

## **ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

We derived the unaudited pro forma condensed consolidated financial statements set forth herein by the application of pro forma adjustments to the historical consolidated financial statements of Energy Future Competitive Holdings appearing elsewhere in this financial information. Capitalized terms and abbreviations used but not defined herein have the meanings ascribed to them under the heading "GLOSSARY."

The unaudited pro forma condensed consolidated balance sheet as of September 30, 2007 gives effect to (a) the Merger and the related financing transactions (the "Transactions"), (b) the issuance of the existing cash pay notes and the application of the proceeds therefrom, along with cash on hand, to repay \$3.0 billion of outstanding borrowings under the TCEH Senior Interim Facility and (c) the issuance of TCEH's 10.25% Senior Notes due 2015, Series B and 10.50%/11.25% Senior Toggle Notes due 2016 (the "TCEH Notes") and the application of the proceeds from the offering of the TCEH Notes to repay in full the TCEH Senior Interim Facility (which is referred to as the "Interim Facility Refinancing"), as if the Transactions and the Interim Facility Refinancing had occurred on such date. The unaudited pro forma condensed consolidated income statements for the nine months ended September 30, 2007, the year ended December 31, 2006, the nine months ended September 30, 2006 and the twelve months ended September 30, 2007 give effect to the Transactions and the Interim Facility Refinancing as if the Transactions and Interim Facility Refinancing had occurred on January 1, 2006. In addition, in connection with the Merger, EFH Corp. will contribute certain of Luminant Construction's assets and liabilities to TCEH, including the three new lignite coal-fueled generation units currently under development. Accordingly, as Luminant Construction and TCEH are under the common control of EFH Corp., these pro forma financial statements reflect the historical results of those certain assets and liabilities of Luminant Construction for all periods in which common control exists (2006 forward). The unaudited pro forma condensed consolidated financial statements are provided for informational purposes only and are not necessarily indicative of what our financial position or results of operations would have been if the Transactions and the Interim Facility Refinancing had occurred as of the dates indicated, or what our financial position or results of operations will be for any future periods. Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with these unaudited pro forma condensed consolidated financial statements and with the following information:

- unaudited condensed consolidated financial statements and accompanying notes of Energy Future Competitive Holdings as of September 30, 2007 and for the three- and nine-month periods ended September 30, 2007 and 2006 included elsewhere in this financial information; and
- audited consolidated financial statements and accompanying notes of Energy Future Competitive Holdings as of December 31, 2006 and 2005 and for each of the three years ended December 31, 2006 included elsewhere in this financial information.

The Merger was accounted for as a business combination using the purchase method of accounting in accordance with the provisions of SFAS No. 141. For purposes of the Merger, EFH Corp., the parent of Energy Future Competitive Holdings, is the acquired entity. Accordingly, we have adjusted the historical financial information of Energy Future Competitive Holdings to give effect to the impact of the consideration paid in connection with the Merger. In the unaudited condensed consolidated pro forma balance sheet, Texas Holdings' cost to acquire EFH Corp. has been allocated to the assets to be acquired and liabilities to be assumed based on management's preliminary valuation estimates. For purposes of developing pro forma adjustments, we assumed that the historical values of current assets acquired and current liabilities assumed approximate their fair values, which may change as a result of fair valuation of certain of our assets including intangible assets and liabilities. A final determination of the purchase accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values, will not occur until after the closing of the Merger. Accordingly, the purchase accounting adjustments with respect to the Merger made in connection with the development of these unaudited pro forma condensed consolidated financial statements are preliminary and have been made solely for purposes of developing such pro forma financial data. Therefore, final purchase accounting adjustments are subject to revisions based on final determinations of fair values following the close of the Merger, which may differ materially from the values used herein and may cause future results of operations to differ from the pro forma financial data presented.

The impacts and adjustments in these unaudited pro forma condensed consolidated financial statements are based on events directly related to the Transactions and the Interim Facility Refinancing and do not represent projections or forward-looking statements. The unaudited pro forma financial data is for informational purposes only and should not be considered indicative of actual results that would have been achieved had these events

actually been consummated on the dates indicated and do not purport to indicate results of operations as of any future date or for any future period. Further, the unaudited pro forma condensed consolidated financial statements does not reflect the impact of restructuring activities, cost savings, management compensation, nonrecurring charges, annual management fees, employee termination costs, affiliate interest income, and other exit costs that may result from or in connection with the Merger. For example, the unaudited pro forma financial data does not give effect to the \$35 million annual management fee to be paid to the Sponsors. The unaudited pro forma condensed consolidated financial statements do not include certain transaction costs that may be expensed versus capitalized as part of the purchase price. The historical results of Energy Future Competitive Holdings and its subsidiaries are not necessarily indicative of the results that may be expected in any future period after the close of the Merger.

In preparing the unaudited pro forma condensed consolidated financial statements, the primary adjustments to the historical financial statements of Energy Future Competitive Holdings and its subsidiaries were purchase accounting adjustments that include adjustments necessary to (i) allocate the estimated purchase price to the tangible and intangible assets and liabilities of Energy Future Competitive Holdings and its subsidiaries based on their estimated fair values; and (ii) adjust for the impacts related to debt and other financing expected to be issued and retired to consummate the Merger.

**ENERGY FUTURE COMPETITIVE HOLDINGS**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007**

	<u>Historical(a)</u>	<u>Transaction Adjustments</u> (in millions)	<u>Pro Forma</u>
Operating Revenues.....	\$ 6,306	\$ (273)b	\$ 6,033
Costs and expenses:			
Fuel, purchased power costs and delivery fees.....	\$ 3,086	\$ 119 c	\$ 3,205
Operating costs.....	451		451
Depreciation and amortization .....	245	253 d	498
Selling, general and administrative expenses .....	437	38 e	475
Franchise and revenue-based taxes .....	79		79
Other Income .....	(53)		(53)
Other deductions.....	(20)		(20)
Interest income .....	(300)		(300)
Interest expense and related charges .....	316	1,653 f	1,969
Total costs and expenses.....	<u>\$ 4,241</u>	<u>\$ 2,063</u>	<u>\$ 6,304</u>
Income (loss) from continuing operations before income taxes.....	\$ 2,065	\$ (2,336)	\$ (271)
Income tax expense (benefit) .....	657	(818)g	(161)
Income (loss) from continuing operations.....	<u>\$ 1,408</u>	<u>\$ (1,518)</u>	<u>\$ (110)</u>

See accompanying Notes to Unaudited Pro Forma Condensed Consolidated Income Statements, which are an integral part of these statements.

**ENERGY FUTURE COMPETITIVE HOLDINGS**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Historical(a)</u>	<u>Transaction Adjustments</u> (in millions)	<u>Pro Forma</u>
Operating Revenues.....	\$ 9,607	\$ (35) <sup>b</sup>	\$ 9,572
Costs and expenses:			
Fuel, purchased power costs and delivery fees.....	\$ 3,929	\$ 158 <sup>c</sup>	\$ 4,087
Operating costs.....	604		604
Depreciation and amortization .....	334	338 <sup>d</sup>	672
Selling, general and administrative expenses .....	533	39 <sup>e</sup>	572
Franchise and revenue-based taxes .....	127		127
Other Income .....	(72)		(72)
Other deductions.....	210		210
Interest income .....	(252)		(252)
Interest expense and related charges .....	335	2,204 <sup>f</sup>	2,539
Total costs and expenses.....	<u>\$ 5,748</u>	<u>\$ 2,739</u>	<u>\$ 8,487</u>
Income (loss) from continuing operations before income taxes.....	\$ 3,859	\$ (2,774)	\$ 1,085
Income tax expense (benefit) .....	<u>\$ 1,323</u>	<u>\$ (971)<sup>g</sup></u>	<u>\$ 352</u>
Income (loss) from continuing operations.....	<u>\$ 2,536</u>	<u>\$ (1,803)</u>	<u>\$ 733</u>

See accompanying Notes to Unaudited Pro Forma Condensed Consolidated Income Statements, which are an integral part of these statements.

**ENERGY FUTURE COMPETITIVE HOLDINGS**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006**

	<u>Historical(a)</u>	<u>Transaction Adjustments</u> (in millions)	<u>Pro Forma</u>
Operating Revenues.....	\$ 7,580	\$ (56) <sup>b</sup>	\$ 7,524
Costs and expenses:			
Fuel, purchased power costs and delivery fees.....	\$ 3,082	\$119 <sup>c</sup>	\$ 3,201
Operating costs.....	440		440
Depreciation and amortization .....	252	253 <sup>d</sup>	505
Selling, general and administrative expenses .....	382	22 <sup>e</sup>	404
Franchise and revenue-based taxes .....	86		86
Other Income .....	(46)		(46)
Other deductions.....	205		205
Interest income .....	(173)		(173)
Interest expense and related charges .....	257	1,653 <sup>f</sup>	1,910
Total costs and expenses.....	<u>\$ 4,485</u>	<u>\$ 2,047</u>	<u>\$ 6,532</u>
Income (loss) from continuing operations before income taxes.....	\$ 3,095	\$ (2,103)	\$ 992
Income tax expense (benefit) .....	1,072	(736) <sup>g</sup>	336
Income (loss) from continuing operations.....	<u>\$ 2,023</u>	<u>\$ (1,367)</u>	<u>\$ 656</u>

See accompanying Notes to Unaudited Pro Forma Condensed Consolidated Income Statements, which are an integral part of these statements.

**ENERGY FUTURE COMPETITIVE HOLDINGS**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED INCOME STATEMENT**  
**FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2007**

	Historical(a)	Transaction Adjustments (in millions)	Pro Forma
Operating Revenues.....	\$ 8,333	\$ (251) <sup>b</sup>	\$ 8,082
Costs and expenses:			
Fuel, purchased power costs and delivery fees.....	\$ 3,933	\$ 158 <sup>c</sup>	\$ 4,091
Operating costs.....	616		616
Depreciation and amortization .....	326	338 <sup>d</sup>	664
Selling, general and administrative expenses .....	588	55 <sup>e</sup>	643
Franchise and revenue-based taxes .....	120		120
Other Income .....	(85)		(85)
Other deductions.....	(15)		(15)
Interest income .....	(378)		(378)
Interest expense and related charges .....	394	2,204 <sup>f</sup>	2,598
Total costs and expenses.....	\$ 5,499	\$ 2,755	\$ 8,254
Income (loss) from continuing operations before income taxes.....	\$ 2,834	\$ (3,006)	\$ (172)
Income tax expense (benefit) .....	940	(1,052) <sup>g</sup>	(112)
Income (loss) from continuing operations.....	\$ 1,894	\$ (1,954)	\$ (60)

See accompanying Notes to Unaudited Pro Forma Condensed Consolidated Income Statements, which are an integral part of these statements.

**ENERGY FUTURE COMPETITIVE HOLDINGS**  
**NOTES TO UNAUDITED PRO FORMA CONDENSED**  
**CONSOLIDATED INCOME STATEMENTS—(Continued)**

- (a) *Historical presentation*—The amounts presented for Energy Future Competitive Holdings are derived from the historical audited consolidated income statements for the year ended December 31, 2006 and Energy Future Competitive Holdings' historical unaudited condensed consolidated income statements for the nine month periods ended September 30, 2007 and September 30, 2006, in each case included elsewhere in this financial information.
- (b) *Revenues*—represents the pro forma adjustments required to record the amortization related to the fair value of intangible liabilities related to sales contracts and other legal or economic rights. For purposes of this adjustment, amortization was determined based on straight-line method over an estimated useful life of 31 years. These adjustments increased revenues by approximately \$17 million, \$22 million, \$17 million and \$22 million for the nine month period ended September 30, 2007, the year ended December 31, 2006, the nine month period ended September 30, 2006 and the twelve month period ended September 30, 2007, respectively. Additionally, the pro forma adjustment reflects the historical mark-to-market earnings impact of certain derivative transactions of Luminant Development that will be contributed into Energy Future Competitive Holdings by EFH Corp. immediately prior to the closing of the Merger. These adjustments decreased operating revenues by approximately \$290 million, \$58 million, \$73 million, and \$274 million for the nine month period ended September 30, 2007, the year ended December 31, 2006, the nine month period ended September 30, 2006 and the twelve month period ended September 30, 2007, respectively. These items are required to be made to the operating revenue line item in the income statement since the activity associated with the underlying contracts or other legal or economic rights have historically been reported as a component of operating revenue.
- (c) *Fuel, purchase power costs and delivery fees*—represents pro forma adjustments required to record the amortization related to the fair value of intangible assets related to contracts, and other legal or economic rights. For purposes of this adjustment, amortization was determined for different categories of intangible assets based on a straight-line method over useful lives ranging from 15 to 28 years. These adjustments increased costs and expenses by approximately \$119 million, \$158 million, \$119 million and \$158 million for the nine month period ended September 30, 2007, the year ended December 31, 2006, the nine month period ended September 30, 2006 and the twelve month period ended September 30, 2007, respectively. These adjustments were required to be made to the fuel, purchase power costs and delivery fees line item in the income statement since the activity associated with the underlying contracts, and other legal or economic rights is reported as a component of costs. Adjustments also include additional amortization expense for adjustments to nuclear fuel balances included in property, plant and equipment in the balance sheet.
- (d) *Depreciation and amortization expense*—represents the pro forma adjustment required to adjust in property, plant and equipment to record power generation assets and other tangible property at their respective fair values as well as to record the fair value of customer-based intangible assets. For purposes of this adjustment, depreciation and amortization was determined for different categories of property based on a straight-line method over estimated useful lives ranging from 7 to 45 years. These adjustments increased depreciation expense approximately \$253 million, \$338 million, \$253 million and \$338 million for the nine month period ended September 30, 2007, the year ended December 31, 2006, the nine month period ended September 30, 2007, and the twelve month period ended September 30, 2007, respectively. An increase or decrease in the fair value of these assets of \$500 million would result in an increase or decrease in depreciation and amortization expense of approximately \$21 million and \$16 million on an annual and nine months basis, respectively.

**ENERGY FUTURE COMPETITIVE HOLDINGS**  
**NOTES TO UNAUDITED PRO FORMA CONDENSED**  
**CONSOLIDATED INCOME STATEMENTS—(Continued)**

- (e) *Selling, general and administrative expense*—represents pro forma adjustments to reflect additional historical expenses recognized by Luminant Development that immediately prior to closing of the Merger will be contributed into Energy Future Competitive Holdings by EFH Corp.
- (f) *Interest expense*—represents pro forma adjustments related to the increase in interest expense as a result of the borrowings made to finance the Merger, less certain interest expense associated with the debt that is to be repaid as part of the Transactions. In connection with the Merger, approximately \$26,978 million of new debt was incurred by Energy Future Competitive Holdings and its subsidiaries, with approximately \$4,092 million of existing debt repaid, resulting in a net increase in debt of approximately \$22,886 million. This increase in debt significantly increased the overall interest expense for Energy Future Competitive Holdings. An incremental one-eighth percent increase or decrease in the assumed weighted average rates would increase or decrease interest expense by approximately \$21 million on an annual basis and \$16 million over a nine month period.

Additionally, this adjustment includes interest amounts arising from the fair valuation of the existing debt of Energy Future Competitive Holdings and its subsidiaries that remained outstanding as of after the Merger. The final determination of the fair value of the debt will be based on the prevailing market interest rates at the closing of the Merger and the necessary adjustment will be amortized as an increase (in the case of a discount to par value) or a decrease (in the case of a premium to par value) to interest expense over the remaining life of each debt issuance.

Further, this adjustment includes amounts to reduce interest expense for the removal of existing deferred financing costs, as well as the addition of interest expense associated with the estimated deferred financing costs of the Debt Financing to be issued in connection with the Merger.

Interest Expense Adjustments:

	<b>9 months</b>	<b>12 months</b>
	(in millions of dollars)	
Cash interest.....	\$ 1,587	\$ 2,116
Amortization of deferred financial costs.....	53	71
Purchase accounting impacts.....	13	17
Total .....	\$ 1,653	\$ 2,204

- (g) *Income tax provision*—represents the pro forma tax effect of the above adjustments based on an estimated statutory rate of approximately 35%. This estimate could change based on changes in the applicable tax rates and finalization of the tax position of the Issuer following the Merger.

**ENERGY FUTURE COMPETITIVE HOLDINGS**  
**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET**  
**AS OF SEPTEMBER 30, 2007**

	Historical	Transaction Adjustments	Pro Forma
		(in millions of dollars)	
Cash and cash equivalents .....	\$ 628	\$ (270) <sup>b</sup>	\$ 358
Trade accounts receivable—net.....	806		806
Trade accounts receivable from affiliates.....	85		85
Advances to affiliates.....	4,680	(4,680) <sup>c</sup>	—
Note receivable from parent .....	1,500	(1,500) <sup>c</sup>	—
Inventories .....	328		328
Commodity and other derivative contractual assets.....	398		398
Accumulated deferred income taxes .....	177		177
Margin deposits related to commodity positions .....	211	(148) <sup>d</sup>	63
Other current assets .....	62		62
<b>Total current assets .....</b>	<b>8,875</b>	<b>(6,598)</b>	<b>2,277</b>
Restricted cash .....	49	1,250 <sup>e</sup>	1,299
Investments .....	586	130 <sup>f</sup>	716
Property, plant and equipment—net.....	10,378	8,616 <sup>g,n</sup>	18,994
Goodwill .....	517	19,971 <sup>h</sup>	20,488
Intangible assets.....	—	3,575 <sup>i</sup>	3,575
Commodity and other derivative contractual assets.....	79		79
Other noncurrent assets .....	273	394 <sup>j</sup>	667
<b>Total assets .....</b>	<b>\$ 20,757</b>	<b>\$ 27,338</b>	<b>\$ 48,095</b>
Short-term borrowings .....	\$ 1,825	\$ (1,825) <sup>k</sup>	\$ —
Long-term debt due currently .....	1,281	(1,263) <sup>k</sup>	18
Trade accounts payable .....	670		670
Trade accounts payable—affiliates .....	34		34
Commodity and other derivative contractual liabilities .....	162		162
Margin deposits related to commodity positions .....	116		116
Accrued income taxes payable to parent .....	91		91
Accrued taxes other than income .....	67		67
Other current liabilities.....	325	(50) <sup>l</sup>	275
<b>Total current liabilities .....</b>	<b>4,571</b>	<b>(3,138)</b>	<b>1,433</b>
Accumulated deferred income taxes .....	2,315	4,184 <sup>m</sup>	6,499
Investment tax credits.....	300		300
Commodity and other derivative contractual liabilities .....	438	366 <sup>n</sup>	804
Notes or other liabilities due affiliates .....	298		298
Long-term debt, less amounts due currently .....	2,941	25,687 <sup>k</sup>	28,628
Other noncurrent liabilities and deferred credits.....	1,749	473 <sup>l</sup>	2,222
<b>Total liabilities .....</b>	<b>12,612</b>	<b>27,572</b>	<b>40,184</b>
Shareholders' equity .....	8,145	(234) <sup>o</sup>	7,911
<b>Total liabilities and shareholders' equity.....</b>	<b>\$ 20,757</b>	<b>\$ 27,338</b>	<b>\$ 48,095</b>

See accompanying Notes to Unaudited Pro Forma Condensed Consolidated Balance Sheet, which are an integral part of these statements.

