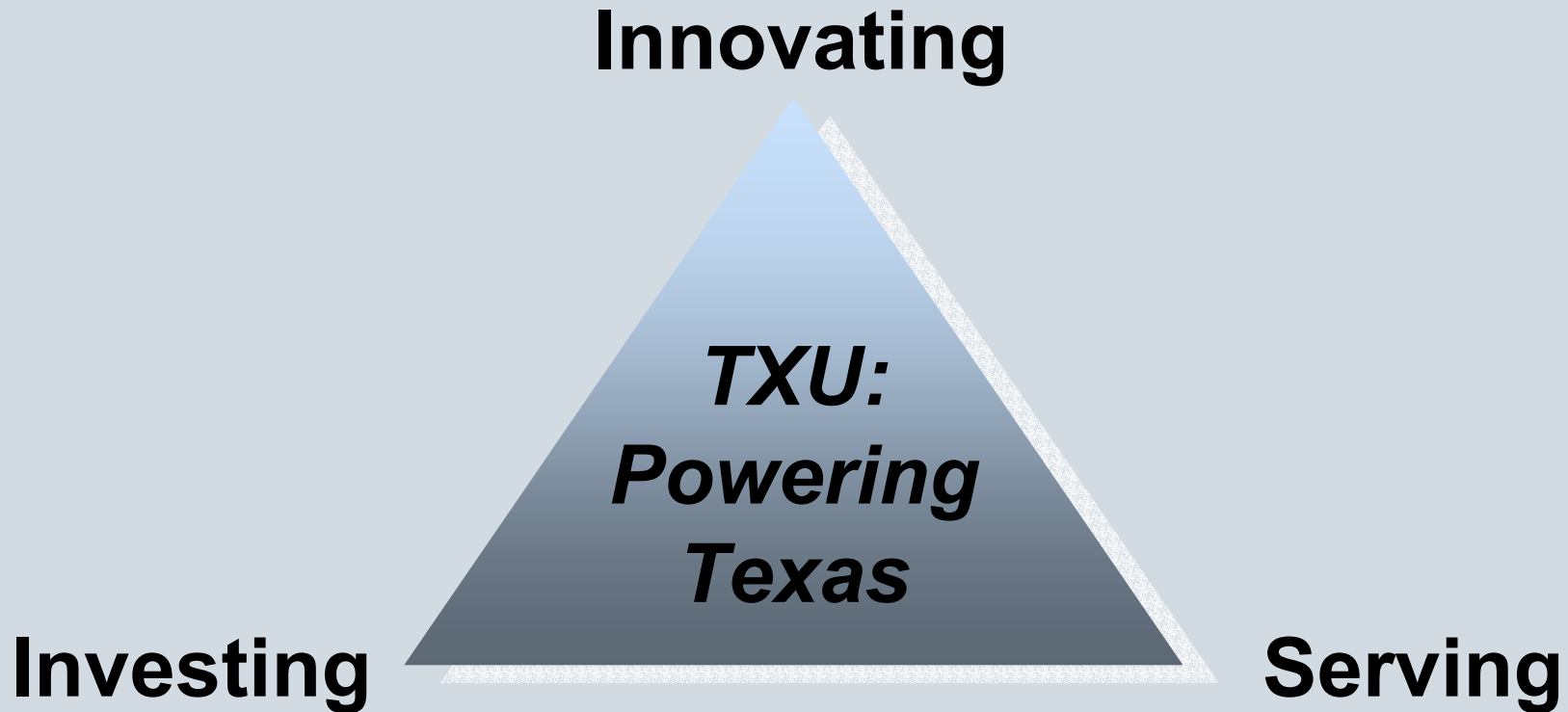
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With Profitability Restored, TXU Is Undertaking An Aggressive Program To Grow The Business And To Continue To Deliver Value To The Consumer



Texans will reap the benefits of TXU's strength through investment, innovation and corporate service

TXU Has Announced Two Texas New Build Opportunities...

