

Achieving Industry Leadership:

TXU's Growth Strategy



TXU's Texas market is an important enabler of our growth strategy, with an economy predicted to grow at 4 percent annually over the next five years.

TXU's successful turnaround has made us strong and positioned us to grow. We have established ourselves as one of the leading U.S. power companies with the financial strength and focus to deliver superior returns for our shareholders.

CORE PRINCIPLES

Our fundamental strategy is built on three core principles of what it takes to win in the energy industry:

- Success is based on access to structurally advantaged assets. Energy markets will continue to go through cycles, and only businesses that have an advantaged cost position that cannot be easily replicated will win. Our businesses have the inherent strengths – robust markets, low costs, and superior execution – to ride through commodity cycles.
- An industrial skill set is crucial for high performance and sustained favorable returns in asset-intensive businesses. During the turnaround, we have focused on developing the skills to perfect operational excellence, market leadership, a risk/return mindset, and rigorous performance

management. We believe the difference between average and superior operations is a 200-basis-point increase in return on invested capital throughout the cycle. This operating edge also provides TXU a platform for growth through acquisition and improvement of third-party assets.

- Long-term winners must leverage not only scale but quality scale. Scale is necessary to standardize operations, gain critical mass, increase supplier efficiencies, and lower materials costs. Quality scale, which derives from acquiring and developing knowledge, competitive strengths, and scale in defined regions, produces deep, distinctive insights into market dynamics and regulatory frameworks. It enables better execution in today's volatile commodity environment. Regional scale can also create access to advantaged development opportunities. TXU's Oak Grove coal plant project is a good example.

VALUE CREATION

TXU has a portfolio of initiatives based on these three core principles and a strategy aimed at creating value through:



Our investment in the power grid is designed to drive down congestion costs, enhance network integrity, and redefine reliability and customer service standards by the end of the decade in the high-demand North Texas territory we serve.

- Continuous improvement to the core businesses.
- Organic growth through new coal plant opportunities.
- Leveraging transactions to gain quality scale outside Texas and drive improvements through third-party assets.

Maximizing value for TXU's owners through sustained top-quartile returns is our goal. The table on pages 8 and 9 presents our growth strategy and progress so far.

TXU's Industrial Mindset Can Mean
The Difference Between Average And
Superior Performance

Operational Excellence	Market Leadership	Risk/Return Mindset
<ul style="list-style-type: none"> • Top-decile throughput • World-class industrial production costs • Industry-leading reliability • Lean corporate SG&A 	<ul style="list-style-type: none"> • Superior customer service/brand management • Customer segmentation and pricing • Distinctive commodity sourcing 	<ul style="list-style-type: none"> • Strict capital allocation discipline • Risk/return restructuring • Commodity risk management
Performance Management		
<ul style="list-style-type: none"> • High-performance culture • Balanced cascading scorecards 	<ul style="list-style-type: none"> • Employee development • Incentives linked to key value drivers 	



A NEW MINDSET

A powerful new tool we're using to drive superior performance across TXU is the TXU Operating System. Employee teams are applying it to take a systematic approach to critical thinking, breaking down every work process, eliminating waste, and then putting the task back together in the most logical, efficient sequence. At the Monticello power plant, for example, employees used it to reorganize the facility's tools and maintenance equipment, curing a bottleneck and shortening work time. It has already improved the net present value of the coal plants we're building by over \$100 million. The TXU Operating System is part of our high-performance industrial mindset.

Achieving Industry Leadership: TXU's Growth Strategy At A Glance

Statistics are for the 2004-2005 turnaround period versus 2003.