**ENERGY FUTURE COMPETITIVE HOLDINGS**  
**NOTES TO UNAUDITED PRO FORMA CONDENSED**  
**CONSOLIDATED BALANCE SHEET—Continued**

- (a) *Historical Presentation*—The amounts presented for Energy Future Competitive Holdings are derived from the historical unaudited condensed consolidated balance sheet as of September 30, 2007 included elsewhere within this financial information.
- (b) *Cash and Cash Equivalents*—represents the pro forma adjustments required to reflect changes resulting from the payment of certain transaction fees and the return of margin deposits related to commodity positions associated with the implementation of the Commodity Collateral Posting Facility.
- (c) *Affiliated and Parent Advances/Notes*—represents pro forma adjustment for the settlement of these historical advances and notes between Energy Future Competitive Holdings and its affiliates of Parent respectively.
- (d) *Margin deposits related to commodity positions*—represents pro forma adjustments for the return of certain margin deposits related to commodity positions that were returned to Energy Future Competitive Holdings as part of the implementation of the TCEH Commodity Collateral Posting Facility.
- (e) *Restricted cash*—represents pro forma adjustment related to the increase in restricted cash representing cash received from the TCEH Letter of Credit Facility, which was fully funded at the close of the Merger.
- (f) *Investments*—represents the pro forma adjustment required to adjust certain investments in real estate to their fair values.
- (g) *Property, Plant & Equipment*—represents the pro forma adjustment required to record power generation assets, nuclear fuel, and other property, plant and equipment at fair value. This adjustment also includes the elimination of existing accumulated depreciation recorded to date as the property will have a new cost basis to be depreciated after the completion of the Transactions. Additionally, this adjustment includes amounts related to fair value estimates for real estate and development projects in process that are currently not part of Energy Future Competitive Holdings' operations. All of these adjustments were determined by using management's estimates and assumptions related to the fair value of the assets based on current market indicators for fuel prices, emissions and regulatory costs, electricity prices, operation and maintenance costs, readily observable real estate transactions, and other market factors. The estimated fair values used in this adjustment are preliminary and are significantly affected by assumptions, changes in which could materially change the resulting fair values. The net increase in property, plant, and equipment will be depreciated over the estimated remaining useful lives of related depreciable assets, which range from 7 to 45 years, while the increase in value related to real estate will not be depreciated for financial reporting purposes.
- (h) *Goodwill*—represents the excess of the purchase price of the transaction over the estimated fair values of the assets acquired and liabilities assumed. The estimated purchase price of \$30,132 million for Energy Future Competitive Holdings was made by an allocation of the total purchase price of EFH Corp. based on the relative enterprise value of Energy Future Competitive Holdings. Under the purchase method of accounting, the total estimated purchase price is allocated to all tangible and identifiable intangible assets acquired and liabilities assumed based on their respective fair values on the date the transaction is consummated (for purposes of this unaudited pro forma condensed consolidated balance sheet that date is assumed to be September 30, 2007). The fair value estimates of the assets and liabilities in this pro forma condensed consolidated balance sheet are preliminary and were developed solely to be used in these statements. Additionally, the fair value estimates are subject to revisions based on a multitude of factors and additional information that may come to our knowledge, all of which could have a material affect on the ultimate valuation. The following table summarizes the allocation of fair value to the assets and liabilities of Energy Future Competitive Holdings:

**ENERGY FUTURE COMPETITIVE HOLDINGS**  
**NOTES TO UNAUDITED PRO FORMA CONDENSED**  
**CONSOLIDATED BALANCE SHEET—Continued**

<u>Item</u>	<u>Fair Value</u> (in millions of dollars)
Property, plant and equipment.....	\$ (18,994)
Cash and restricted cash .....	(1,657)
Commodity and other derivative contractual assets .....	(477)
Other current assets .....	(1,521)
Investments.....	(716)
Intangibles.....	(3,575)
Other noncurrent assets .....	(667)
Commodity and other derivative contractual liabilities.....	966
Other current liabilities .....	1,253
Short-term borrowings and long-term debt due currently .....	18
Accumulated deferred income taxes .....	6,499
Long-term debt, less amounts due currently .....	28,628
Other noncurrent liabilities .....	2,820
Shareholder's equity .....	<u>7,911</u>
Goodwill .....	<u>\$ 20,488</u>

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized but is required to undergo impairment tests at least annually or more frequently if facts and circumstances indicate an impairment may have occurred. If an impairment exists, goodwill is immediately written down to its fair value through a charge to earnings. Accordingly, goodwill arising from the Merger will be subject to an impairment test at least annually.

Other amounts included in this pro forma adjustment are based on the removal of previously existing goodwill on Energy Future Competitive Holdings' balance sheet of approximately \$517 million.

- (i) *Intangible assets*—represents the pro forma adjustment required to recognize certain identifiable intangible assets of Energy Future Competitive Holdings and its subsidiaries. Intangible assets arise due to certain contractual, legal, or other economic rights, as well as customer relationships, that are separately identifiable from other assets. Several of the intangible assets relate to contracts in our power generation or wholesale business that are not accounted for under mark-to-market accounting since the contracts are not considered derivatives or have been elected to be treated as normal purchases or normal sales under SFAS No. 133. Additionally, an intangible asset will be recognized for the value of environmental emission credits allocated to our power generation fleet by regulatory bodies. The adjustment for emission credits was determined based on current market information utilizing a discounted cash flow valuation. All of the valuations of these intangibles are preliminary and could be materially affected by changes in market prices of fuel, electricity, emission credits, customer revenue streams, and other market factors. The total amount of all intangible assets recognized in this adjustment is approximately \$3,575 million.

The adjustments related to intangible assets will be amortized over the estimated remaining contractual terms ranging from 4 to 34 years, except for the TXU Energy Trademark, which will not be amortized but will be subject to periodic impairment tests.

**ENERGY FUTURE COMPETITIVE HOLDINGS**  
**NOTES TO UNAUDITED PRO FORMA CONDENSED**  
**CONSOLIDATED BALANCE SHEET—Continued**

- (j) *Other noncurrent assets*—represents the pro forma adjustments to eliminate \$40 million of deferred financing costs related to existing debt issuances and to recognize deferred financing costs of \$494 million associated with new debt issued related to the Merger.
- (k) *Long-term debt and short-term borrowings*—represents pro forma adjustments for the issuance of new debt in the Transactions, as well as adjustments for the repayment of existing debt of Energy Future Competitive Holdings and its subsidiaries and the Interim Facility Refinancing.

Also included in this adjustment is the effect of the fair valuation of the existing debt of Energy Future Competitive Holdings and its subsidiaries that remained after the close of the Merger. Those adjustments resulted in an estimated net discount to debt of approximately \$287 million. The final determination of the fair value of the debt will be based on prevailing market interest rates at the completion of the Merger and the necessary adjustment will be amortized as an increase (in the case of a discount to par value) or a decrease (in the case of a premium to par value) to interest expense over the remaining life of each debt issuance.

The total pro forma adjustments related to debt are as follows (in millions):

Expected repayment of current debt.....	\$ (1,825)
Expected repayment of long-term debt .....	(2,267)
New long-term debt in connection with the Merger .....	26,978
Discount on existing debt.....	<u>(287)</u>
Total adjustment.....	<u>\$ 22,599</u>

- (l) *Other current and noncurrent liabilities*—represents pro forma adjustments to record various unfavorable operating contracts related to transactions that contain unfavorable pricing terms. The amounts relate to power sales agreements, fuel procurement agreements, operating leases and other contracts that are not currently recognized in the historical financial statements. The aggregate adjustment is approximately \$701 million for these contracts. These adjustments were developed using estimated fair values based on current market information. The resulting calculations are preliminary and the final determination of the value of these liabilities will be materially impacted by changes in market prices of fuel, electricity, and other market factors at their fair value. This adjustment also includes amounts to remove certain deferred credits that are required to be removed by EITF Issue No. 01-03, “Accounting in a Business Combination for Deferred Revenue of an Acquiree.” Those amounts are approximately \$278 million, of which \$50 million was removed from other current liabilities and \$228 million was removed from other noncurrent liabilities.
- (m) *Deferred taxes*—represents pro forma adjustments to record additional net deferred income tax liabilities to account for the differences between book and tax basis of net assets acquired arising from the fair value adjustments. This adjustment was based on an estimated statutory tax rate of approximately 35%, which could change based on changes in the applicable tax rates and finalization of the combined entity’s tax position.
- (n) *Luminant Construction*—represents pro forma adjustments to reflect the movement of certain assets and liabilities from TXU Generation Development Company into Energy Future Competitive Holdings. These assets and liabilities consist of construction work-in process balances related to the Oak Grove and Sandow 5 projects and natural gas hedges associated with the long-term hedging program. The adjustment is required for assets contributed to a subsidiary under common control, resulting in an increase in net assets and equity. The adjustment approximated a \$1,742 million increase to property, plant and equipment and a \$366 million increase to commodity and other derivative contract liabilities.
- (o) *Shareholders’ equity*—represents pro forma adjustments for eliminating the historical shareholders equity of Energy Future Competitive Holdings and the estimated fair value of its equity.

## GLOSSARY

When the following terms and abbreviations appear in the text of this financial information, they have the meanings indicated below.

<b>1999 Restructuring Legislation</b>	legislation that restructured the electric utility industry in Texas to provide for retail competition
<b>2004 Form 10-K</b>	Energy Future Competitive Holdings' Annual Report on Form 10-K for the year ended December 31, 2004
<b>2006 year-end Financial Statements</b>	These audited financial statements include the consolidated balance sheets of Energy Future Competitive Holdings and subsidiaries as of December 31, 2006 and 2005 and the related statements of consolidated income, comprehensive income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2006 and the related notes to the financial statements.
<b>APB 25</b>	Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"
<b>Capgemini</b>	Capgemini Energy LP, a subsidiary of Cap Gemini North America Inc. that provides business process support services to EFH Corp. and its subsidiaries
<b>Competitive Electric</b>	Refers to the EFH Corp. business segment, formerly referred to as TXU Energy Holdings, which included the activities of TCEH.
<b>Debt Financing</b>	<ol style="list-style-type: none"><li>(1) Senior secured credit facilities consisting of the following:<ol style="list-style-type: none"><li>(a) a \$16.45 billion senior secured initial term loan facility of TCEH, which was used to fund the Merger;</li><li>(b) a \$4.1 billion senior secured delayed draw term loan facility of TCEH, of which \$2.15 billion was drawn at the closing of the Merger, which will be used during the two-year period commencing on the consummation of the Merger to fund certain specified capital expenditures and related expenses;</li><li>(c) the TCEH Letter of Credit Facility;</li><li>(d) a \$2.7 billion senior secured revolving credit facility of TCEH, which will be used for working capital and for other general corporate purposes; and</li><li>(e) the TCEH Commodity Collateral Posting Facility;</li></ol></li><li>(2) a \$6.75 billion senior unsecured interim loan facility of TCEH (the "TCEH Senior Interim Facility"), which was used to fund the Merger; and</li><li>(3) Energy Future Competitive Holdings, a guarantor of the notes, guaranteed the \$4.5 billion aggregate principal amount of senior unsecured interim loan facility of EFH Corp., which was used to fund the Merger.</li></ol>
<b>EFH</b>	Refers to EFH Corp. and its consolidated subsidiaries, which were acquired in the Merger
<b>EFH Corp.</b>	Refers to Energy Future Holdings Corp., a holding company, and/or its subsidiaries, depending on context. This document occasionally

makes references to Energy Future Holdings Corp., TCEH or Oncor Electric Delivery when describing actions, rights or obligations of their respective subsidiaries. These references reflect the fact that the subsidiaries are consolidated with their respective parent companies for financial reporting purposes. However, these references should not be interpreted to imply that the parent company is actually undertaking the action or has the rights or obligations of the relevant subsidiary company or that the subsidiary company is undertaking an action or has the rights or obligations of its parent company or of any other affiliate.

**EITF 02-03**

Emerging Issues Task Force Issue No. 02-3, “Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities”

**EFC Holdings or Energy Future Competitive Holdings**

Refers to Energy Future Competitive Holdings Company (formerly TXU US Holdings Company), a subsidiary of EFH Corp., a holding company, and/or its subsidiaries, depending on context. This document occasionally makes references to Energy Future Competitive Holdings, TCEH or Oncor Electric Delivery when describing actions, rights or obligations of their respective subsidiaries. These references reflect the fact that the subsidiaries are consolidated with their respective parent companies for financial reporting purposes. However, these references should not be interpreted to imply that the parent company is actually undertaking the action or has the rights or obligations of the relevant subsidiary company or that the subsidiary company is undertaking an action or has the rights or obligations of its parent company or of any other affiliate.

**Energy Future Intermediate Holding**

Energy Future Intermediate Holdings LLC, a Delaware limited liability company and subsidiary of EFH Corp.

**EPA**

U.S. Environmental Protection Agency

**EPC**

engineering, procurement and construction

**ERCOT**

Electric Reliability Council of Texas, the Independent System Operator and the regional coordinator of various electricity systems within Texas

**ERISA**

Employee Retirement Income Security Act

**FASB**

Financial Accounting Standards Board, the designated organization in the private sector for establishing standards for financial accounting and reporting

**FERC**

U.S. Federal Energy Regulatory Commission

**FIN**

Financial Accounting Standards Board Interpretation

**FIN 45**

FIN No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—An Interpretation of FASB Statements No. 5, 57, and 107 and Recission of FASB Interpretation No. 34”

**FIN 46R**

FIN No. 46R (Revised 2003), “Consolidation of Variable Interest Entities”

**FIN 47**

FIN No. 47, “Accounting for Conditional Asset Retirement Obligations—An Interpretation of FASB Statement No. 143”

<b>FIN 48</b>	FIN No. 48, "Accounting for Uncertainty in Income Taxes"
<b>FSP</b>	FASB Staff Position
<b>GAAP</b>	generally accepted accounting principles
<b>GW</b>	gigawatts
<b>GWh</b>	gigawatt-hours
<b>historical service territory</b>	the territory, largely in north Texas, being served by EFH Corp.'s regulated electric utility subsidiary at the time of entering retail competition on January 1, 2002
<b>IRS</b>	U.S. Internal Revenue Service
<b>September 30, 2007 Financial Statements</b>	These unaudited financial statements include the consolidated balance sheet of Energy Future Competitive Holdings Company and subsidiaries as of September 30, 2007, and the related condensed statements of consolidated income and comprehensive income for the three-month and nine-month periods ended September 30, 2007 and 2006, and of cash flows for the nine-month periods ended September 30, 2007 and 2006 and the related notes to the financial statements.
<b>kV</b>	kilovolts
<b>kWh</b>	kilowatt-hours
<b>Luminant Construction or TXU DevCo</b>	Refers to wholly owned subsidiaries of EFH Corp. that have been established for the purpose of developing and constructing new generation facilities.
<b>Luminant Energy or TXU Portfolio Management</b>	Luminant Energy Company LLC (formerly TXU Portfolio Management Company LP), a subsidiary of TCEH
<b>market heat rate</b>	Heat rate is a measure of the efficiency of converting a fuel source to electricity. The market heat rate is based on the price offer of the marginal supplier in Texas (generally natural gas plants) in generating electricity and is calculated by dividing the wholesale market price of electricity by the market price of natural gas.
<b>Merger</b>	The merger, on October 10, 2007, of Texas Energy Future Merger Sub Corp with and into EFH Corp.
<b>Merger Agreement</b>	Agreement and Plan of Merger, dated February 25, 2007, under which an investor group led by KKR and TPG acquired EFH Corp.
<b>Merger Sub</b>	Texas Energy Future Merger Sub Corp, a Texas corporation and a wholly-owned subsidiary of Texas Holdings.
<b>Merger Sub Parent</b>	Texas Energy Future Holdings Limited Partnership, a Delaware limited partnership.
<b>MMBtu</b>	million British thermal units
<b>Moody's</b>	Moody's Investors Services, Inc. (a credit rating agency)