Sandow Unit 5 Rockdale, Texas



Key statistic

Installed capacity (MW)	600
Primary fuel	TX Lignite
Air permit status	Complete
Resume construction date	April 06
Commercial operation date	Oct 08

Oak Grove Steam Electric Station Robertson County, Texas



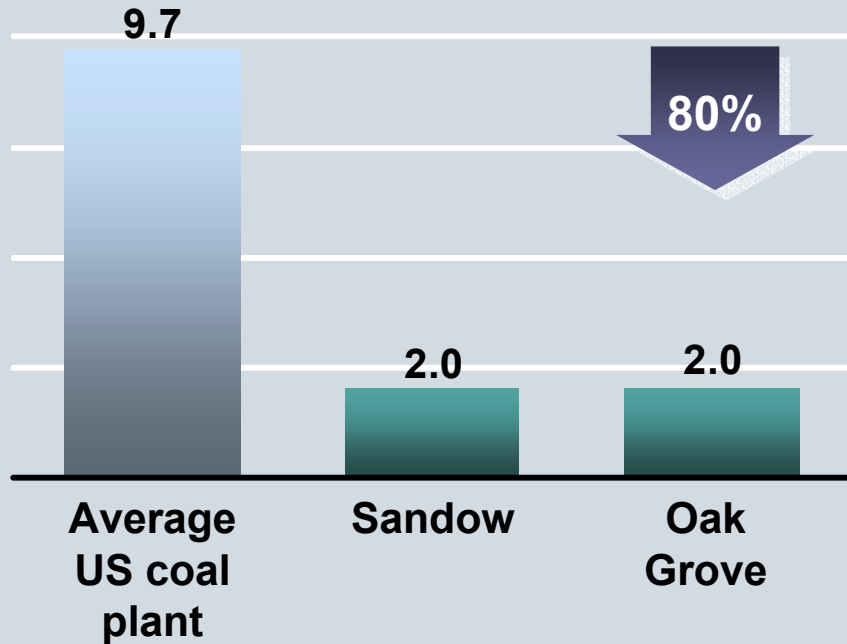
Key statistic

Installed capacity (MW)	1,720
Primary fuel	TX Lignite
Air permit status	In-Process
Resume construction date	After permit
Commercial operation date	June 09/Dec 09

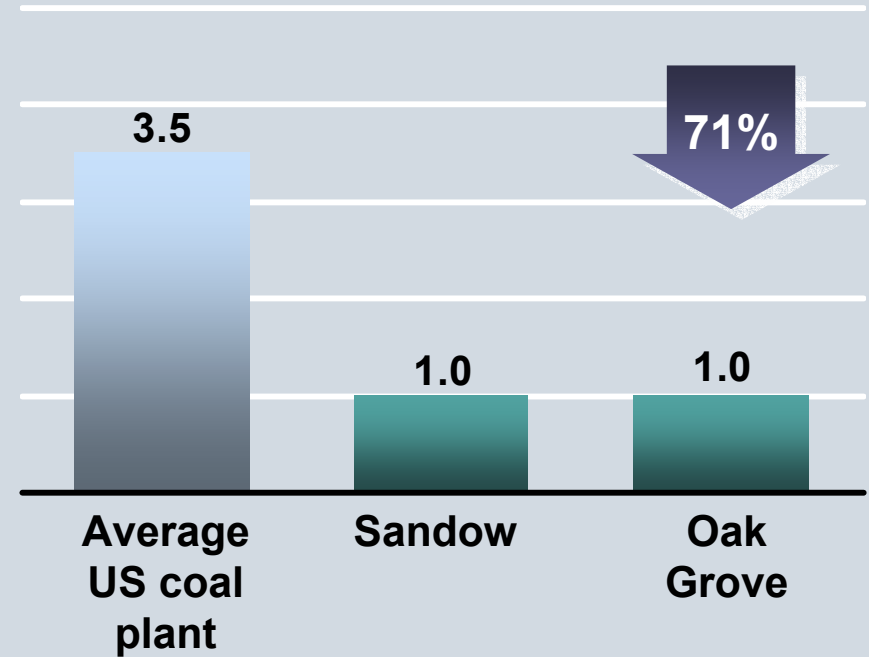
TXU has announced the potential for large scale investments