STRUCTURAL ADVANTAGES

STRATEGY: Improvements to the core businesses

TXU POWER COMPETITIVE GENERATION



- ▶ 2nd-largest U.S. deregulated output
- ▶ Access to low-cost lignite reserves
- ▶ 63,000 gigawatt-hours of baseload production in a gas-on-the-margin market
- ▶ High-growth market

Continue to strengthen the existing fleet

- ▶ Leverage the TXU Operating System to drive increased value from the Texas baseload fleet
 - > Achieve top-decile production and costs in the coal fleet
 - > Replicate top fleet operation performance at Comanche Peak

TXU WHOLESALE/TXU ENERGY COMPETITIVE WHOLESALE/RETAIL



Wholesale

- ▶ Access to largest ERCOT generation fleet
- ▶ Access to largest ERCOT retail position
- ▶ Incumbent expertise in regulatory advocacy and market design

Retail

- ▶ Large-scale competitive retailer
- ▶ Loyal customer base
- ▶ Strong brand recognition
- ▶ Superior service

Return the North Texas consumer franchise to profitability

- ▶ Introduce innovative products and pricing plans that provide sustaining margins
- ▶ Continue to redefine customer service to distinguish TXU Energy from its competitors
- ▶ Continue to advocate a market-based structure that encourages competition

TXU ELECTRIC DELIVERY REGULATED TRANSMISSION & DISTRIBUTION



- ▶ 6th-largest U.S. transmission and distribution (T&D) company
- ▶ At or near top-quartile costs and reliability
- ▶ High-growth NERC region
- ▶ Efficient capital recovery for transmission and automated-meter-reading (AMR) investments
- ▶ No commodity exposure

Continue to redefine excellence in Texas

- ▶ Focus on asset management to optimize reliability and costs
- ▶ Take advantage of high-growth market and unique business model to invest capital to achieve top-decile reliability
- ▶ Integrate broadband over power lines (BPL) and AMR into grid to redefine service quality

**STRATEGY:
Organic growth**

Build on the ERCOT position

- Take advantage of existing development sites to add new capacity in Texas (Oak Grove and Sandow 5)
 - > Utilize existing assets and inexpensive, secure Texas fuel
 - > Leverage operations expertise to drive increased value through lower operating costs and higher production levels

Opportunistically build profitable businesses in other Texas customer segments

- Penetrate South Texas market
- Focus on profitable segments in small, medium, and large commercial businesses
- Continue to drive cost leadership to enhance competitiveness across all segments

Consolidate regional T&D to extract synergies

- Scale TXU's asset management capabilities over a larger grid
- Take a regional/national role in technology through leading technology consortium and 3rd-party infrastructure fund

**STRATEGY:
Transactions outside Texas**

Gain quality scale outside ERCOT and build market-leader position

- Leverage opportunistic transactions to take advantage of the TXU operating edge to improve 3rd-party baseload assets

Monitor potential opportunities to expand in other regions if and when they develop

Create a regional/national regulated T&D company that will efficiently manage new investments and redefine customer service levels through effective deployment of new technology

PROGRESS TO DATE

- Set 2005 production record through use of the TXU Operating System
- Generated normalized 4,300 gigawatt-hours of incremental baseload production, a 7% improvement
- Working to secure air permit and engineering contracts for Sandow 5 construction
- Progressing toward Oak Grove air permit and engineering contracts; expected mid-2006
- Identifying other TXU sites for new power plants

- Improved customer service
 - > Reduced call answer times 96%
 - > Reduced PUC complaints 57%
- Reduced costs to an estimated 25% better than competitors' costs
 - > Reduced bad debt 56%
- Launched new products
 - > TXU Energy Rewards+ (200,000 participants)
 - > Peace of Mind fixed-price plans
 - > TXU Energy Market Tracker+, which adjusts with gas prices
- Improved targeting and streamlined business pricing processes

- Established rate certainty through 2008 with a 2006 regulatory settlement
- Continued progress towards achieving top-decile reliability
 - > Completed comprehensive maintenance on 74 feeders
 - > Installed 70,000 AMRs
 - > Installed 53 automated distribution switches, increasing reliability 35% in areas where deployed
- Initiated 3-year reliability-centered capital expenditure plan, averaging over \$800 million per year; funded 75% through growth or tracker mechanisms
- Signed groundbreaking BPL contract, facilitating deployment of the nation's first "smart grid" of the future

Achieving Industry Leadership: *Powering Texas*



The 1,720-megawatt Oak Grove power plant will use the best available environmental control technology to provide needed power for Texas and solid returns for shareholders.