<b>MW</b>	megawatts
<b>MWh</b>	megawatt-hours
<b>NRC</b>	U.S. Nuclear Regulatory Commission
<b>Oncor Electric Delivery</b>	Refers to Oncor Electric Delivery Company, a subsidiary of EFH Corp., and/or its consolidated bankruptcy remote financing subsidiary, Oncor Electric Delivery Transition Bond Company LLC, depending on context. This document occasionally makes references to EFH Corp., TCEH or Oncor Electric Delivery when describing actions, rights or obligations of their respective subsidiaries. These references reflect the fact that the subsidiaries are consolidated with their respective parent companies for financial reporting purposes.
<b>PRB</b>	Powder River Basin—a coal mining region that covers southeast Montana and northeast Wyoming. EFH Corp. purchases coal from this region from multiple suppliers, which is currently blended with lignite to fuel the Big Brown, Monticello and Martin Lake generating plants.
<b>price-to-beat rate</b>	residential and small business customer electricity rates established by the PUCT that (i) were required to be charged in a REP's historical service territories until the earlier of January 1, 2005 or the date when 40% of the electricity consumed by such customer classes was supplied by competing REPs, adjusted periodically for changes in fuel costs, and (ii) were required to be made available to those customers until January 1, 2007
<b>PUCT or Commission</b>	Public Utility Commission of Texas
<b>PURA</b>	Texas Public Utility Regulatory Act
<b>REP</b>	retail electric provider
<b>S&amp;P</b>	Standard & Poor's Ratings Services, a division of the McGraw Hill Companies Inc. (a credit rating agency)
<b>SEC</b>	U.S. Securities and Exchange Commission
<b>Settlement Plan</b>	regulatory settlement plan that received final approval by the PUCT in January 2003
<b>SFAS</b>	Statement of Financial Accounting Standards issued by the FASB
<b>SFAS 5</b>	SFAS No. 5, "Accounting for Contingencies"
<b>SFAS 34</b>	SFAS No. 34, "Capitalization of Interest Cost"
<b>SFAS 71</b>	SFAS No. 71, "Accounting for the Effect of Certain Types of Regulation"
<b>SFAS 87</b>	SFAS No. 87, "Employers' Accounting for Pensions"
<b>SFAS 106</b>	SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"
<b>SFAS 109</b>	SFAS No. 109, "Accounting for Income Taxes"
<b>SFAS 115</b>	SFAS No. 115, "Accounting for Certain Investments in Debt and Equity"

	Securities”
<b>SFAS 123R</b>	SFAS No. 123 (revised 2004), “Share-Based Payment”
<b>SFAS 133</b>	SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” as amended and interpreted
<b>SFAS 140</b>	SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement 125”
<b>SFAS 142</b>	SFAS No. 142, “Goodwill and Other Intangible Assets”
<b>SFAS 143</b>	SFAS No. 143, “Accounting for Asset Retirement Obligations”
<b>SFAS 144</b>	SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”
<b>SFAS 146</b>	SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities”
<b>SFAS 157</b>	SFAS No. 157, “Fair Value Measurements”
<b>SFAS 158</b>	SFAS No 158, “Employer’s Accounting for Defined Benefits Pension and Other Postretirement Plans”
<b>SFAS 159</b>	SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115”
<b>SG&amp;A</b>	selling, general and administrative
<b>Short-cut method</b>	refers to the short-cut method under SFAS 133 that allows entities to assume no hedge ineffectiveness in a hedging relationship of interest rate risk if certain conditions are met
<b>Sponsors</b>	The private investment group, consisting of entities advised by or affiliated with KKR and TPG and Goldman, Sachs, that directly and indirectly own or will own Texas Holdings and Merger Sub.
<b>TCEH Commodity Collateral Posting Facility</b>	Senior secured cash posting credit facility of TCEH the size of which is determined by the out-of-the-money mark-to-market exposure, inclusive of any unpaid settlement amounts, of TCEH and its subsidiaries on a hypothetical portfolio of certain commodity swaps and futures transactions, of which \$382 million was drawn at the closing of the Merger, which will be used to fund margin payments due on natural gas and commodity swaps and hedging arrangements, and to the extent not used for the above purposes, for other general corporate purposes of TCEH and its subsidiaries.
<b>TCEH Letter of Credit Facility</b>	\$1.25 billion senior secured letter of credit facility of TCEH, which will be used for general corporate purposes (including, but not limited to, providing collateral support in respect of commodity hedging arrangements, and other commodity transactions).
<b>TCEQ</b>	Texas Commission on Environmental Quality
<b>Texas Competitive Holdings or TCEH</b>	Refers to Texas Competitive Electric Holdings Company LLC (formerly TXU Energy Company LLC), a subsidiary of Energy Future

Competitive Holdings, and/or its consolidated subsidiaries, depending on context, engaged in electricity generation and wholesale and retail energy markets activities. This document and the SEC filings of Texas Competitive Holdings occasionally make references to Texas Competitive Holdings when describing actions, rights or obligations of its subsidiaries. These references reflect the fact that the subsidiaries are consolidated with Texas Competitive Holdings for financial reporting purposes. However, these references should not be interpreted to imply that TCEH is actually undertaking the action or has the rights or obligations of the relevant subsidiary company or that the subsidiary company is undertaking an action or has the rights or obligations of TCEH or of any other affiliate.

<b>Texas Holdings</b>	Texas Energy Future Holdings Limited Partnership, a Delaware limited partnership.
<b>TXU Australia</b>	Refers to TXU Australia Group Pty Ltd, a former subsidiary of EFH Corp., and its subsidiaries
<b>TXU Big Brown</b>	Big Brown Power Company LLC (formerly TXU Big Brown Company LP), a Texas limited liability company and subsidiary of TCEH, which owns two lignite/coal-fueled generation units in Texas
<b>TXU Energy or TXU Energy Retail</b>	Refers to TXU Energy Retail Company LLC (formerly TXU Energy Retail Company LP), a subsidiary of TCEH engaged in the retail sale of power to residential and business customers
<b>TXU Europe</b>	TXU Europe Limited, a former subsidiary of EFH Corp.
<b>TXU Fuel</b>	TXU Fuel Company, a former subsidiary of TXU Energy Company
<b>TXU Gas</b>	TXU Gas Company, a former subsidiary of EFH Corp.
<b>United States or U.S.</b>	United States of America

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**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Condensed Statements of Consolidated Income**  
**(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(millions of dollars)			
<b>Operating revenues</b> .....	\$ 2,892	\$ 3,102	\$ 6,306	\$ 7,580
Costs and expenses:				
Fuel, purchased power costs and delivery fees.....	1,184	1,349	3,086	3,082
Operating costs .....	138	140	451	440
Depreciation and amortization .....	84	82	245	252
Selling, general and administrative expenses .....	151	139	437	382
Franchise and revenue-based taxes .....	25	32	79	86
Other income (Note 4) .....	(19)	(18)	(53)	(46)
Other deductions (Note 4).....	(34)	4	(20)	205
Interest income .....	(110)	(74)	(300)	(173)
Interest expense and related charges (Note 13) .....	117	90	316	257
Total costs and expenses .....	<u>1,536</u>	<u>1,744</u>	<u>4,241</u>	<u>4,485</u>
Income before income taxes .....	1,356	1,358	2,065	3,095
Income tax expense.....	459	450	657	1,072
<b>Net income</b> .....	<u>\$ 897</u>	<u>\$ 908</u>	<u>\$ 1,408</u>	<u>\$ 2,023</u>

See Notes to Financial Statements.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Condensed Statements of Consolidated Comprehensive Income**  
**(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(millions of dollars)			
Net income.....	\$ 897	\$ 908	\$ 1,408	\$ 2,023
Other comprehensive income (loss):				
Cash flow hedges:				
Net increase (decrease) in fair value of derivatives held at end of period (net of tax (expense) benefit of \$6, \$(184), \$91 and \$(205)).....	10	342	(167)	381
Derivative value net (gains) losses related to hedged transactions recognized during the period and reported in net income (net of tax (expense) benefit of \$(6), \$6, \$(55) and \$11).....	(12)	11	(104)	21
Total effect of cash flow hedges.....	(2)	353	(271)	402
Comprehensive income.....	\$ 895	\$ 1,261	\$ 1,137	\$ 2,425

See Notes to Financial Statements.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Condensed Statements of Consolidated Cash Flows**  
**(Unaudited)**

	Nine Months Ended September 30,	
	2007	2006
	(millions of dollars)	
Cash flows—operating activities:		
Net income .....	\$ 1,408	\$ 2,023
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization .....	294	303
Deferred income tax expense (benefit)—net .....	33	(6)
Net effect of unrealized mark-to-market valuations—losses (gains) .....	413	(287)
Bad debt expense .....	42	52
Net gain on sale of assets .....	(36)	(44)
Net equity loss from unconsolidated affiliate .....	5	8
Stock-based incentive compensation expense .....	6	6
Impairment of natural gas-fueled generation plants .....	—	198
Inventory write-off related to natural gas-fueled generation plants .....	—	3
Charge (credit) related to impaired leases (Note 4) .....	(48)	2
Other, net .....	13	13
Changes in operating assets and liabilities .....	(1,372)	1,709
Cash provided by operating activities .....	<u>758</u>	<u>3,980</u>
Cash flows—financing activities:		
Issuances of long-term debt .....	1,000	100
Retirements of debt:		
Pollution control revenue bonds .....	(143)	(203)
Other long-term debt .....	(27)	(410)
Increase (decrease) in short-term borrowings:		
Commercial paper .....	(623)	54
Bank borrowings .....	1,630	(145)
Decrease in income tax-related note payable to Oncor Electric Delivery .....	(24)	(30)
Distributions paid to parent .....	(851)	(572)
Excess tax benefits on stock-based incentive compensation .....	—	13
Debt premium, discount, financing and reacquisition expenses—net .....	(8)	(14)
Cash provided by (used in) financing activities .....	<u>954</u>	<u>(1,207)</u>
Cash flows—investing activities:		
Net advances to affiliates .....	(666)	(2,121)
Capital expenditures .....	(487)	(411)
Nuclear fuel .....	(54)	(77)
Purchase of mining-related assets .....	(70)	—
Proceeds from sale of assets .....	2	11
Reduction of restricted cash .....	197	—
Proceeds from sales of nuclear decommissioning trust fund securities .....	402	165
Investments in nuclear decommissioning trust fund securities .....	(413)	(177)
Proceeds from pollution control revenue bonds deposited with trustee .....	—	(99)
Purchase of lease trust .....	—	(69)
Other .....	(2)	—
Cash used in investing activities .....	<u>(1,091)</u>	<u>(2,778)</u>
Net change in cash and cash equivalents .....	621	(5)
Cash and cash equivalents—beginning balance .....	7	12
Cash and cash equivalents—ending balance .....	<u>\$ 628</u>	<u>\$ 7</u>

See Notes to Financial Statements.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

	<u>September 30,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
(millions of dollars)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 628	\$ 7
Restricted cash .....	—	3
Trade accounts receivable—net (Note 5) .....	806	806
Trade accounts receivable from affiliates .....	85	—
Advances to parent .....	4,680	3,308
Note receivable from parent .....	1,500	1,500
Inventories .....	328	306
Commodity and other derivative contractual assets (Note 10) .....	398	948
Accumulated deferred income taxes (Note 2) .....	177	198
Margin deposits related to commodity positions .....	211	7
Other current assets .....	62	88
Total current assets .....	8,875	7,171
Restricted cash .....	49	241
Investments .....	586	546
Advances to parent .....	—	700
Property, plant and equipment—net .....	10,378	9,924
Goodwill .....	517	517
Commodity and other derivative contractual assets (Note 10) .....	79	251
Other noncurrent assets .....	273	280
Total assets .....	\$ 20,757	\$ 19,630
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term borrowings (Note 6) .....	\$ 1,825	\$ 818
Long-term debt due currently (Note 7) .....	1,281	178
Trade accounts payable—nonaffiliates .....	670	803
Trade accounts and other payables to affiliates .....	34	164
Commodity and other derivative contractual liabilities (Note 10) .....	162	272
Margin deposits related to commodity positions .....	116	681
Accrued income taxes payable to parent .....	91	538
Accrued taxes other than income .....	67	52
Other current liabilities .....	325	350
Total current liabilities .....	4,571	3,856
Accumulated deferred income taxes .....	2,315	2,697
Investment tax credits .....	300	311
Commodity and other derivative contractual liabilities (Note 10) .....	438	127
Notes or other liabilities due affiliates .....	298	323
Long-term debt, less amounts due currently (Note 7) .....	2,941	3,088
Other noncurrent liabilities and deferred credits .....	1,749	1,361
Total liabilities .....	12,612	11,763
Commitments and contingencies (Note 8)		
Shareholders' equity (Note 9):		
Common stock without par value .....	130	101
Retained earnings .....	7,882	7,362
Accumulated other comprehensive income .....	133	404
Total shareholders' equity .....	8,145	7,867
Total liabilities and shareholders' equity .....	\$ 20,757	\$ 19,630

See Notes to Financial Statements.

## ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements (Unaudited)

#### 1. SIGNIFICANT ACCOUNTING POLICIES AND BUSINESS

**Description of Business**—EFC Holdings (formerly US Holdings Company) is a wholly-owned subsidiary of EFH Corp. and is a holding company that conducts its operations principally through its TCEH subsidiary. TCEH is a holding company whose subsidiaries are engaged in competitive market activities consisting of electricity generation, retail electricity sales to residential and business customers, wholesale energy sales and purchases, commodity risk management and trading activities as well as the development and construction of new generation facilities, all largely in Texas. EFC Holdings is managed as an integrated business; therefore, there are no reportable business segments.

In connection with the Merger, which closed on October 10, 2007 (See Note 14), certain wholly-owned subsidiaries of EFH Corp. established for the purpose of developing and constructing new generation facilities (formerly referred to as TXU DevCo) have become subsidiaries of TCEH, and certain assets of other of these subsidiaries that did not become subsidiaries of TCEH were transferred to TCEH and its subsidiaries. Such asset and subsidiary transfers occurred subsequent to September 30, 2007 and will be accounted for in a manner similar to a pooling of interests; accordingly, the financial statements of EFC Holdings issued in the future will include such assets, liabilities and results of the transferred entities for all prior periods presented in such financial statements.

**Basis of Presentation**—The condensed consolidated financial statements of EFC Holdings have been prepared in accordance with US GAAP and on the same basis as the audited financial statements for each of the three years in the period ended December 31, 2006 with the exception of the adoption of FIN 48. All adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations and financial position have been included therein. All intercompany items and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with US GAAP have been omitted pursuant to the rules and regulations of the SEC. Because the condensed consolidated interim financial statements do not include all of the information and footnotes required by US GAAP, they should be read in conjunction with the audited financial statements and related notes for each of the three years in the period ended December 31, 2006. The results of operations for an interim period may not give a true indication of results for a full year. All dollar amounts in the financial statements and tables in the notes are stated in millions of US dollars unless otherwise indicated.

Prior period commodity contract assets and liabilities and cash flow hedge and other derivative assets and liabilities have been combined to conform with the current period presentation (see Note 10).

**Use of Estimates**—Preparation of EFC Holdings' financial statements requires management to make estimates and assumptions about future events that affect the reporting of assets and liabilities at the balance sheet dates and the reported amounts of revenue and expense, including mark-to-market valuations. In the event estimates and/or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. No material adjustments, other than those disclosed elsewhere herein, were made to previous estimates or assumptions during the current year.

**Changes in Accounting Standards**—Effective January 1, 2007, EFC Holdings adopted FIN 48 as required. FIN 48 provides clarification of SFAS 109 with respect to the recognition of income tax benefits of uncertain tax positions in the financial statements. See Note 2 for the impacts of adopting FIN 48 and required disclosures.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
**(Unaudited)**

In April 2007, the FASB issued FASB Staff Position FIN 39-1, "Amendment of FASB Interpretation No. 39". This FSP provides additional guidance regarding the offsetting in the balance sheet of cash collateral and contractual fair value amounts and related disclosures. This FSP is effective for fiscal years beginning after November 15, 2007. EFC Holdings is evaluating the impact of this standard on its balance sheet.

**2. ADOPTION OF NEW INCOME TAX ACCOUNTING RULES (FIN 48)**

FIN 48 requires that each tax position be reviewed and assessed with recognition and measurement of the tax benefit based on a "more-likely-than-not" standard with respect to the ultimate outcome, regardless of whether this assessment is favorable or unfavorable. EFC Holdings has completed its review and assessment of uncertain tax positions and in the quarter ended March 31, 2007 recorded a net charge to shareholders' equity and an increase to noncurrent liabilities of \$41 million in accordance with the new accounting rule.

EFH Corp. and its subsidiaries file income tax returns in US federal, state and foreign jurisdictions and are subject to examinations by the IRS and other taxing authorities. Examinations of income tax returns filed by EFH Corp. and any of its subsidiaries for the years ending prior to January 1, 1997, with few exceptions, are complete. Texas franchise tax return periods under examination or still open for examination range from 2002 to 2006.

As expected, the IRS has completed examining EFH Corp.'s US income tax returns for the years 1997 through 2002, and proposed adjustments were received in July 2007. EFH Corp. filed an appeal of the proposed adjustments in the third quarter of 2007. The proposed adjustments received from the IRS with respect to the 1997-2002 income tax returns do not materially affect EFH Corp.'s assessment of uncertain tax positions as reflected in the amounts recorded upon adoption of FIN 48.

For EFC Holdings, the total amount of benefits taken on income tax returns that do not qualify for financial statement recognition under FIN 48 total \$672 million as of September 30, 2007, the substantial majority of which represents amounts that have been accounted for as noncurrent liabilities instead of deferred income tax liabilities; of this amount, \$29 million would increase earnings if recognized. The balance sheet at September 30, 2007 reflects a reclassification of \$408 million from accumulated deferred income tax liabilities to other noncurrent liabilities recorded in 2007.

EFC Holdings classifies interest and penalties related to unrecognized tax benefits as income tax expense. As of September 30, 2007, noncurrent liabilities included a total of \$49 million in accrued interest. The amount of interest included in income tax expense for the three and nine months ended September 30, 2007 totaled \$4 million and \$16 million after-tax, respectively.

EFC Holdings does not expect that the total amount of unrecognized tax benefits for the positions assessed as of the date of the adoption will significantly increase or decrease within the next 12 months.

**3. TEXAS MARGIN TAX**

In May 2006, the Texas legislature enacted a new law that reformed the Texas franchise tax system and replaced it with a new tax system, referred to as the Texas margin tax. The Texas margin tax has been determined to be an income tax for accounting purposes. In accordance with the provisions of SFAS 109, which require that deferred tax assets and liabilities be adjusted for the effects of new income tax legislation in the period of enactment, EFC Holdings estimated and recorded a deferred tax expense of \$44 million in the second quarter of 2006.