...That Will Employ Advanced Emission Control Technology

Breathing easier: SO₂ emissions
Pounds of SO₂ per MWh



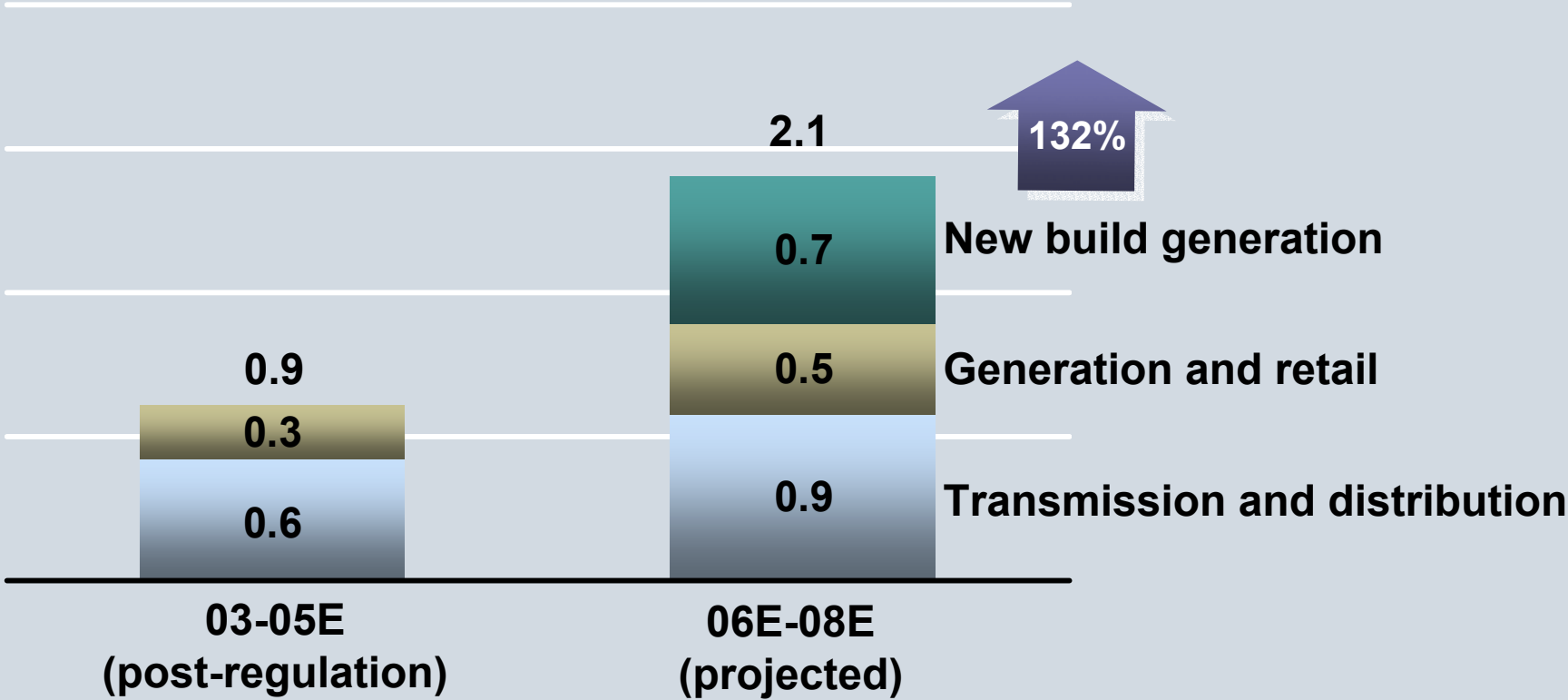
Breathing easier: NO_x emissions
Pounds of NO_x per MWh



TXU is investing approximately \$1 billion on advanced emissions control technology to minimize environmental impacts

TXU Is Growing Its Investment In Texas To Improve Efficiency And Reliability...