We are using the TXU Operating System, our version of lean manufacturing, to become the nation's top operator and developer of coal-fired generation plants. In two years of applying the TXU Operating System to our own coal plants, we have achieved record production, extracted almost \$200 million in annual performance improvements, and targeted \$100 million more in the next two years.

We are also leveraging high-performance techniques and structural advantages to pursue two new growth opportunities in the expanding Texas market, where yearly demand growth is roughly equivalent to the capacity of a new 1,500-megawatt power plant. The Oak Grove coal plant, a 1,720-megawatt facility in Robertson County, will use the site of a previous TXU generating project. Sandow 5, a 630-megawatt unit, will join our Sandow 4 facility in Central Texas to provide power to a nearby aluminum plant and to Texas businesses and residents.

SUPERIOR INVESTMENT THESIS

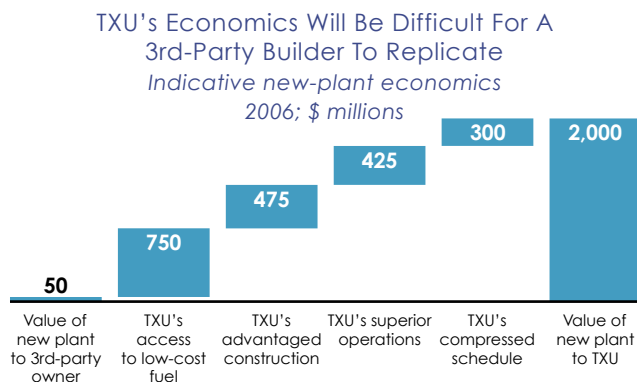
We are confident that the combination of access to low-cost, secure lignite and the ability to drive advantaged construction costs, superior operations,

and a compressed schedule creates a superior investment thesis, turning a sub-par return for a competitor into a superior return for TXU.

When Sandow 5 and Oak Grove are operational, – targeted for 2008 and 2009 – they will deliver reliable energy for Texas in an environmentally responsible way. The facilities will also help improve the fuel diversity of the state's electric generation.

TEXAS INVESTMENT

What's more, TXU is leading a massive investment in the Texas economy. In this decade, we expect to invest \$13.5 billion to deliver a more reliable electric grid, more efficient power resources, and innovative new products. This level represents a significant

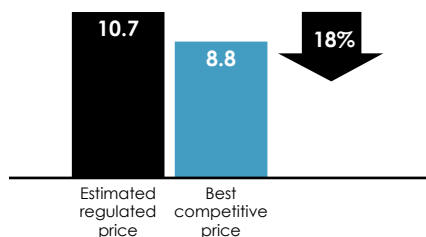




During construction, Oak Grove should bring thousands of jobs and an estimated \$1.9 billion in personal income and \$790 million in retail sales to the Brazos Valley. Once it's in operation, it could have an estimated annual economic impact of \$170 million in personal income and \$67 million in retail sales.

economic boost for the state. Our \$2.1 billion expected average annual capital investment over the next three years equals projections for the state's entire refinery industry investment and is twice the predicted investments of the micro-electronics and basic chemicals industries. Our total investment is expected to generate long-term benefits, including up to a \$20 billion increase in the gross state product and over 5,700 permanent jobs. TXU is continuing its tradition as one of the state's largest corporate investors as it enters a third century of investing in Texas.

Customers Have Already Begun To Reap The Benefits Of Competition
cents/kWh



Average of yearly prices for 2002-2005 for North Texas residential customers using 1,000 kWh per month.

Source: *Electricity Pricing in Competitive Markets in Texas*, Public Utility Commission of Texas, February 2006.



TEXAS RESTRUCTURING: A Success Story

The Texas electricity market, the world's 11th largest, is the only one with true wholesale and retail competition in the U.S. The market structure in the Electric Reliability Council of Texas, Texas's main power grid, was designed so that customers could capture the benefits of open markets and competition, while ensuring reliable electricity and customer protections. Restructuring has also spurred massive generation investment, more than \$15 billion, in efficient new capacity. Even with historically high natural gas prices in 2005, customers are benefiting from access to electricity prices that are lower than they would have been under regulation. Competition is robust, and customers are eagerly embracing choice as they participate in the Texas success story.