In June 2007, an amendment to this law was enacted that included clarifications and technical changes to the provisions of the tax calculation. In the second quarter of 2007, EFC Holdings recorded a deferred tax benefit of \$30 million, essentially all of which related to changes in the rate at which a tax credit is calculated as specified in the new law. This estimated benefit is based on the Texas margin tax law in its current form and the current guidance issued by the Texas Comptroller of Public Accounts.

The effective date of the Texas margin tax for EFH Corp. is January 1, 2008. The computation of tax liability will be based on 2007 revenues as reduced by certain deductions and is being accrued in the current year.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
**(Unaudited)**

**4. OTHER INCOME AND DEDUCTIONS**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Other income:				
Amortization of gain on sale of TXU Fuel .....	\$ 12	\$ 12	\$ 35	\$ 35
Settlement penalty for coal tonnage delivery deficiency.....	3	—	6	—
Royalty income from lignite and natural gas leases .....	2	—	7	—
Net gain on sale of assets.....	1	9	1	9
Other .....	1	(3)	4	2
	<u>1</u>	<u>(3)</u>	<u>4</u>	<u>2</u>
Total other income.....	<u>\$ 19</u>	<u>\$ 18</u>	<u>\$ 53</u>	<u>\$ 46</u>
Other deductions:				
Charge related to termination of rail car lease(a) .....	\$ 10	\$ —	\$ 10	\$ —
Charge (credit) related to impaired leases(b) .....	(48)	—	(48)	\$ 2
Charge for impairment of natural gas-fueled generation plants .....	—	—	—	\$ 198
Inventory write-off related to natural gas-fueled generation plants .....	—	—	—	3
Credit related to coal contract counterparty claim(c) .....	—	—	—	(12)
Charge for settlement of retail matter with the PUCT .....	—	—	5	—
Equity losses of entity holding investment in Capgemini.....	2	3	5	8
Accretion expense .....	—	1	2	3
Other .....	2	—	6	3
	<u>2</u>	<u>—</u>	<u>6</u>	<u>3</u>
Total other deductions.....	<u>\$ (34)</u>	<u>\$ 4</u>	<u>\$ (20)</u>	<u>\$ 205</u>

(a) Represents costs associated with termination and refinancing of a rail car lease.

(b) In 2004, EFC Holdings recorded a liability of \$157 million for leases of certain natural gas-fueled combustion turbines, net of estimated sublease revenues that are no longer operated for its own benefit. In the third quarter of 2007, a reduction in the liability was recorded to reflect new subleases entered into in October 2007. The balance of the liability at September 30, 2007, net of adjustments recorded in prior years, totals \$59 million, of which \$4 million is classified as current.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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- (c) In the first quarter of 2006, income of \$12 million upon the settlement of a claim against a counterparty for nonperformance under a coal contract. A charge in the same amount was recorded in the first quarter of 2005 for losses due to the nonperformance.

**5. TRADE ACCOUNTS RECEIVABLE AND SALE OF RECEIVABLES PROGRAM**

**Sale of Receivables**—Subsidiaries of EFC Holdings participate in an accounts receivable securitization program established by EFH Corp. for certain of its subsidiaries, the activity under which is accounted for as a sale of accounts receivable in accordance with SFAS 140. Under the program, subsidiaries of EFC Holdings (originators) sell trade accounts receivable to TXU Receivables Company, a consolidated wholly-owned bankruptcy-remote direct subsidiary of EFH Corp., which sells undivided interests in the purchased accounts receivable for cash to special purpose entities established by financial institutions (the funding entities). In connection with the Merger, the accounts receivable program was amended. See Note 14.

As of September 30, 2007, the program funding to the originators totaled \$588 million. Under certain circumstances, the amount of customer deposits held by the originators can reduce the amount of undivided interests that can be sold, thus reducing funding available under the program. Funding availability for all originators is reduced by 100% of the originators' customer deposits if TCEH's fixed charge coverage ratio is less than 2.5 times; 50% if TCEH's coverage ratio is less than 3.25 times, but at least 2.5 times; and zero % if TCEH's coverage ratio is 3.25 times or more. The originators' customer deposits, which totaled \$117 million, did not affect funding availability at that date as TCEH's coverage ratio was in excess of 3.25 times.

All new trade receivables under the program generated by the originators are continuously purchased by TXU Receivables Company with the proceeds from collections of receivables previously purchased. Changes in the amount of funding under the program, through changes in the amount of undivided interests sold by TXU Receivables Company, reflect seasonal variations in the level of accounts receivable, changes in collection trends as well as other factors such as changes in sales prices and volumes. TXU Receivables Company has issued subordinated notes payable to the originators for the difference between the face amount of the uncollected accounts receivable purchased, less a discount, and cash paid to the originators that was funded by the sale of the undivided interests. The balance of the subordinated notes issued to the originators, which is reported in trade accounts receivable, was \$419 million and \$159 million at September 30, 2007 and December 31, 2006, respectively.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
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The discount from face amount on the purchase of receivables principally funds program fees paid by TXU Receivables Company to the funding entities. The discount also funds a servicing fee paid by TXU Receivables Company to TXU Business Services Company, a direct subsidiary of EFH Corp. The program fees, also referred to as losses on sale of the receivables under SFAS 140, consist primarily of interest costs on the underlying financing. The servicing fee compensates TXU Business Services Company for its services as collection agent, including maintaining the detailed accounts receivable collection records. The program and servicing fees represent essentially all the net incremental costs of the program to EFC Holdings and are reported in SG&A expenses. Fee amounts were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Program fees .....	\$ 8	\$ 10	\$ 25	\$ 25
Program fees as a percentage of average funding (annualized).....	6.0%	5.6%	6.3%	5.7%
Servicing fees .....	\$ 1	\$ 1	\$ 3	\$ 3

The accounts receivable balance reported in the September 30, 2007 condensed consolidated balance sheet has been reduced by \$1,007 million face amount of trade accounts receivable sold to TXU Receivables Company, partially offset by the inclusion of \$419 million of subordinated notes receivable from TXU Receivables Company. Funding under the program increased \$47 million to \$588 million for the nine month period ending September 30, 2007 and increased \$44 million to \$626 million for the nine month period ending September 30, 2006. Funding increases or decreases under the program are reflected as operating cash flow activity in the statement of cash flows. The carrying amount of the retained interests in the accounts receivable balance approximated fair value due to the short-term nature of the collection period.

Activities of TXU Receivables Company related to EFC Holdings were as follows:

	Nine Months Ended September 30,	
	2007	2006
Cash collections on accounts receivable.....	\$ 5,015	\$ 5,259
Face amount of new receivables purchased .....	(5,322)	(5,714)
Discount from face amount of purchased receivables.....	28	28
Program fees paid.....	(25)	(25)
Servicing fees paid.....	(3)	(3)
Increase in subordinated notes payable .....	260	411
Operating cash flows provided to EFC Holdings under the program...	<u>\$ (47)</u>	<u>\$ (44)</u>

Upon termination of the program, cash flows would be delayed as collections of sold receivables would be used by TXU Receivables Company to repurchase the undivided interests from the funding entities instead of purchasing new receivables. The level of cash flows would normalize in approximately 16 to 30 days.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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The subordinated notes issued by TXU Receivables Company are subordinated to the undivided interests of the financial institutions in the purchased receivables. As of September 30, 2007, the program was subject to the following termination events:

- 1) all of the originators cease to maintain their required fixed charge coverage ratio and debt to capital (leverage) ratio; or
- 2) the delinquency ratio (delinquent for 31 days) for the sold receivables, the default ratio (delinquent for 91 days or deemed uncollectible), the dilution ratio (reductions for discounts, disputes and other allowances) or the days collection outstanding ratio exceed stated thresholds and the financial institutions do not waive such event of termination. The thresholds applied to the entire portfolio of sold receivables, not separately to the receivables of each originator.

**Trade Accounts Receivable—**

	September 30, 2007	December 31, 2006
Gross trade accounts receivable .....	\$ 1,410	\$ 1,355
Undivided interests in accounts receivable sold by TXU		
Receivables Company .....	(1,007)	(700)
Subordinated notes receivable from TXU Receivables Company .....	419	159
Allowance for uncollectible accounts related to undivided interests in receivables retained .....	(16)	(8)
Trade accounts receivable—reported in balance sheet .....	\$ 806	\$ 806

Gross trade accounts receivable at September 30, 2007 and December 31, 2006 included unbilled revenues of \$489 million and \$406 million, respectively.

**Allowance for Uncollectible Accounts Receivable—**

	2007	2006
Allowance for uncollectible accounts receivable as of January 1 .....	\$ 8	\$ 31
Increase for bad debt expense .....	42	52
Decrease for account write-offs .....	(45)	(55)
Changes related to receivables sold.....	11	13
Other(a).....	—	(15)
Allowance for uncollectible accounts receivable as of September 30.....	\$ 16	\$ 26

- (a) Represents an allowance established in 2005 for a coal contract dispute that was reversed upon settlement in 2006. See Note 4.

Allowances related to undivided interests in receivables sold are reported in current liabilities and totaled \$14 million and \$25 million at September 30, 2007 and December 31, 2006, respectively.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
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**6. SHORT-TERM FINANCING**

**Short-term Borrowings**—At September 30, 2007 and December 31, 2006, the outstanding short-term borrowings of EFC Holdings consisted of the following:

	At September 30, 2007		At December 31, 2006	
	Outstanding Amount	Interest Rate(a)	Outstanding Amount	Interest Rate(a)
Bank borrowings .....	\$ 1,825	6.53%	\$ 195	5.97%
Commercial paper.....	—	—	623	5.52%
Total .....	<u>\$ 1,825</u>		<u>\$ 818</u>	

(a) Weighted average interest rate at the end of the period.

The commercial paper program at September 30, 2007, which provided for the issuance of up to \$2.4 billion of commercial paper by TCEH, was effectively supported by existing credit facilities, although there was no contractual obligation under the program to maintain equivalent availability under existing credit facilities.

**Credit Facilities**—At September 30, 2007, EFC Holdings had access to credit facilities with the following terms:

Authorized Borrowers	Maturity Date	At September 30, 2007			
		Facility Limit	Letters of Credit	Cash Borrowings	Availability
TCEH .....	February 2008	\$ 1,500	\$ —	\$ —	\$ 1,500
TCEH, Oncor .....	June 2008	1,400	444	665	291
TCEH, Oncor .....	August 2008	1,000	—	495	505
TCEH, Oncor .....	March 2010	1,600	386	730	484
TCEH, Oncor .....	June 2010	500	28	240	232
TCEH .....	December 2009	500	455	45	—
Total .....		<u>\$ 6,500</u>	<u>\$ 1,313</u>	<u>\$ 2,175</u>	<u>\$ 3,012</u>

All these facilities were terminated in connection with the Merger. See Note 14. The maximum amount accessible by TCEH and Oncor under the facilities was \$6.5 billion and \$3.6 billion, respectively. These facilities supported working capital and general corporate needs, including issuances of commercial paper and letters of credit. At September 30, 2007, all of the letters of credit issued under the credit facilities were the obligations of TCEH. At September 30, 2007, TCEH and Oncor had \$1.825 billion and \$350 million in outstanding cash borrowings, respectively.

Availability under these facilities as of September 30, 2007 declined \$2.3 billion from December 31, 2006. Pursuant to PUCT rules, TCEH is required to maintain \$125 million of available capacity under its credit facilities in order to permit TXU Energy to return retail customer deposits, if necessary. As a result, at September 30, 2007, the total availability set forth in the table above should be further reduced by \$125 million. TCEH will be required to maintain such available capacity under the replacement facilities discussed in Note 14.

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**7. LONG-TERM DEBT**

**Long-term debt**—At September 30, 2007 and December 31, 2006, the long-term debt of EFC Holdings consisted of the following:

	September 30, 2007	December 31, 2006
<b>TCEH</b>		
Pollution Control Revenue Bonds:		
Brazos River Authority:		
5.400% Fixed Series 1994A due May 1, 2029.....	\$ 39	\$ 39
7.700% Fixed Series 1999A due April 1, 2033 .....	111	111
6.750% Fixed Series 1999B due September 1, 2034, remarketing date April 1, 2013(a) .....	16	16
7.700% Fixed Series 1999C due March 1, 2032 .....	50	50
3.990% Floating Series 2001A due October 1, 2030(b) .....	71	71
5.750% Fixed Series 2001C due May 1, 2036, remarketing date November 1, 2011(a) .....	217	217
3.900% Floating Series 2001D due May 1, 2033(b) .....	268	268
5.150% Floating Taxable Series 2001I due December 1, 2036(b) .....	62	62
3.990% Floating Series 2002A due May 1, 2037(b) .....	45	45
6.750% Fixed Series 2003A due April 1, 2038, remarketing date April 1, 2013(a)	44	44
6.300% Fixed Series 2003B due July 1, 2032 .....	39	39
6.750% Fixed Series 2003C due October 1, 2038.....	52	52
5.400% Fixed Series 2003D due October 1, 2029, remarketing date October 1, 2014(a) .....	31	31
5.000% Fixed Series 2006 due March 1, 2041 .....	100	100
Sabine River Authority of Texas:		
6.450% Fixed Series 2000A due June 1, 2021 .....	51	51
5.500% Fixed Series 2001A due May 1, 2022, remarketing date November 1, 2011(a) .....	91	91
5.750% Fixed Series 2001B due May 1, 2030, remarketing date November 1, 2011(a) .....	107	107
5.200% Fixed Series 2001C due May 1, 2028 .....	70	70
5.800% Fixed Series 2003A due July 1, 2022 .....	12	12
6.150% Fixed Series 2003B due August 1, 2022 .....	45	45
3.850% Floating Series 2006A due November 1, 2041 (interest rate in effect at March 31, 2007)(c).....	—	47
3.850% Floating Series 2006B due November 1, 2041 (interest rate in effect at March 31, 2007)(c).....	—	46

	September 30, 2007	December 31, 2006
Trinity River Authority of Texas:		
6.250% Fixed Series 2000A due May 1, 2028.....	14	14
3.850% Floating Series 2006 due November 1, 2041 (interest rate in effect at March 31, 2007)(c).....	—	50
Other:		
6.125% Fixed Senior Notes due March 15, 2008(d).....	250	250
7.000% Fixed Senior Notes due March 15, 2013 .....	1,000	1,000
6.194% Floating Senior Notes due September 16, 2008(e) .....	1,000	—
7.100% Promissory Note due January 5, 2009.....	65	—
Capital lease obligations.....	149	98
Fair value adjustments related to interest rate swaps.....	13	10
Total TCEH.....	4,012	3,036
<b>EFC Holdings</b>		
7.170% Fixed Senior Debentures due August 1, 2007 .....	—	10
7.460% Fixed Secured Facility Bonds with amortizing payments through January 2015 .....	78	85
9.580% Fixed Notes due in semiannual installments through December 4, 2019.....	62	62
8.254% Fixed Notes due in quarterly installments through December 31, 2021.....	57	59
6.156% Floating Rate Junior Subordinated Debentures, Series D due January 30, 2037(e) .....	1	1
8.175% Fixed Junior Subordinated Debentures, Series E due January 30, 2037 .....	8	8
Unamortized premium.....	4	5
Total EFC Holdings.....	210	230
Total EFC Holdings consolidated .....	4,222	3,266
Less amount due currently .....	(1,281)	(178)
Total long-term debt .....	<u>\$ 2,941</u>	<u>\$ 3,088</u>

- (a) These series are in the multiannual interest rate mode and are subject to mandatory tender prior to maturity on the mandatory remarketing date. On such date, the interest rate and interest rate period will be reset for the bonds.
- (b) Interest rates in effect at September 30, 2007. These series are in a weekly interest rate mode and are classified as long-term as they are supported by long-term irrevocable letters of credit.
- (c) These series were redeemed on May 8, 2007 as a result of the suspension of development of eight coal-fueled generation facilities.
- (d) Interest rate swapped to variable on entire principal amount at September 30, 2007.
- (e) Interest rates in effect at September 30, 2007.

**Debt-related Activity in 2007**—See Note 14 for debt-related activity in connection with the Merger.

In September 2007, EFH Corp. commenced offers to purchase and consent solicitations with respect to \$250 million in aggregate principal amount of TCEH's outstanding 6.125% Senior Notes due 2008 and \$1.0 billion in aggregate principal amount of TCEH's outstanding 7.000% Senior Notes due 2013. On October 11, 2007, EFH Corp. purchased an aggregate of \$247 million and \$995 million of these notes, respectively. On October 24, 2007, EFH Corp. purchased an additional aggregate principal amount of \$25,000 and \$436,000 of these notes, respectively.

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In September 2007, subsidiaries of EFC Holdings acquired certain assets of Alcoa Inc. relating to the operation of a lignite mine near Sandow for a purchase price of \$135 million, including cash of \$70 million and a promissory note of \$65 million due January 5, 2009 at a fixed interest rate of 7.100%, which has been reported as long-term debt. The EFC Holdings subsidiaries have assumed responsibility for all mining operations. In addition, in August 2007, a subsidiary of EFH Corp. (which became a subsidiary of TCEH after the Merger) acquired the ownership of certain other lignite interests in the mine for approximately \$52 million in cash. The mine provides fuel for the existing Sandow generation unit and will provide fuel for the Sandow unit under construction upon its completion.

In September 2007, TCEH refinanced an existing lease of rail cars, which had been accounted for as an operating lease, with a lease with another party that has been accounted for as a capital lease, resulting in a liability of \$52 million reported as long-term debt.

In May 2007, TCEH redeemed at par the Sabine River Authority of Texas Series 2006A and 2006B pollution control revenue bonds with aggregate principal amounts of \$47 million and \$46 million, respectively, and the Trinity River Authority of Texas Series 2006 pollution control revenue bonds with an aggregate principal amount of \$50 million. All three bond series were issued in conjunction with the development of eight coal-fueled generation units, which has been canceled. Restricted cash retained upon issuance of the bonds was used to fund substantially all of the redemption amounts.