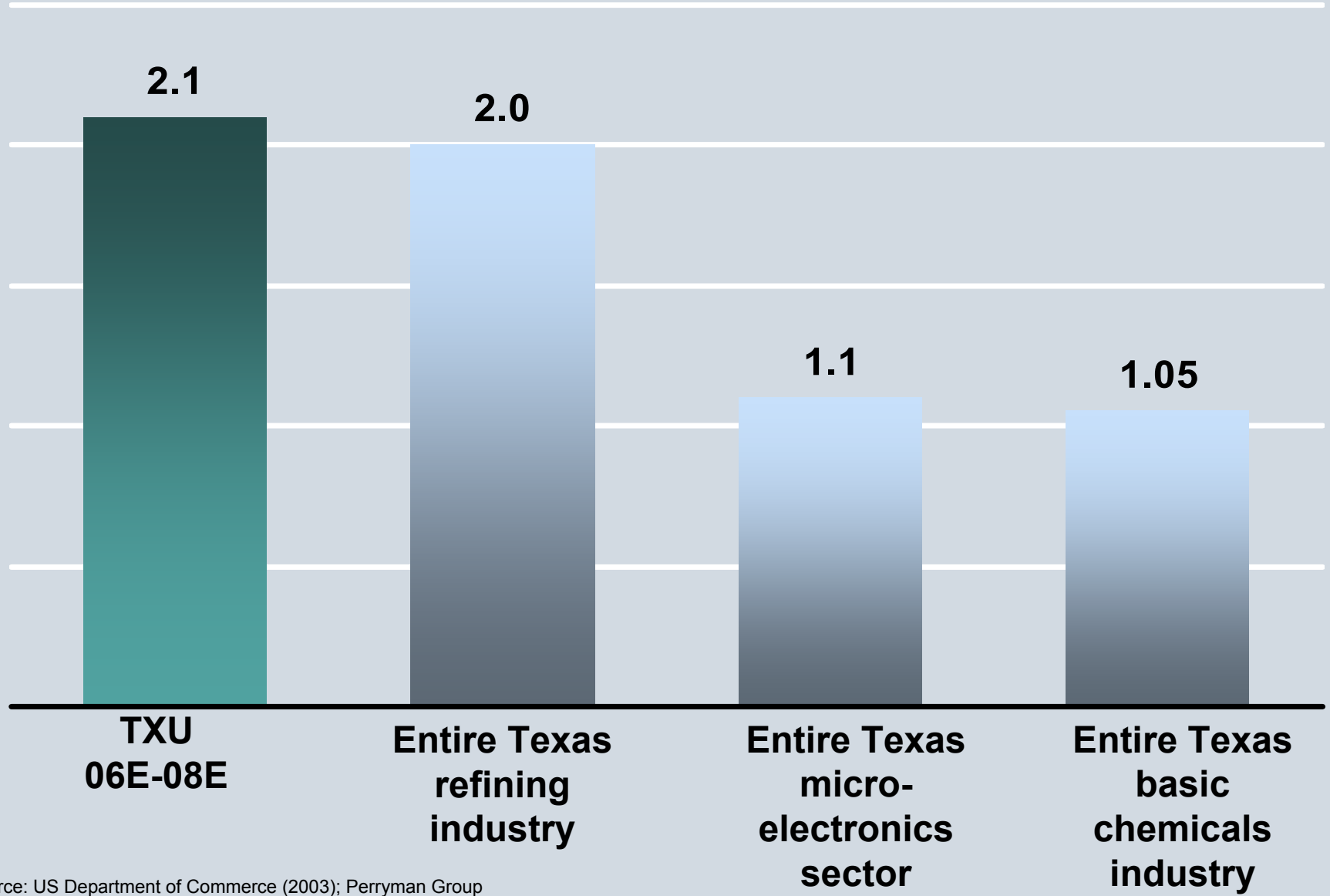
TXU annual capital expenditures in Texas
03-08E; \$ billions per year



TXU is reinvesting in its core market to deliver a more reliable grid, more efficient power, and innovative new products

...Making TXU One Of Texas' Largest Corporate Investors

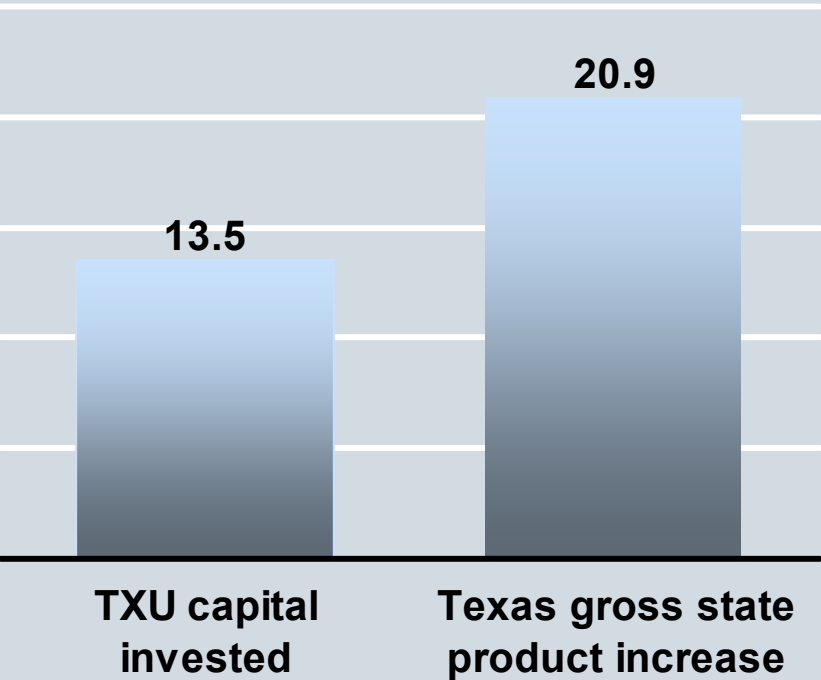
Capital investment in Texas
03-08E; \$ billions per year



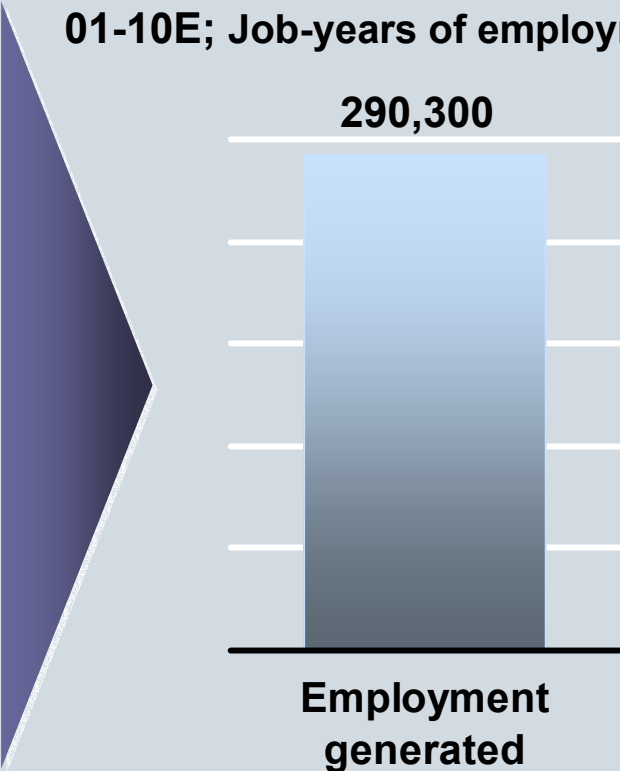
Source: US Department of Commerce (2003); Perryman Group

The New Investment Will Generate Economic Growth And New Jobs For Texans

The color of money: Economic impact from TXU capital investment¹
01-10E; \$ billions



Job fair: Employment created by investment
01-10E; Job-years of employment



Employment creation figures are comparable to the annual job base of Waco, Tyler and Abilene combined ²

¹ Expressed in constant 2005 dollars

² Total non-farm jobs for one year

Source: Perryman Group; Texas Multi-regional Impact Assessment System; US Department of Labor (2004)

TXU Is Developing Innovative New Programs To Deliver Value To Customers...



TXU Energy
Rewards+

Welcome,
TXU Energy Guest 2

Double the Rewards+ Dollars
Low Price Guarantee

- Marketplace
- Hotel
- Airline Offers
- Cruises
- Condominiums
- Magazines
- Software
- DVD
- Movie Tickets
- Luggage
- Dining

Your Questions

- How does the program work?
- Need to speak to an Agent?

Special Promotions

Fantastic Orlando Florida Mall Hotel Offer!
[Click Here for Details](#)

Spectacular Aladdin Las Vegas Hotel Offer!
[Click Here for Details](#)

Marketplace Search

To redeem, select from the categories listed below. If you have any problems using this website please [contact us](#) or call 1-800-425-9816.