In March 2007, TCEH issued floating rate senior notes with an aggregate principal amount of \$1.0 billion with a floating rate based on LIBOR plus 50 basis points. The notes were to mature in September 2008, but in accordance with their terms, were redeemed upon consummation of the Merger.

**Fair Value Hedge**—EFC Holdings uses fair value hedging strategies to manage its exposure to fixed interest rates on long-term debt. At September 30, 2007, \$250 million of fixed rate debt had been effectively converted to variable rates through an interest rate swap transaction expiring in 2008. The swap qualified for and has been designated as a fair value hedge in accordance with SFAS 133 (under the short-cut method as the conditions for assuming no ineffectiveness are met).

**Long-term debt fair value adjustments—**

	<b>Nine Months Ended September 30, 2007</b>
Long-term debt fair value adjustments related to interest rate swap at beginning of period— <i>increase in debt carrying value</i> ..	\$ 10
Fair value adjustments during the period .....	4
Recognition of net gains on settled fair value hedges(a) .....	(1)
	(1)
Long-term debt fair value adjustments at end of period— <i>increase in debt carrying value (net in-the-money value of swap)</i> .....	\$ 13

(a) Net value of settled in-the-money fixed-to-variable swaps recognized in net income when the hedged transactions are recognized. Amount is pretax.

Any changes in unsettled swap fair values of active positions reported as fair value adjustments to debt amounts are offset by changes in commodity and other derivative contractual assets and liabilities.

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**8. COMMITMENTS AND CONTINGENCIES**

***Generation Development***

A subsidiary of TCEH has executed EPC agreements for the development of two lignite coal-fueled generation units in Texas (Oak Grove). The subsidiary and the EPC contractors have placed orders for critical long lead-time equipment, including boilers, turbine generators and air quality control systems for the units, and construction of the two units is underway. EFC Holdings has guaranteed performance of TCEH's subsidiary under these agreements.

In connection with the Merger, certain wholly-owned subsidiaries of EFH Corp. established for the purpose of developing and constructing a third lignite coal-fueled generation unit (Sandow) have become subsidiaries of TCEH, and certain assets of other of these subsidiaries that did not become subsidiaries of TCEH were transferred to TCEH and its subsidiaries.

In September 2007, a subsidiary of TCEH acquired from Alcoa Inc. the air permit related to the Sandow facility that had been previously issued by the TCEQ. Although a federal district court judge approved a settlement pursuant to which a subsidiary of TCEH acquired the permit, environmental groups opposed to the settlement have appealed the decision to the Fifth Circuit Court of Appeals. There can be no assurance that the outcome of this matter would not result in an adverse impact on the project.

A subsidiary of EFH Corp. has received the air permit for the Oak Grove units, which was approved by the TCEQ in June 2007. However, the air permit is the subject of an appeal and litigation as discussed below under "Litigation."

Construction work-in-process assets balances for the three generation units totaled approximately \$1.7 billion as of September 30, 2007. If construction-related agreements for the three generation units had been canceled as of that date, subsidiaries of EFH Corp. would have incurred an estimated termination obligation of up to approximately \$300 million. This estimated gross cancellation exposure of approximately \$2.0 billion at September 30, 2007 excludes any potential recovery values for assets acquired to date and for assets already owned prior to executing such agreements that are intended to be utilized for these projects. As of September 30, 2007, construction work-in-process expenditures under these agreements are assets of subsidiaries of EFH Corp. and not of EFC Holdings (see Note 1).

***Litigation***

An administrative appeal challenging the order of the TCEQ issuing the air permit for construction and operation of the Oak Grove generation facility in Robertson County, Texas to a subsidiary of EFH Corp. was filed on September 7, 2007 in the State District Court of Travis County, Texas. Plaintiffs ask that the District Court reverse TCEQ's approval of the Oak Grove air permit; TCEQ's adoption and approval of the TCEQ Executive Director's Response to Comments; and remand the matter back to TCEQ for further proceedings. In addition to this administrative appeal, two other petitions were filed in Travis County District Court by non-parties to the administrative hearing before TCEQ and the State Office of Administrative Hearings (SOAH) seeking to challenge the TCEQ's issuance of the Oak Grove air permit and asking the District Court to remand the matter to the SOAH for further proceedings. Finally, the plaintiffs in these two additional lawsuits have filed a third, joint petition claiming insufficiencies in the Oak Grove application, permit, and process and seeking party status and remand to SOAH for further proceedings. EFH Corp. believes the Oak Grove air permit granted by the TCEQ is protective of the environment and that the application for and the processing of the air permit by the TCEQ was in accordance with law. There can be no assurance that the outcome of these matters would not result in an adverse impact on the project.

On December 1, 2006, a lawsuit was filed in the United States District Court for the Western District of Texas against Luminant Generation Company LLC (then known as TXU Generation Company LP), Oak Grove Management Company, LLC and EFH Corp. (then known as TXU Corp.). The complaint sought declaratory and injunctive relief, as well as the assessment of civil penalties, with respect to the permit application for the construction and operation of the Oak Grove generation facility in Robertson County, Texas. The plaintiffs allege violations of the Federal Clean Air Act, Texas Health and Safety Code and Texas Administrative Code and sought to temporarily and permanently enjoin the construction and operation of the Oak Grove generation plant. The

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complaint also asserted that the permit application was deficient in failing to comply with various modeling and analyses requirements relative to the impact of emissions from the Oak Grove plant. Plaintiffs further requested that the District Court enter an order requiring the defendants to take other appropriate actions to remedy, mitigate and offset alleged harm to the public health and environment. EFH Corp. believes the Oak Grove air permit granted by the TCEQ on June 13, 2007 is protective of the environment and that the application for and the processing of the air permit by Oak Grove Management Company LLC with the TCEQ has been in accordance with applicable law. EFH Corp. and the other defendants filed a Motion to Dismiss the litigation, which was granted by the District Court on May 21, 2007. The Plaintiffs have appealed the District Court's dismissal of the case to the Fifth Circuit Court of Appeals. EFH Corp. believes the District Court properly granted the Motion to Dismiss and while EFH Corp. is unable to estimate any possible loss or predict the outcome of this litigation in the event the Fifth Circuit Court of Appeals reverses the District Court, EFH Corp. maintains that the claims made in the complaint are without merit. Accordingly, EFH Corp. intends to vigorously defend the appeal and this litigation in the event the Fifth Circuit reverses the District Court.

***Regulatory Investigations***

In March 2007, the PUCT issued a Notice of Violation (NOV) stating that the PUCT Staff was recommending an enforcement action, including the assessment of administrative penalties, against EFH Corp. and certain affiliates for alleged market power abuse by its power generation affiliates and Luminant Energy in ERCOT-administered balancing energy auctions during certain periods of the summer of 2005. In September 2007, the PUCT issued a revised NOV in which the proposed administrative penalty amount was reduced from \$210 million to \$171 million. The revised NOV was necessary, according to the PUCT Staff, to correct calculation errors in the initial NOV. As revised, the NOV is premised upon the PUCT Staff's allegation that Luminant Energy's bidding behavior was not competitive and increased market participants' costs of balancing energy by approximately \$57 million, including approximately \$19 million in incremental revenues to EFH Corp. A hearing requested by Luminant Energy to contest the alleged occurrence of a violation and the amount of the penalty in the NOV was originally scheduled to start in April 2008 but was delayed indefinitely in November 2007 by the presiding administrative law judge due to the need to address pending discovery disputes. EFC Holdings believes Luminant Energy's conduct during the period in question was consistent with the PUCT's rules and policies, and no market power abuse was committed. EFC Holdings is vigorously contesting the NOV. EFC Holdings is unable to predict the outcome of this matter.

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EFH Corp. and Luminant Energy have taken actions to reduce the risk of future similar allegations related to the balancing energy segment of the ERCOT wholesale market, including working with the PUCT Staff and the PUCT's independent market monitor to develop a voluntary mitigation plan for approval by the PUCT. Luminant Energy submitted a voluntary mitigation plan that was approved by the PUCT in July 2007. The PUCT's approval action has been challenged by some other market participants on procedural grounds, and a Texas District Court has upheld that challenge. EFC Holdings cannot predict whether the PUCT will appeal that ruling or be successful in any such appeal.

As previously disclosed, the PUCT Staff had been investigating TXU Energy with respect to the renewal process for certain small and medium business customers on term service plans. The investigation did not involve residential customers. In June 2007, TXU Energy reached a settlement agreement with the Staff of the PUCT that was approved by the PUCT in July 2007. While TXU Energy expressly denies any violations of rules, it paid the PUCT a \$5 million settlement as a compromise in this dispute.

***Other Proceedings***

In addition to the above, EFC Holdings and its subsidiaries are involved in various other legal and administrative proceedings in the normal course of business, the ultimate resolution of which, in the opinion of management, should not have a material effect on its financial position, results of operations or cash flows.

***Guarantees***

***Overview***—EFC Holdings has entered into contracts that contain guarantees to outside parties that could require performance or payment under certain conditions. Guarantees issued or modified after December 31, 2002 are subject to the recognition and initial measurement provisions of FIN 45, which requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee.

***Residual value guarantees in operating leases***—EFC Holdings is the lessee under various operating leases that guarantee the residual values of the leased assets. At September 30, 2007, both the aggregate maximum amount of residual values guaranteed and the estimated residual recoveries totaled approximately \$68 million. These leased assets consist primarily of mining equipment and rail cars. The average life of the lease portfolio is approximately four years. See Note 7 regarding the refinancing of an operating lease of certain rail cars.

***Letters of Credit***

At September 30, 2007, TCEH had outstanding letters of credit under its revolving credit facilities in the amount of \$603 million to support risk management and trading margin requirements in the normal course of business, including over-the-counter hedging transactions, and \$43 million for miscellaneous credit support requirements.

At September 30, 2007, TCEH had outstanding letters of credit under its revolving credit facilities totaling \$455 million to support floating rate pollution control revenue bond debt of \$446 million principal amount. The letters of credit are available to fund the payment of such debt obligations and expire in 2009.

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At September 30, 2007, TCEH had outstanding letters of credit under its revolving credit facilities totaling \$77 million to support mining reclamation activities and certain collection agent activities performed for REPs in EFC Holdings' historical service territory.

EFH Corp. and TCEH have previously guaranteed the obligations under the lease agreement for EFH Corp.'s current headquarters building. These obligations include future undiscounted base rent payments. As a result of the March 2007 downgrade by S&P of TCEH's credit rating to below investment grade, TCEH has provided a \$135 million letter of credit to replace EFH Corp.'s and TCEH's guarantees of these obligations.

**Security Interest**

A first-lien security interest was placed on the two lignite/coal-fueled generation units at TCEH's Big Brown plant to support commodity hedging transactions entered into by TXU Generation Development. At September 30, 2007, the lien secured obligations related to hedging transactions of TXU Generation Development for an aggregate of 1.2 billion MMBtu of natural gas, and there was no remaining lien capacity under this lien structure. In connection with the closing of the Merger, the hedge transactions were transferred to TCEH or its subsidiaries and became secured by a first-lien security interest in substantially all of the assets of TCEH and its subsidiaries, and the prior lien on the Big Brown plant was released. See Note 14.

**9. SHAREHOLDERS' EQUITY**

**Common and Preferred Stock**—No shares of EFC Holdings' common stock are held by or for its own account, nor are any shares of such capital stock reserved for its officers and employees or for options, warrants, conversions or other rights in connection therewith. The common stock included in shareholders' equity totaled \$130 million and \$101 million at September 30, 2007 and December 31, 2006, respectively. The preferred stock amount totaled \$51 thousand at the end of both periods.

**Noncash contributions**—Under SFAS 123R, expense related to EFH Corp.'s stock-based incentive compensation awards granted to EFC Holdings' employees is accounted for as a noncash capital contribution from EFH Corp. Accordingly, EFC Holdings recorded a credit of \$2 million and \$6 million to its common stock account for the three and nine months ended September 30, 2007, respectively.

The increase in the common stock amount in 2007 also reflects the excess tax benefit of \$25 million arising from the distribution date value of the stock-based incentive awards exceeding the reported compensation expense.

**Dividends**—During 2007, EFC Holdings declared and paid the following dividends to EFH Corp.:

Declaration Date	Payment Date	Dividend Amount
October 1, 2007	October 1, 2007	\$284
July 1, 2007	July 2, 2007	\$284
April 1, 2007	April 2, 2007	\$284
January 1, 2007	January 2, 2007	\$283

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**Shareholders' Equity**—The following table presents the changes in shareholders' equity for the nine months ended September 30, 2007:

	Capital Accounts	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2006 .....	\$ 7,463	\$ 404	\$ 7,867
Net income .....	1,408	—	1,408
Effect of adoption of FIN 48 .....	(41)	—	(41)
Distributions paid to parent .....	(851)	—	(851)
Effects of stock-based incentive compensation plans .....	31	—	31
Net effects of cash flow hedges (net of tax) .....	—	(271)	(271)
Contribution of mineral interest companies from EFH Corp. ....	4	—	4
Other .....	(2)	—	(2)
Balance at September 30, 2007 .....	<u>\$ 8,012</u>	<u>\$ 133</u>	<u>\$ 8,145</u>

**10. COMMODITY AND OTHER DERIVATIVE CONTRACTUAL ASSETS AND LIABILITIES**

The following table breaks down commodity and other derivative contractual assets and liabilities as presented in the balance sheet into the two major components:

	September 30, 2007			
	Commodity contracts	Cash flow hedges and other derivatives	Netting adjustments(a)	Total
<b>Assets:</b>				
Current assets .....	\$ 240	\$ 342	\$ (184)	\$ 398
Noncurrent assets .....	56	52	(29)	79
Total .....	<u>\$ 296</u>	<u>\$ 394</u>	<u>\$ (213)</u>	<u>\$ 477</u>
<b>Liabilities:</b>				
Current liabilities .....	\$ 338	\$ 8	\$ (184)	\$ 162
Noncurrent liabilities .....	458	9	(29)	438
Total .....	<u>\$ 796</u>	<u>\$ 17</u>	<u>\$ (213)</u>	<u>\$ 600</u>
	December 31, 2006			
	Commodity contracts	Cash flow hedges and other derivatives	Netting adjustments(a)	Total
<b>Assets:</b>				
Noncurrent assets .....	163	94	(6)	251
Total .....	<u>\$ 439</u>	<u>\$ 790</u>	<u>\$ (30)</u>	<u>\$ 1,199</u>
<b>Liabilities:</b>				
Current liabilities .....	\$ 278	\$ 18	\$ (24)	\$ 272
Noncurrent liabilities .....	124	9	(6)	127
Total .....	<u>\$ 402</u>	<u>\$ 27</u>	<u>\$ (30)</u>	<u>\$ 399</u>
Net assets (liabilities) .....	<u>\$ 37</u>	<u>\$ 763</u>	<u>\$ —</u>	<u>\$ 800</u>

(a) Represents the effects of netting assets and liabilities at the counterparty agreement level.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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**Commodity Contract Assets and Liabilities**—Commodity contract assets and liabilities primarily represent mark-to-market values of natural gas and electricity derivative instruments that have not been designated as cash flow hedges or “normal” purchases or sales under SFAS 133.

Current and noncurrent commodity contract assets are stated net of applicable credit (collection) and performance reserves totaling \$10 million and \$9 million at September 30, 2007 and December 31, 2006, respectively. Performance reserves are provided for direct, incremental costs to settle the contracts.

Commodity contract liabilities at September 30, 2007 include the initial \$235 million out-of-the-money value of a multi-year power sales agreement entered into with Alcoa Inc. in the third quarter of 2007. The sales agreement was entered into concurrently with the transfer of an air permit from Alcoa Inc. to an EFH Corp. subsidiary as well as other agreements with Alcoa Inc. that provide, among other things, access to real property and a supply of lignite fuel, all of which provides considerable value to EFH Corp. by providing the right and ability to develop, construct and operate a new lignite coal-fueled generation unit at Sandow. In consideration of this right and ability, the initial out-of-the-money value of the sales agreement as well as a \$29 million out-of-the-money value of a related interim power sales agreement entered into in late 2006 were recorded as part of the construction work-in-process asset balance for the Sandow unit. Subsequent changes in the fair value of the contracts will be marked-to-market in net income.

Commodity contract assets/liabilities at September 30, 2007 include liabilities arising from “day one” losses of \$31 million associated with contracts entered into in the first nine months of 2007 at below market prices. Of this amount, \$27 million is related to a natural gas-related option agreement entered into in the first quarter of 2007 and intended to economically hedge exposure to future changes in electricity prices. The losses were recorded as a reduction of revenues, consistent with other mark-to-market gains and losses.

Commodity contract assets/liabilities at September 30, 2007 include an asset arising from a “day one” gain of \$30 million associated with a long-term power purchase agreement entered into in the second quarter of 2007. The gain was recorded as an increase to revenues, consistent with other mark-to-market gains and losses.

**Cash Flow Hedge and Other Derivative Assets and Liabilities**—Cash flow hedge and other derivative assets and liabilities primarily represent mark-to-market values of commodity contracts that have been designated as cash flow hedges as well as interest rate swap agreements. The change in fair value of derivative assets and liabilities related to cash flow hedges are recorded as other comprehensive income or loss to the extent the hedges are effective; the ineffective portion of the change in fair value is included in net income. A portion of the interest rate swaps have been designated as fair value hedges and the change in fair value of such hedges are recorded as an increase or decrease in the carrying value of the debt (see Note 7); changes in fair value of other interest rate swaps are included in net income.

As previously disclosed, a significant portion of natural gas financial instruments entered into to hedge future changes in electricity prices had been designated and accounted for as cash flow hedges. In March 2007, these instruments were dedesignated as cash flow hedges as allowed under SFAS 133. Subsequent changes in the fair value of these instruments are being marked-to-market in net income.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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A summary of cash flow hedge and other derivative assets and liabilities follows:

	September 30, 2007	December 31, 2006
Current and noncurrent assets:		
Commodity-related cash flow hedges.....	\$ 394	\$ 790
Current and noncurrent liabilities:		
Commodity-related cash flow hedges.....	\$ 16	\$ 22
Debt-related interest rate swap .....	1	5
Total.....	\$ 17	\$ 27

The above amounts include values of contracts that have been dedesignated as cash flow hedges. Subsequent to such dedesignation, changes in value of the contacts are reflected in commodity contract assets and liabilities.