Your Current Account Balance
550.00
[view details](#)

- Available to all 2+ million customers
- Over 175 thousand customers activated TXU Energy Rewards+ accounts in the first 9 months
- Over \$100 million of Rewards+ Dollars already issued to customers

...And Creating A Slate Of New Products Tailored To Meet Different Customers' Needs

Existing

Near-term (~06)

Longer-term (07 +)



- Innovative “Freedom Plan” provides price certainty
- Standard offer (like PTB, month-to-month)
- Home surge protection







- “Renewable Energy” products, environmental benefits
- 1-3 year term contracts
- Usage-customized products
- HVAC tune-ups



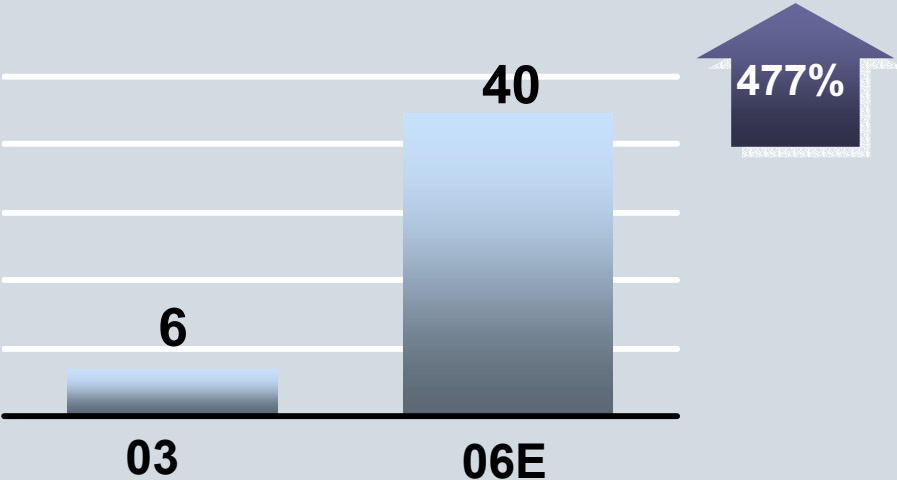
- “Home Services” products, control of energy usage
- Advanced pricing plans (e.g., pre-paid energy, time-of-use/critical peak pricing)
- Distributed generation/back-up power

TXU Is Also Exploring New Technologies

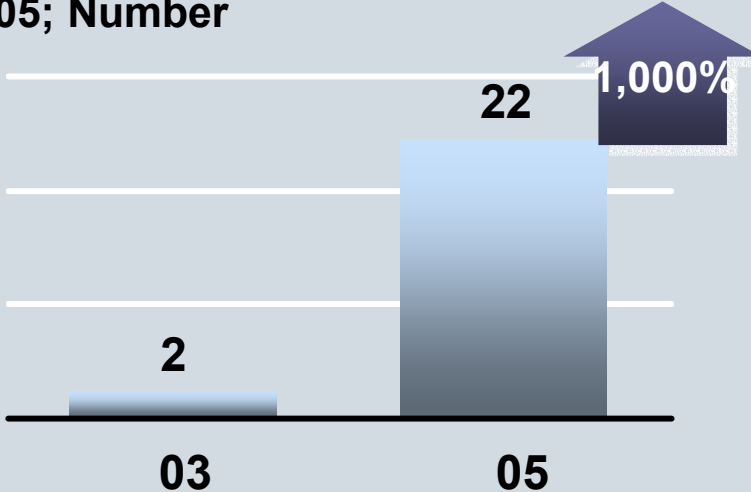
Value Chain Element	Technologies	Illustration
 <p data-bbox="158 715 384 753">Generation</p>	<ul data-bbox="557 411 1367 748" style="list-style-type: none">▪ Integrated gasification combined cycle (Clean Coal)▪ Advanced design nuclear▪ Next generation combined cycle▪ Fuel cells▪ Distributed generation	
 <p data-bbox="158 1115 479 1200">Transmission & Distribution</p>	<ul data-bbox="557 802 1353 1196" style="list-style-type: none">▪ Broadband over power lines▪ Automated meter reading▪ Digital protection and control▪ Digital fault analysis; Self-healing grid▪ Transmission superconductivity▪ Smart home energy management systems	

Restored Profitability Has Helped TXU Give Back To The Community

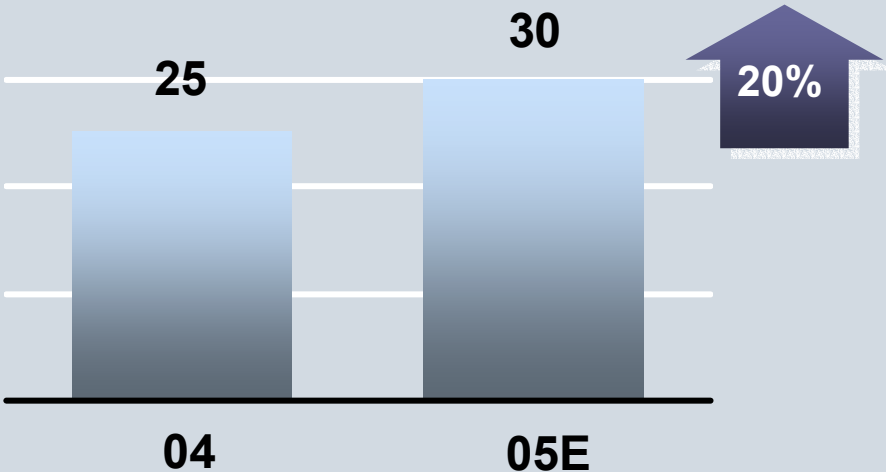
Giving back: Total TXU contributions 03-06E; \$ millions



Digging deep: TXU United Way Alexis de Tocqueville Society donors 03-05; Number



Valuable resources: Employee volunteering 04-05E; Thousands of hours per year



Helping those in need Oct 05; Hurricane Rita restoration



TXU: Powering Texas

Energy Market Restructuring

Restructuring enabled the Texas market to respond to the turbulent global energy markets...

- Over \$15 billion of non-rate base capital deployment
- Nearly 80% improvement in market efficiency
- Full customer control – many suppliers/ many choices

TXU Turnaround

...Forcing TXU to transform the way it operates...

- Restructured international portfolio to focus on Texas
- Driving continuous improvement in operations
- Delivering superior customer service

Strategic Focus

...And deliver greater value to our customers

- Investing over \$13 billion in the Texas economy
- Innovating with new products and services
- Serving and supporting local and regional communities



TXU

Regulation G Reconciliations



TXU

Financial Definitions

Measure	Definition
Capex	Capital expenditures.
EBITDA (non-GAAP)	Income from continuing operations before interest income, interest expense and related charges, and income tax plus depreciation and amortization and special items. EBITDA is a measure used by TXU to assess performance.
Enterprise Value (non-GAAP)	Total debt plus preference stock plus market capitalization less cash and restricted cash.
Market Capitalization (non-GAAP)	Shares of common stock outstanding multiplied by closing share price as of the balance sheet date. Measures the market value of a company's equity at a point in time.
Total Debt (GAAP)	Long-term debt (including current portion), plus bank loans and commercial paper, plus long-term debt held by subsidiary trusts, plus preferred securities of subsidiaries, including exchangeable preferred membership interests (EPMIs).
Debt/Total Enterprise Value (non-GAAP)	Total debt less transition bonds divided by total enterprise value is used by TXU to assess credit quality.

**Table 1: TXU Corp. Total Debt to Enterprise Value
Twelve Months Ended December 31, 2003
\$ millions, unless otherwise noted**

	<u>2003</u>	Ref
Debt		
Notes payable	-	
Long-term debt due currently	678	
Long-term debt held by subsidiary trusts	546	
Other long-term debt less due current	10,608	
Transition bonds	(500)	A
Preferred securities of subsidiaries	<u>759</u>	
Total debt less transition bonds	12,091	B
Preference stock	<u>300</u>	
Total debt and preference stock	<u>12,391</u>	C
Market capitalization		
Shares outstanding	324	
Price per share	<u>23.72</u>	
Total market capitalization	7,685	
Cash and restricted cash	<u>(1,423)</u>	
Enterprise Value	18,653	D
Debt to enterprise value - % (B/D)	64.8	
Common equity (GAAP)	5,619	E
Total Capital (C-A+E) (GAAP)	18,510	F
Debt/Total Capital -% (B-A)/F	68.0	