**Other Cash Flow Hedge Information**—EFC Holdings experienced cash flow hedge ineffectiveness of \$1 million in net losses and \$56 million in net gains for the three and nine month periods ended September 30, 2007, respectively. For the corresponding periods of 2006, the amounts were \$132 million and \$266 million in net gains, respectively. These amounts are pretax and are reported in revenues.

The net effect of recording unrealized mark-to-market gains and losses arising from hedge ineffectiveness (versus recording gains and losses upon settlement) includes the above amounts as well as the effect of reversing unrealized ineffectiveness gains and losses recorded in previous periods to offset realized gains and losses in the current period. Such net unrealized effect totaled \$2 million in net losses and \$35 million in net gains for the three and nine month periods ended September 30, 2007, respectively, and \$136 million and \$286 million in net gains for the three and nine month periods ended September 30, 2006, respectively.

As of September 30, 2007, commodity positions accounted for as cash flow hedges, which represent a small portion of economic hedge positions, reduce exposure to variability of future cash flows from future revenues or purchases through 2010.

Cash flow hedge amounts reported in the Condensed Statements of Consolidated Comprehensive Income exclude net gains and losses associated with cash flow hedges entered into and settled within the periods presented. These amounts totaled \$2 million and \$18 million in after-tax net losses for the three and nine month periods ended September 30, 2007, respectively, and \$12 million in after-tax net losses and \$6 million in after-tax net gains for the three and nine month periods ended September 30, 2006, respectively.

As of September 30, 2007, EFC Holdings expects that \$47 million of after-tax net gains related to cash flow hedges included in accumulated other comprehensive income would have been reclassified into net income during the next twelve months as the related hedged transactions affect net income. Of this amount, \$51 million in gains relate to commodity hedges and \$4 million in losses relate to debt-related hedges. However, in connection with application of purchase accounting related to the Merger, amounts deferred in accumulated other comprehensive income are expected to be eliminated as part of the purchase price allocation of EFH Corp.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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**11. PENSION AND OTHER POSTRETIREMENT EMPLOYEE BENEFITS (OPEB) COSTS**

Subsidiaries of EFC Holdings are participating employers in the pension plan sponsored by EFH Corp. Subsidiaries of EFC Holdings' also participate with EFH Corp. and other subsidiaries of EFH Corp. to offer health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees. The net allocated pension and OPEB costs applicable to EFC Holdings totaled \$3 million and \$4 million for the three months ended September 30, 2007 and 2006, respectively, and \$13 million for both the nine months ended September 30, 2007 and 2006, respectively.

The discount rate reflected in net pension and OPEB costs in 2007 is 5.90%. The expected rate of return on plan assets reflected in the 2007 cost amounts is 8.75% for the pension plan and 8.67% for the OPEB plan.

**12. RELATED-PARTY TRANSACTIONS**

The following represent the significant related-party transactions of EFC Holdings:

- TCEH incurs electricity delivery fees charged by Oncor. These fees totaled \$302 million and \$346 million for the three months ended September 30, 2007 and 2006, respectively, and \$799 million and \$900 million for the nine months ended September 30, 2007 and 2006, respectively.
- Oncor's bankruptcy-remote financing subsidiary has issued securitization bonds to recover generation-related regulatory assets through a transition surcharge to its customers. Oncor's incremental income taxes related to the transition surcharges it collects are being reimbursed by TCEH. Therefore, EFC Holdings' financial statements reflect a noninterest bearing note payable to Oncor of \$332 million (\$34 million reported as current liabilities) at September 30, 2007 and \$356 million (\$33 million reported as current liabilities) at December 31, 2006.
- TCEH reimburses Oncor for interest expense on Oncor's bankruptcy-remote financing subsidiary's securitization bonds. This interest expense totaled \$12 million and \$13 million for the three months ended September 30, 2007 and 2006, respectively, and \$37 million and \$40 million for the nine months ended September 30, 2007 and 2006, respectively.
- EFC Holdings' current and noncurrent advances to parent totaled \$4.7 billion at September 30, 2007 (all reported as current) and \$4.0 billion at December 31, 2006 (\$700 million reported as noncurrent). The average daily balances of the advances to parent totaled \$4.4 billion and \$3.3 billion during the three months ended September 30, 2007 and 2006, respectively. Interest income earned on the advances totaled \$74 million and \$48 million for the three months ended September 30, 2007 and 2006, respectively. The weighted average annual interest rates were 6.5% and 5.7% for the three months ended September 30, 2007 and 2006, respectively. The average daily balances of the advances to parent totaled \$4.2 billion and \$2.5 billion during the nine months ended September 30, 2007 and 2006, respectively. Interest income earned on the advances totaled \$197 million and \$104 million for the nine months ended September 30, 2007 and 2006, respectively. The weighted average annual interest rates were 6.2% and 5.4% for the nine months ended September 30, 2007 and 2006, respectively.

## ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements—(Continued) (Unaudited)

- In December 2005, TCEH received a \$1.5 billion note from EFH Corp. in partial settlement of outstanding advances to parent. The note carries interest at a rate based on the weighted average cost of EFC Holdings' short-term borrowings. Interest income related to this note totaled \$25 million and \$21 million for the three months ended September 30, 2007 and 2006, respectively, and \$71 million and \$61 million for the nine months ended September 30, 2007 and 2006, respectively.
- An EFH Corp. subsidiary charges subsidiaries of EFC Holdings for financial, accounting, environmental and other administrative services at cost. These costs, which are primarily reported in SG&A expenses, totaled \$14 million and \$15 million for the three months ended September 30, 2007 and 2006, respectively, and \$43 million and \$51 million for the nine months ended September 30, 2007 and 2006, respectively.
- Under Texas regulatory provisions, the trust fund for decommissioning TCEH's nuclear generation facility, reported in investments on EFC Holdings' balance sheet, is funded by a delivery fee surcharge billed to REPs by Oncor and remitted to TCEH, with the intent that the trust fund assets will be sufficient to fund the decommissioning liability, reported in noncurrent liabilities on EFC Holdings' consolidated balance sheet. Income and expenses associated with the trust fund and the decommissioning liability incurred by TCEH are offset by a net change in the intercompany receivable/payable with Oncor, which in turn results in a change in the net regulatory asset/liability. A regulatory liability totaling \$31 million and \$17 million at September 30, 2007 and December 31, 2006, respectively, reported on Oncor's balance sheet and represents the excess of the trust fund balance over the decommissioning liability.
- TCEH has a 53.1% limited partnership interest, with a carrying value of \$9 million and \$14 million at September 30, 2007 and December 31, 2006, respectively, in an EFH Corp. subsidiary holding Capgemini-related assets. Equity losses related to this interest totaled \$2 million and \$3 million for the three months ended September 30, 2007 and 2006, respectively, and \$5 million and \$8 million for the nine months ended September 30, 2007 and 2006, respectively. These losses primarily represent amortization of software assets held by the subsidiary. The equity losses are reported as other deductions.
- EFH Corp. files a consolidated federal income tax return, and federal income taxes are allocated to subsidiaries based on their respective taxable income or loss. As a result, EFC Holdings had an income tax payable to EFH Corp. of \$91 million and \$538 million as of September 30, 2007 and December 31, 2006, respectively.
- In the second quarter of 2006, subsidiaries of TCEH began charging TXU DevCo for employee services related to the development of generation facilities in Texas. These charges totaled \$0.8 million and \$1 million for the three months ended September 30, 2007 and 2006, respectively, and \$2 million for both the nine months ended September 30, 2007 and 2006. These charges are largely reflected as a reduction in EFC Holdings' SG&A expenses.

See Note 5 for information regarding the accounts receivable securitization program and related subordinated notes receivable from TXU Receivables Company and Note 9 for cash dividends paid to EFH Corp.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
**(Unaudited)**

**13. SUPPLEMENTARY FINANCIAL INFORMATION**

***Interest Expense and Related Charges—***

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Interest .....	\$ 121	\$ 94	\$ 329	\$ 271
Amortization of discount and debt issuance costs.....	3	2	10	5
Interest capitalized in accordance with SFAS 34.....	(7)	(6)	(23)	(19)
Total interest expense and related charges.....	<u>\$ 117</u>	<u>\$ 90</u>	<u>\$ 316</u>	<u>\$ 257</u>

***Restricted Cash—***

	Balance Sheet Classification			
	At September 30, 2007		At December 31, 2006	
	Current Assets	Noncurrent Assets	Current Assets	Noncurrent Assets
Pollution control revenue bond funds held by trustee (See Note 7).....	\$ —	\$ 49	\$ —	\$ 241
All other .....	—	—	3	—
Total restricted cash .....	<u>\$ —</u>	<u>\$ 49</u>	<u>\$ 3</u>	<u>\$ 241</u>

***Inventories by Major Category—***

	September 30, 2007	December 31, 2006
Materials and supplies .....	\$ 126	\$ 112
Fuel stock.....	89	94
Natural gas in storage.....	67	75
Environmental energy credits and emission allowances.....	46	25
Total inventories .....	<u>\$ 328</u>	<u>\$ 306</u>

***Investments—***

	September 30, 2007	December 31, 2006
Nuclear decommissioning trust.....	\$ 487	\$ 447
Assets related to employee benefit plans, principally employee savings programs .....	53	51
Land .....	33	33
Investment in affiliate holding Capgemini-related assets .....	9	14
Renewable energy wind investment project .....	3	—
Miscellaneous other .....	1	1
Total investments .....	<u>\$ 586</u>	<u>\$ 546</u>

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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**Property, Plant and Equipment**—As of September 30, 2007 and December 31, 2006, property, plant and equipment of \$10.4 billion and \$9.9 billion, respectively, is stated net of accumulated depreciation and amortization of \$8.4 billion and \$8.2 billion, respectively.

**Asset Retirement Obligations**—These liabilities primarily relate to nuclear generation plant decommissioning, land reclamation related to lignite mining, removal of lignite/coal-fueled plant ash treatment facilities and generation plant asbestos removal and disposal costs. There is no earnings impact with respect to the recognition of the asset retirement costs for nuclear decommissioning, as all costs are recoverable through the regulatory process as part of Oncor's rate setting.

The following table summarizes the changes to the asset retirement liability, reported in other noncurrent liabilities and deferred credits in the consolidated balance sheet, during the nine months ended September 30, 2007:

Asset retirement liability at December 31, 2006 .....	\$ 585
Additions:	
Accretion .....	28
Reductions:	
Mining reclamation cost adjustments .....	(2)
Mining reclamation payments .....	(18)
	<u>(18)</u>
Asset retirement liability at September 30, 2007 .....	<u>\$ 593</u>

**Intangible Assets**—Intangible assets other than goodwill are comprised of the following:

	As of September 30, 2007			As of December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets subject to amortization included in property, plant and equipment:						
Capitalized software placed in service .....	\$ 29	\$ 9	\$ 20	\$ 14	\$ 5	\$ 9
Land easements .....	2	1	1	2	1	1
	<u>31</u>	<u>10</u>	<u>21</u>	<u>16</u>	<u>6</u>	<u>10</u>
Total .....	<u>\$ 31</u>	<u>\$ 10</u>	<u>\$ 21</u>	<u>\$ 16</u>	<u>\$ 6</u>	<u>\$ 10</u>

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
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Aggregate amortization expense for intangible assets totaled \$2 million and \$0.8 million for the three months ended September 30, 2007 and 2006, respectively. Aggregate amortization expense for intangible assets totaled \$4 million and \$2 million for the nine months ended September 30, 2007 and 2006, respectively. At September 30, 2007, the weighted average remaining useful lives of capitalized software and land easements were six years and 54 years, respectively. The estimated aggregate amortization expense for each of the five succeeding fiscal years from December 31, 2006 is as follows:

<u>Year</u>	<u>Amortization Expense</u>
2007 .....	\$ 6
2008 .....	7
2009 .....	3
2010 .....	2
2011 .....	1

Goodwill (net of accumulated amortization) as of September 30, 2007 and December 31, 2006 totaled \$517 million.

***Supplemental Cash Flow Information—***

	<u>Nine Months Ended September 30,</u>	
	<u>2007</u>	<u>2006</u>
Cash payments (receipts) related to continuing operations:		
Interest (net of amounts capitalized) .....	\$ 305	\$ 267
Income taxes .....	\$ 910	\$ (157)
Noncash investing and financing activities:		
Noncash construction expenditures(a).....	\$ 40	\$ 32
Promissory note issued in conjunction with acquisition of mining-related assets.....	\$ 65	\$ —
Capital lease related to railcars.....	\$ 52	\$ —
Net transfer of property from Luminant Construction.....	\$ 7	\$ —
Noncash contribution of pension-related assets .....	\$ —	\$ (8)

(a) Represents end of period accruals.

**14. SUBSEQUENT EVENTS**

***Overview***

On October 10, 2007, EFH Corp. completed its Merger with Merger Sub. As a result of the Merger, EFH Corp. became a subsidiary of Texas Holdings, which is controlled by the Sponsor Group, and substantially all of the outstanding shares of common stock of EFH Corp. (formerly TXU Corp.) were converted into the right to receive \$69.25 per share.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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The aggregate purchase price paid for all of the equity securities of TXU Corp. (on a fully-diluted basis) was approximately \$32.4 billion, which was funded by equity financing from the Sponsor Group and certain other investors and by the debt financings described below. These debt financings also funded the repayment of existing credit facilities and the debt that was redeemed or repurchased as discussed below. The purchase price is exclusive of costs directly associated with the Merger, including legal, consulting and other professional service fees and certain effects of the proposed regulatory settlement discussed below.

The Merger is being accounted for under the purchase method of accounting whereby the total cost of the transaction is being allocated to EFH Corp.'s identifiable tangible and intangible assets acquired and liabilities assumed based on their fair values, and the excess of the purchase price over the fair value of net assets acquired is recorded as goodwill. The allocation of the purchase price to the net assets of EFH Corp. and the resulting goodwill determination are not yet final. The allocation is expected to result in a significant amount of goodwill, an increase in the carrying value of property, plant and equipment deferred income tax liabilities as well as new identifiable intangible assets and liabilities. Reported earnings in the future will reflect increases in interest, depreciation and amortization expenses.

***TCEH Senior Secured Facilities***

**Overview**—In connection with the Merger, TCEH has entered into a credit agreement that provides senior secured financing of \$24.5 billion plus the amount of the TCEH Commodity Collateral Posting Facility (as defined below) (the TCEH Senior Secured Facilities), consisting of:

- a senior secured initial term loan facility in an aggregate principal amount of \$16.45 billion (the TCEH Initial Term Loan Facility);
- a senior secured delayed draw term loan facility in an aggregate principal amount of \$4.1 billion, of which \$2.15 billion was drawn at the closing of the Merger (the TCEH Delayed Draw Term Loan Facility);
- a senior secured letter of credit facility in an aggregate principal amount of \$1.25 billion (the TCEH Letter of Credit Facility);
- a senior secured revolving credit facility in an aggregate principal amount of \$2.7 billion, which includes capacity available for letters of credit and for borrowings on same-day notice (the TCEH Revolving Facility); and
- a senior secured cash posting credit facility that is expected to fund the cash posting requirements for a significant portion of TCEH's long-term hedging program that is not otherwise secured by means of a first lien under the security arrangements described below (the TCEH Commodity Collateral Posting Facility). The amount drawn on the TCEH Commodity Collateral Posting Facility on October 10, 2007 was \$382 million.

**Interest Rates and Fees**—Loans under the TCEH Senior Secured Facilities (other than the TCEH Commodity Collateral Posting Facility) bear interest at per annum rates equal to, at TCEH's option, (i) adjusted LIBOR plus 3.50% or (ii) a base rate (the higher of (1) the prime rate of Citibank, N.A. and (2) the federal funds effective rate plus 0.50%) plus 2.50%. There is a margin adjustment mechanism in relation to term loans, revolving loans and letter of credit fees commencing after delivery of the financial statements for the first quarter ending March 31, 2008, under which the applicable margins may be reduced based on the achievement of certain leverage ratio levels.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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A commitment fee is payable quarterly in arrears and upon termination of the TCEH Revolving Facility at a rate per annum equal to 0.50% of the average daily unused portion of such facility. The commitment fee will be subject to reduction, commencing after delivery of the financial statements for the first full fiscal quarter ending March 31, 2008, based on the achievement of certain leverage ratio levels.

With respect to the TCEH Delayed Draw Term Loan Facility, a commitment fee is payable quarterly in arrears and upon termination on the undrawn portion of the commitments of such facility at a rate per annum equal to, prior to the first anniversary of October 10, 2007, 1.25% per annum, and thereafter, 1.50% per annum.

Letter of credit fees under the TCEH Revolving Facility are payable quarterly in arrears and upon termination at a rate per annum equal to the spread over adjusted LIBOR under the TCEH Revolving Facility, less the issuing bank's fronting fee.

TCEH will pay a fixed quarterly maintenance fee through maturity for having procured the TCEH Commodity Collateral Posting Facility regardless of actual borrowings under the facility. In addition, TCEH will pay interest at LIBOR on actual borrowed amounts under the TCEH Commodity Collateral Posting Facility which will be offset by interest earned on collateral deposits to counterparties, thereby making this facility largely a fixed cost facility regardless of utilization.

**Interest Rate Swaps**—In late October 2007, TCEH entered into interest rate swap transactions pursuant to which payment of the floating interest rates on an aggregate of \$9.0 billion of senior secured term loans of TCEH was exchanged for interest payments at a fixed rate of 8.309% for \$7.5 billion through October 2014 and 8.169% for \$1.5 billion through October 2012.

**Guarantees and Security**—*Guarantees.* The TCEH Senior Secured Facilities are unconditionally guaranteed jointly and severally on a senior secured basis by EFC Holdings, and each existing and subsequently acquired or organized direct or indirect wholly-owned U.S. restricted subsidiary of TCEH (other than certain subsidiaries as provided in the TCEH Senior Secured Facilities), subject to certain other exceptions.

*Security.* The TCEH Senior Secured Facilities, including the guarantees thereof, certain commodity hedging transactions (including those that were formerly secured by a first-lien on the Big Brown plant) and the interest rate swaps described above are secured by (a) substantially all of the current and future assets of TCEH and TCEH's subsidiaries who are guarantors of such facilities as described above, and (b) pledges of the capital stock of TCEH and each current and future material wholly-owned restricted subsidiary of TCEH directly owned by TCEH or any guarantor.

**Covenants**—The TCEH Senior Secured Facilities contain customary negative covenants, restricting, subject to certain exceptions, TCEH and TCEH's restricted subsidiaries from, among other things:

- incurring additional debt;
- incurring additional liens;

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
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- entering into mergers and consolidations;
- selling or otherwise disposing of assets;
- making dividends, redemptions or other distributions in respect of capital stock;
- making acquisitions, investments, loans and advances; and
- paying or modifying certain subordinated and other material debt.

In addition, the TCEH Senior Secured Facilities contain a maintenance covenant that requires TCEH and its restricted subsidiaries to maintain a maximum consolidated secured leverage ratio and to observe certain customary reporting requirements and other affirmative covenants.

**Maturity and Amortization**—The TCEH Initial Term Loan Facility is required to be repaid in equal quarterly installments beginning on December 31, 2007 in an aggregate annual amount equal to 1% of the original principal amount of such facility, with the balance payable on October 10, 2014. The TCEH Delayed Draw Term Loan Facility is required to be repaid in equal quarterly installments beginning on the last day of the first fiscal quarter to occur after October 10, 2009 in an aggregate annual amount equal to 1% of the actual principal outstanding under the TCEH Delayed Draw Term Loan Facility as of such date, with the balance payable on October 10, 2014. Amounts borrowed under the TCEH Revolving Facility may be reborrowed from time to time from and after the closing date until October 10, 2013. The TCEH Letter of Credit Facility will mature on October 10, 2014. The TCEH Commodity Collateral Posting Facility will mature on December 31, 2012.

**Events of Default**—The TCEH Senior Secured Facilities contain certain customary events of default for senior leveraged acquisition financings, the occurrence of which would allow the lenders to accelerate all outstanding loans and terminate their commitments.

**Senior Unsecured Interim Facilities—TCEH**

**Overview**—On October 10, 2007, TCEH and TCEH Finance entered into senior unsecured credit facilities (the TCEH Unsecured Interim Facilities). TCEH and TCEH Finance are collectively referred to in this section as the Co-Borrowers.

The TCEH Senior Unsecured Interim Facilities provide senior unsecured financing of \$6.75 billion, consisting of a:

- \$5.0 billion senior unsecured cash-pay term loan facility with a term of eight years (the TCEH Initial Cash-Pay Loans); and
- \$1.75 billion senior unsecured toggle term loan facility with a term of nine years (the TCEH Initial Toggle Loans).

The TCEH Initial Cash-Pay Loans and the TCEH Initial Toggle Loans are collectively referred to below as the TCEH Initial Loans.

As of October 31, 2007, \$2.0 billion of TCEH Initial Cash-Pay Loans were outstanding, as \$3.0 billion of these loans were repaid using proceeds from the issuance of \$3.0 billion principal amount of TCEH Senior Notes, as described below.

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If any borrowings under the TCEH Unsecured Interim Facilities remain outstanding on October 10, 2008, the lenders will have the option to exchange such TCEH Initial Loans for senior cash-pay notes (the TCEH Senior Cash-Pay Exchange Notes) or senior toggle notes (the TCEH Senior Toggle Exchange Notes), respectively, which the Co-Borrowers will issue under a senior indenture. The TCEH Senior Cash-Pay Exchange Notes and the TCEH Senior Toggle Exchange Notes are collectively referred to below as the TCEH Senior Exchange Notes. The maturity date of any TCEH Initial Loans that are not exchanged for TCEH Senior Exchange Notes will automatically be extended to October 10, 2015, in the case of the TCEH Initial Cash-Pay Loans and October 10, 2016 in the case of the TCEH Initial Toggle Loans. The TCEH Senior Cash-Pay Exchange Notes will mature on October 10, 2015, and the TCEH Senior Toggle Exchange Notes will mature on October 10, 2016. Holders of the TCEH Senior Exchange Notes will have registration rights.

**Interest Rate**—Subject to specified caps, borrowings under the TCEH Unsecured Interim Facilities for the first six-month period from the closing of the TCEH Unsecured Interim Facilities will bear interest at a rate equal to LIBOR plus (i) 325 basis points, in the case of the TCEH Initial Cash-Pay Loans and (ii) 350 basis points, in the case of the TCEH Initial Toggle Loans (in each case, the TCEH Initial Margin). Interest for the three-month period commencing at the end of the initial six-month period, subject to specified caps, shall be payable at prevailing LIBOR for the interest period plus the TCEH Initial Margin plus 50 basis points. Thereafter, subject to specified caps, interest will be increased by an additional 25 basis points at the beginning of each three-month period subsequent to the initial nine-month period, for so long as the TCEH Initial Loans are outstanding. If issued to the lenders upon an exchange, the interest rate on the TCEH Senior Exchange Notes will be the same as the interest rate borne by the TCEH Initial Loans; provided, that if any TCEH Senior Exchange Notes are transferred by the lender to a third-party purchaser, the interest rate on those notes will be fixed at the interest rate in effect on the transfer date.

**Prepayments and Redemptions**—The Co-Borrowers will be required to make an offer to repay loans under the TCEH Unsecured Interim Facilities and, following October 10, 2008, repurchase TCEH Senior Exchange Notes with net proceeds from specified asset sales. In addition, after any payments required to be made to repay the TCEH Unsecured Interim Facilities, the Co-Borrowers will be required to offer to repay loans and, if issued, to repurchase the TCEH Senior Exchange Notes upon the occurrence of a change of control. Prior to October 10, 2008, the Co-Borrowers will also be required to prepay outstanding TCEH Initial Loans with the net proceeds of any refinancing debt.

The Co-Borrowers may voluntarily repay outstanding TCEH Initial Loans, in whole or in part, at their option at any time upon three business days' prior notice, at par plus accrued and unpaid interest and subject to, in the case of TCEH Initial Loans based on LIBOR, certain customary "breakage" costs with respect to such LIBOR loans. The Co-Borrowers may optionally redeem the TCEH Senior Exchange Notes other than fixed-rate exchange notes, if issued, in whole or in part, at any time at par plus accrued and unpaid interest to the redemption date, provided that it also optionally prepays any outstanding TCEH Initial Loans on a pro rata basis.

If any TCEH Senior Exchange Note is sold by a lender to a third-party purchaser, and the interest rate on such TCEH Senior Exchange Note becomes fixed, such TCEH Senior Exchange Note will be non-callable until October 10, 2011, in the case of the TCEH Senior Cash-Pay Exchange Notes, and until October 10, 2012, in the case of the TCEH Senior Toggle Exchange Notes, subject to equity clawback and make-whole provisions, and will be callable thereafter at a specified premium. The premium will decline ratably on each yearly anniversary of the date of such sale to zero two years prior to the final maturity date, in the case of the TCEH Senior Cash-Pay Exchange Notes, and one year, in the case of the TCEH Senior Toggle Exchange Notes.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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**Guarantee**—All obligations under the TCEH Unsecured Interim Facilities and, if the TCEH Senior Exchange Notes are issued, the senior indenture, are jointly and severally guaranteed on a senior unsecured basis by EFC Holdings and each of TCEH's subsidiaries that guarantees obligations under the TCEH Senior Secured Facilities.

**Certain Covenants and Events of Default**—The TCEH Unsecured Interim Facilities contain, and the senior indenture under which the TCEH Senior Exchange Notes, if any, will be issued (the Senior Exchange Indenture) will contain, a number of covenants that, among other things, restrict, subject to certain exceptions, the Co-Borrowers' ability to:

- incur additional indebtedness;
- create liens;
- engage in mergers or consolidations;
- sell or transfer assets and subsidiary stock;
- pay dividends and distributions or repurchase their capital stock;
- make certain investments, loans or advances;
- prepay certain indebtedness;
- enter into agreements that restrict the payment of dividends by subsidiaries or the repayment of intercompany loans and advances; and
- engage in certain transactions with affiliates.

In addition, the TCEH Unsecured Interim Facilities impose, and the Senior Exchange Indenture will impose, certain requirements as to future subsidiary guarantors. The TCEH Unsecured Interim Facilities also contain, and the Senior Exchange Indenture will also contain, certain customary affirmative covenants consistent with those in the TCEH Senior Secured Facilities, to the extent applicable, and certain customary events of default.

**Issuance of TCEH Notes**

On October 31, 2007, TCEH and TCEH Finance entered into an indenture (the TCEH Indenture). TCEH and TCEH Finance are collectively referred to in this section as the Co-Issuers. Pursuant to the TCEH Indenture, the Co-Issuers issued and sold \$3.0 billion aggregate principal amount of 10.25% Senior Notes due 2015. The TCEH Notes will mature on November 1, 2015. Interest on the TCEH Notes is payable in cash semiannually in arrears on May 1 and November 1 of each year at a fixed rate of 10.25% per annum, and the first interest payment will be made on May 1, 2008.

The TCEH Notes are guaranteed by TCEH's direct parent, EFC Holdings, and by each subsidiary that guarantees the TCEH Senior Secured Facilities (the TCEH Guarantors). The TCEH Notes are the Co-Issuers' senior unsecured debt and rank senior in right of payment to any future subordinated indebtedness of the Co-Issuers, equally in right of payment with all of the Co-Issuers' existing and future senior unsecured indebtedness, including any indebtedness under the TCEH Unsecured Interim Facilities, and structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of the Co-Issuers' non-guarantor subsidiaries, including trade payables (other than indebtedness and liabilities owed to the Co-Issuers or the TCEH Guarantors). The TCEH Notes rank effectively junior in right of payment to all existing and future senior secured indebtedness of the Co-Issuers, including the TCEH Senior Secured Facilities to the extent of the value of the collateral securing such indebtedness.

The guarantees of the TCEH Notes are the TCEH Guarantors' senior unsecured obligations and rank equal in right of payment with all existing and future senior unsecured indebtedness of the relevant TCEH Guarantor. The guarantees rank effectively junior to all secured indebtedness of the TCEH Guarantors to the extent of the assets securing that indebtedness. EFC Holdings' guarantee of the TCEH Notes ranks equally with its guarantee of the EFH Corp. Notes discussed below. The guarantees of the TCEH Notes are structurally junior to all indebtedness and other liabilities of the Co-Issuers' subsidiaries that do not guarantee the notes.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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The TCEH Indenture contains a number of covenants that, among other things, restrict, subject to certain exceptions, the Co-Issuers' and their restricted subsidiaries' ability to:

- make restricted payments;
- incur debt and issue preferred stock;
- create liens;
- engage in mergers or consolidations;
- permit dividend and other payment restrictions on restricted subsidiaries; and
- engage in certain transactions with affiliates.

The TCEH Indenture also contains customary events of default, including failure to pay principal or interest on the TCEH Notes or the guarantees when due, among others. If an event of default occurs under the TCEH Indenture, the trustee or the holders of at least 30% in principal amount of the Required Debt (as such term is defined in the TCEH Indenture) may declare the principal amount on the TCEH Notes to be due and payable immediately.

The Co-Issuers may redeem the TCEH Notes, in whole or in part, at any time on or after November 1, 2011, at specified redemption prices, plus accrued and unpaid interest, if any. In addition, before November 1, 2010, the Co-Issuers may redeem up to 35% of the aggregate principal amount of TCEH Notes from time to time at a redemption price of 110.250% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, with the net cash proceeds of certain equity offerings. Upon the occurrence of a change in control, the Co-Issuers must offer to repurchase the TCEH Notes at 101% of their principal amount, plus accrued and unpaid interest, if any. The Co-Issuers may also redeem the TCEH Notes at any time prior to November 1, 2011 at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a "make-whole" premium.

The TCEH Notes were issued in a private placement and have not been registered under the Securities Act of 1933, as amended (the Securities Act).

The Co-Issuers have agreed to use their commercially reasonable efforts to register with the SEC notes having substantially identical terms as the TCEH Notes as part of an offer to exchange freely tradable exchange notes for the TCEH Notes. The Co-Issuers have agreed to use commercially reasonable efforts to cause the exchange offer to be completed or, if required, to have one or more shelf registration statements declared effective, within 360 days after the issue date of the TCEH Notes. If this obligation is not satisfied (a TCEH Registration Default), the annual interest rate on the TCEH Notes will increase by 0.25% per annum for the first 90-day period during which a Registration Default continues, and thereafter the annual interest rate on the TCEH Notes will increase by 0.50% per annum over the original interest rate for the remaining period during which the TCEH Registration Default continues. If the TCEH Registration Default is corrected, the applicable interest rate on such TCEH Notes will revert to the original level.

***Issuance of EFH Corp. Notes***

On October 31, 2007, EFH Corp. issued and sold \$2.0 billion 10.875% Senior Notes due 2017 and \$2.5 billion 11.25%/12.00% Senior Toggle Notes due 2017 to fully refinance its \$4.5 billion Senior Unsecured Interim Facility that it executed in connection with the Merger. These EFH Corp. Notes are fully and unconditionally guaranteed by EFC Holdings. The guaranty of the EFH Corp. Notes is an unsecured senior obligation of EFC Holdings and ranks equal in right of payment with all existing and future senior unsecured indebtedness of EFC Holdings and senior in right of payment to any future subordinated indebtedness of EFC Holdings. The guaranty of the EFH Corp. Notes will be structurally junior to all indebtedness and other liabilities of EFC Holdings' subsidiaries that are not guarantors.

***Intercreditor Agreement***

On October 10, 2007, in connection with the Merger, TCEH entered into an Intercreditor Agreement (the Intercreditor Agreement) with Citibank, N.A. and four secured commodity hedge counterparties (the Secured Commodity Hedge Counterparties).

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
**(Unaudited)**

The Intercreditor Agreement provides that the lien granted to the Secured Commodity Hedge Counterparties will rank pari passu with the lien granted to the secured parties under the TCEH Senior Secured Facilities on the collateral under the TCEH Senior Secured Facilities. The Intercreditor Agreement also provides that the Secured Commodity Hedge Counterparties will be entitled to share, on a pro rata basis, in the proceeds of any liquidation of such collateral in connection with a foreclosure on such collateral in an amount provided in the TCEH Credit Agreement. The Intercreditor Agreement also provides that the Secured Commodity Hedge Counterparties will have voting rights with respect to any amendment or waiver of any provision of the Intercreditor Agreement that changes the priority of the Secured Commodity Hedge Counterparties' lien on such collateral relative to the priority of lien granted to the secured parties under the TCEH Senior Secured Facilities or the priority of payments to the Secured Commodity Hedge Counterparties upon a foreclosure and liquidation of such collateral relative to the priority of the lien granted to the secured parties under the TCEH Senior Secured Facilities.

***Amendment to Accounts Receivable Securitization Program***

Also in connection with the Merger, the accounts receivable securitization program was amended (see Note 5). The amendments were primarily intended to allow for the closing of the Merger and the related financings without causing a termination event or a default under the receivables program. In addition, certain financial tests relating to TCEH and the originators that could have affected the amount of available funding under the program or caused a termination event or a default, including TCEH's debt to capital (leverage) and fixed charge coverage ratios, were deleted and replaced with other tests. As amended, among other things, the amount of customer deposits held by the originators can reduce funding available under the program so long as TCEH's long term senior unsecured debt rating is lower than investment grade. Also, the originators will continue to be eligible to participate in the program so long as TCEH provides the required form of parent guaranty.

***Contribution of Certain Assets and Liabilities of Luminant Construction***

In connection with the Merger, assets and liabilities of Luminant Construction related primarily to generation facility construction work-in-process and certain hedging transactions were contributed by EFH Corp. to a subsidiary of TCEH. Such contribution will be accounted for in a manner similar to a pooling of interests.

***Repayment of Existing Credit Facilities and Other Indebtedness***

On October 10, 2007, in connection with the Merger, TCEH and Oncor repaid in full all outstanding borrowings totaling \$2.4 billion, TCEH's portion of which totaled \$2.0 billion, together with interest and all other amounts due in connection with such repayment under the \$6.5 billion of existing credit facilities. TCEH also repaid floating rate senior notes with an aggregate principal amount of \$1.0 billion. (See Notes 6 and 7).

***Tender Offers and Consent Solicitations***

On September 25, 2007, EFH Corp. commenced offers to purchase and consent solicitations with respect to \$250 million in aggregate principal amount of TCEH's outstanding 6.125% Senior Notes due 2008 and \$1.0 billion in aggregate principal amount of TCEH's outstanding 7.000% Senior Notes due 2013. On October 11, 2007, EFH Corp. purchased an aggregate of \$247 million and \$995 million of these notes, respectively. On October 24, 2007, EFH Corp. purchased an additional aggregate principal amount of \$25,000 and \$436,000 of these notes, respectively.

***Settlement of Advances to Parent***

In connection with the Merger, EFC Holdings' advances to parent and note receivable from parent were settled in the form of a dividend to EFH Corp.

***Management Agreement***

On October 10, 2007, in connection with the Merger, the Sponsor Group and Lehman Brothers Inc. entered into a management agreement with EFH Corp. (the Management Agreement), pursuant to which affiliates of the Sponsor Group will provide management, consulting, financial and other advisory services to EFH Corp. Pursuant to the Management Agreement, affiliates of the Sponsor Group are entitled to receive an aggregate

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements—(Continued)**  
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annual management fee of \$35 million, which amount will increase 2% annually, and reimbursement of out-of-pocket expenses incurred in connection with the provision of services pursuant to the Management Agreement. The Management Agreement will continue in effect from year to year, unless terminated upon a change of control of EFH Corp. or in connection with an initial public offering of EFH Corp. or if the parties mutually agree to terminate the Management Agreement. Pursuant to the Management Agreement, affiliates of the Sponsor Group and Lehman Brothers Inc. were paid transaction fees of \$300 million in connection with certain services provided in connection with the Merger and related transactions. In addition, the Management Agreement provides that the Sponsor Group will be entitled to receive a fee equal to a percentage of the gross transaction value in connection with certain subsequent financing, acquisition, disposition, merger combination and change of control transactions, as well as a termination fee based on the net present value of future payment obligations under the Management Agreement in the event of an initial public offering or under certain other circumstances.

**15. SUPPLEMENTAL GUARANTOR CONDENSED FINANCIAL INFORMATION**

On October 31, 2007 TCEH and TCEH Finance, as Co-Issuers, refinanced a portion of their \$6.75 billion Senior Unsecured Interim Facility obtained to finance the Merger with \$3.0 billion 10.25% Senior Notes Due 2015 (the TCEH Notes). The TCEH Notes are unconditionally guaranteed by EFC Holdings and by each subsidiary that guarantees the TCEH Senior Secured Facilities (collectively, the Guarantors). The guarantees issued by the Guarantors are full and unconditional, joint and several guarantees of the TCEH Notes. The guarantees rank equally with any senior unsecured indebtedness of the Guarantors and rank effectively junior to all of the secured indebtedness of the Guarantors to the extent of the assets securing that indebtedness. All other subsidiaries of EFC Holdings, either direct or indirect, do not guarantee the TCEH Notes (collectively the Non-Guarantors). The TCEH Indenture contains certain restrictions, subject to certain exceptions, on EFC Holdings' ability to pay dividends or make investments.

The following tables present the condensed consolidating statements of income of EFC Holdings (Parent), TCEH (Issuer), the Guarantors and the Non-Guarantors for the three-month and nine-month periods ended September 30, 2007 and 2006, the condensed consolidating statements of cash flows of the Parent, Issuer, the Guarantors and the Non-Guarantors for the nine-month periods ended September 30, 2007 and 2006 and the condensed consolidating balance sheets as of September 30, 2007 and December 31, 2006 of the Parent, Issuer, the Guarantors and the Non-Guarantors.

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**

**Condensed Consolidating Statements of Income  
Three Months Ended September 30, 2007**

	<u>Parent Guarantor</u>	<u>Issuer</u>	<u>Other Guarantors</u>	<u>Non- guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(millions of dollars)					
Operating revenues .....	\$ —	\$ 2,889	\$ 118	\$ —	\$ (115)	\$ 2,892
Costs and expenses:						
Fuel, purchased power costs and delivery fees.....	—	1,182	37	—	(35)	1,184
Operating costs.....	—	140	49	—	(51)	138
Depreciation and amortization ..	—	84	—	—	—	84
Selling, general and administrative expenses .....	—	150	30	—	(29)	151
Franchise and revenue-based taxes .....	—	25	—	—	—	25
Other income.....	—	(6)	(2)	(12)	1	(19)
Other deductions.....	—	(67)	34	—	(1)	(34)
Interest income .....	(76)	(97)	(1)	(6)	70	(110)
Interest expense and related charges .....	70	115	2	—	(70)	117
Total costs and expenses	<u>(6)</u>	<u>1,526</u>	<u>149</u>	<u>(18)</u>	<u>(115)</u>	<u>1,536</u>
Income (loss) before income taxes....	6	1,363	(31)	18	—	1,356
Income tax expense (benefit) .....	1	461	(11)	7	1	459
Equity earnings of subsidiaries.....	<u>892</u>	<u>—</u>	<u>3</u>	<u>10</u>	<u>(905)</u>	<u>—</u>
Net income (loss).....	<u>\$ 897</u>	<u>\$ 902</u>	<u>\$ (17)</u>	<u>\$ 21</u>	<u>\$ (906)</u>	<u>\$ 897</u>

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**

**Condensed Consolidating Statements of Income  
Three Months Ended September 30, 2006**

	<u>Parent Guarantor</u>	<u>Issuer</u>	<u>Other Guarantors</u>	<u>Non- guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(millions of dollars)					
Operating revenues .....	\$ —	\$ 3,091	\$ 13	\$ —	\$ (2)	\$ 3,102
Costs and expenses:						
Fuel, purchased power costs and delivery fees.....	—	1,342	6	—	1	1,349
Operating costs.....	—	142	1	—	(3)	140
Depreciation and amortization ..	—	82	—	—	—	82
Selling, general and administrative expenses .....	—	137	—	—	2	139
Franchise and revenue-based taxes .....	—	31	—	—	1	32
Other income.....	—	(9)	4	(11)	(2)	(18)
Other deductions.....	—	4	1	—	(1)	4
Interest income .....	(66)	(61)	—	(5)	58	(74)
Interest expense and related charges .....	44	108	2	—	(64)	90
Total costs and expenses	<u>(22)</u>	<u>1,776</u>	<u>14</u>	<u>(16)</u>	<u>(8)</u>	<u>1,744</u>
Income (loss) before income taxes....	22	1,315	(1)	16	6	1,358
Income tax expense (benefit) .....	11	431	—	8	—	450
Equity earnings of subsidiaries.....	<u>897</u>	<u>—</u>	<u>—</u>	<u>9</u>	<u>(906)</u>	<u>—</u>
Net income (loss).....	<u>\$ 908</u>	<u>\$ 884</u>	<u>\$ (1)</u>	<u>\$ 17</u>	<u>\$ (900)</u>	<u>\$ 908</u>

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**

**Condensed Consolidating Statements of Income  
Nine Months Ended September 30, 2007**

	<u>Parent Guarantor</u>	<u>Issuer</u>	<u>Other Guarantors</u>	<u>Non- guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(millions of dollars)					
Operating revenues .....	\$ —	\$ 6,300	\$ 389	\$ —	\$ (383)	\$ 6,306
Costs and expenses:						
Fuel, purchased power costs and delivery fees.....	—	3,082	113	—	(109)	3,086
Operating costs.....	—	459	172	—	(180)	451
Depreciation and amortization ..	—	244	1	—	—	245
Selling, general and administrative expenses .....	—	435	98	—	(96)	437
Franchise and revenue-based taxes .....	1	78	—	1	(1)	79
Other income.....	—	(15)	(3)	(35)	—	(53)
Other deductions.....	—	(53)	33	—	—	(20)
Interest income .....	(202)	(259)	(3)	(18)	182	(300)
Interest expense and related charges .....	184	305	7	—	(180)	316
Total costs and expenses	<u>(17)</u>	<u>4,276</u>	<u>418</u>	<u>(52)</u>	<u>(384)</u>	<u>4,241</u>
Income (loss) before income taxes....	17	2,024	(29)	52	1	2,065
Income tax expense (benefit) .....	5	642	(10)	20	—	657
Equity earnings of subsidiaries.....	<u>1,396</u>	<u>—</u>	<u>4</u>	<u>15</u>	<u>(1,415)</u>	<u>—</u>
Net income (loss).....	<u>\$ 1,408</u>	<u>\$ 1,382</u>	<u>\$ (15)</u>	<u>\$ 47</u>	<u>\$ (1,414)</u>	<u>\$ 1,408</u>

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**

**Condensed Consolidating Statements of Income  
Nine Months Ended September 30, 2006**

	<u>Parent Guarantor</u>	<u>Issuer</u>	<u>Other Guarantors</u>	<u>Non- guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(millions of dollars)					
Operating revenues .....	\$ —	\$ 7,569	\$ 18	\$ —	\$ (7)	\$ 7,580
Costs and expenses:						
Fuel, purchased power costs and delivery fees.....	—	3,075	6	—	1	3,082
Operating costs.....	—	447	1	—	(8)	440
Depreciation and amortization ..	—	251	1	—	—	252
Selling, general and administrative expenses .....	—	383	—	—	(1)	382
Franchise and revenue-based taxes .....	1	84	—	1	—	86
Other income.....	—	(11)	—	(35)	—	(46)
Other deductions.....	—	198	7	—	—	205
Interest income .....	(155)	(137)	—	(14)	133	(173)
Interest expense and related charges .....	90	310	6	—	(149)	257
Total costs and expenses	<u>(64)</u>	<u>4,600</u>	<u>21</u>	<u>(48)</u>	<u>(24)</u>	<u>4,485</u>
Income (loss) before income taxes....	64	2,969	(3)	48	17	3,095
Income tax expense (benefit) .....	24	1,022	(1)	27	—	1,072
Equity earnings of subsidiaries.....	<u>1,983</u>	<u>—</u>	<u>—</u>	<u>20</u>	<u>(2,003)</u>	<u>—</u>
Net income (loss).....	<u>\$ 2,023</u>	<u>\$ 1,947</u>	<u>\$ (2)</u>	<u>\$ 41</u>	<u>\$ (1,986)</u>	<u>\$ 2,023</u>

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**

**Condensed Consolidating Statements of Cash Flows  
Nine Months Ended September 30, 2007**

	<u>Parent Guarantor</u>	<u>Issuer</u>	<u>Guarantors</u>	<u>Non- guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(millions of dollars)					
Cash flows—operating activities:						
Net income (loss) .....	\$ 1,408	\$ 1,382	\$ (15)	\$ 47	\$ (1,414)	\$ 1,408
Adjustments to reconcile net income to cash provided by operating activities:						
Equity in earnings of subsidiaries	(1,396)	—	(4)	(15)	1,415	—
Depreciation and amortization.....	—	293	1	—	—	294
Deferred income tax expense (benefit)—net .....	2	37	(19)	13	—	33
Net gains from unrealized mark-to-market valuations.....	—	413	—	—	—	413
Other net.....	—	(22)	39	(35)	—	(18)
Changes in operating assets and liabilities .....	844	(1,420)	53	3	(852)	(1,372)
Cash provided by operating activities.....	<u>858</u>	<u>683</u>	<u>55</u>	<u>13</u>	<u>(851)</u>	<u>758</u>
Cash flows—financing activities:						
Issuances of long-term debt.....	—	1,000	—	—	—	1,000
Retirements/repurchase of long-term debt.....	(12)	(151)	(7)	—	—	(170)
Change in short term borrowings .....	—	1,007	—	—	—	1,007
Cash dividends paid.....	(851)	(851)	—	—	851	(851)
Change in advances—affiliates.....	—	—	(48)	—	48	—
Other, net .....	—	(32)	—	—	—	(32)
Cash provided by (used in) financing activities .....	<u>(863)</u>	<u>973</u>	<u>(55)</u>	<u>—</u>	<u>899</u>	<u>954</u>
Cash flows—investing activities:						
Capital expenditures and nuclear fuel....	—	(610)	(1)	—	—	(611)
Proceeds from sales of nuclear decommissioning trust fund securities.....	—	402	—	—	—	402
Investments in nuclear decommissioning trust fund securities.....	—	(413)	—	—	—	(413)
Change in advances to affiliates .....	5	(611)	—	(13)	(47)	(666)
Other, net .....	—	197	1	—	(1)	197
Cash provided by (used in) investing activities .....	<u>5</u>	<u>(1,035)</u>	<u>—</u>	<u>(13)</u>	<u>(48)</u>	<u>(1,091)</u>
Net change in cash and equivalents .....	—	621	—	—	—	621
Cash and cash equivalents—beginning balance .....	—	7	—	—	—	7
Cash and cash equivalents—ending balance...	<u>\$ —</u>	<u>\$ 628</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 628</u>

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**

**Condensed Consolidating Statements of Cash Flows  
Nine Months Ended September 30, 2006**

	<u>Parent Guarantor</u>	<u>Issuer</u>	<u>Guarantors</u>	<u>Non- guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(millions of dollars)					
Cash flows—operating activities:						
Net income (loss) .....	\$ 2,023	\$ 1,947	\$ (2)	\$ 41	\$ (1,986)	\$ 2,023
Adjustments to reconcile net income to cash provided by operating activities:						
Equity in earnings of subsidiaries..	(1,983)	—	—	(20)	2,003	—
Depreciation and amortization .....	—	302	1	—	—	303
Deferred income tax expense (benefit)—net .....	(3)	(21)	(1)	19	—	(6)
Impairments and other asset writedown charges .....	—	196	2	—	—	198
Net gains from unrealized mark-to-market valuations .....	—	(287)	—	—	—	(287)
Other net .....	—	70	6	(35)	(1)	40
Changes in operating assets and liabilities .....	910	1,723	(49)	13	(888)	1,709
Cash provided by (used in) operating activities .....	<u>947</u>	<u>3,930</u>	<u>(43)</u>	<u>18</u>	<u>(872)</u>	<u>3,980</u>
Cash flows—financing activities:						
Issuances of long-term debt .....	—	100	—	—	—	100
Retirements/repurchase of long-term debt .....	(2)	(605)	(7)	—	1	(613)
Change in short term borrowings .....	—	(91)	—	—	—	(91)
Cash dividends paid .....	(572)	(858)	—	—	858	(572)
Change in advances—affiliates .....	—	—	50	—	(80)	(30)
Other, net .....	—	(31)	—	—	30	(1)
Cash provided by (used in) financing activities .....	<u>(574)</u>	<u>(1,485)</u>	<u>43</u>	<u>—</u>	<u>809</u>	<u>(1,207)</u>
Cash flows—investing activities:						
Capital expenditures and nuclear fuel ....	—	(488)	—	—	—	(488)
Proceeds from sales of nuclear decommissioning trust fund securities .....	—	165	—	—	—	165
Investments in nuclear decommissioning trust fund securities .....	—	(177)	—	—	—	(177)
Change in advances to affiliates .....	(304)	(1,864)	—	(18)	65	(2,121)
Other, net .....	(69)	(86)	—	—	(2)	(157)
Cash provided by (used in) investing activities .....	<u>(373)</u>	<u>(2,450)</u>	<u>—</u>	<u>(18)</u>	<u>63</u>	<u>(2,778)</u>
Net change in cash and equivalents .....	—	(5)	—	—	—	(5)
Cash and cash equivalents—beginning balance .....	—	12	—	—	—	12
Cash and cash equivalents—ending balance ...	<u>\$ —</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7</u>

**ENERGY FUTURE COMPETITIVE HOLDINGS COMPANY AND SUBSIDIARIES**

**Condensed Consolidating Balance Sheets  
at September 30, 2007**

	<u>Parent Guarantor</u>	<u>Issuer</u>	<u>Other Guarantors</u>	<u>Non- guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(millions of dollars)					
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents .....	\$ —	\$ 628	\$ —	\$ —	\$ —	\$ 628
Advances to parent.....	579	3,729	—	375	(3)	4,680
Trade accounts receivable—net .....	—	804	2	—	—	806
Income taxes receivable.....	—	—	14	3	(17)	—
Accounts receivable from affiliates.....	142	—	46	—	(103)	85
Notes receivable from affiliates.....	—	1,500	—	—	—	1,500
Inventories .....	—	328	—	—	—	328
Commodity and other derivative contractual assets.....	—	398	—	—	—	398
Accumulated deferred income taxes.....	—	175	2	1	(1)	177
Margin deposits related to commodity positions.....	—	211	—	—	—	211
Other current assets .....	1	57	—	2	2	62
<b>Total current assets .....</b>	<b>722</b>	<b>7,830</b>	<b>64</b>	<b>381</b>	<b>(122)</b>	<b>8,875</b>
Restricted cash.....	—	49	—	—	—	49
Investments .....	7,176	532	81	169	(7,372)	586
Property, plant and equipment—net .....	—	10,343	35	—	—	10,378
Notes receivable from affiliates.....	—	—	7	—	(7)	—
Goodwill .....	—	517	—	—	—	517
Commodity and other derivative contractual assets...	—	79	—	—	—	79
Accumulated deferred income taxes .....	388	—	69	113	(570)	—
Other noncurrent assets.....	18	158	5	—	92	273
<b>Total assets.....</b>	<b>\$ 8,304</b>	<b>\$ 19,508</b>	<b>\$ 261</b>	<b>\$ 663</b>	<b>\$ (7,979)</b>	<b>\$ 20,757</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Current liabilities:						
Short-term borrowings.....	—	1,825	—	—	—	1,825
Advances from affiliates .....	—	—	3	—	(3)	—
Long-term debt due currently .....	7	1,263	11	—	—	1,281
Trade accounts payable—nonaffiliates.....	—	670	—	—	—	670
Accounts payable to affiliates.....	—	100	—	2	(102)	—
Notes payable to affiliates .....	—	34	—	—	—	34
Commodity and other derivative contractual liabilities.....	—	162	—	—	—	162
Margin deposits related to commodity positions.....	—	116	—	—	—	116
Accrued taxes.....	26	149	—	—	(17)	158
Other current liabilities.....	4	233	41	47	—	325
<b>Total current liabilities .....</b>	<b>37</b>	<b>4,552</b>	<b>55</b>	<b>49</b>	<b>(122)</b>	<b>4,571</b>
Accumulated deferred income taxes .....	—	2,886	—	—	(571)	2,315
Investment tax credits .....	—	300	—	—	—	300
Commodity and other derivative contractual liabilities .....	—	438	—	—	—	438
Notes or other liabilities due affiliates .....	—	305	—	—	(7)	298
Long-term debt, less amounts due currently .....	122	2,749	71	—	(1)	2,941
Other noncurrent liabilities and deferred credits.....	—	1,400	42	211	96	1,749
<b>Total liabilities .....</b>	<b>159</b>	<b>12,630</b>	<b>168</b>	<b>260</b>	<b>(605)</b>	<b>12,612</b>
Shareholders' equity.....	8,145	6,878	93	403	(7,374)	8,145
<b>Total liabilities and shareholders' equity.....</b>	<b>\$ 8,304</b>	<b>\$ 19,508</b>	<b>\$ 261</b>	<b>\$ 663</b>	<b>\$ (7,979)</b>	<b>\$ 20,757</b>