

Merrill Lynch Power & Gas Leaders Conference



TXU

C. John Wilder
Chairman and CEO
September 26, 2006

Safe Harbor Statement

This presentation contains forward-looking statements, which are subject to various risks and uncertainties. Discussion of risks and uncertainties that could cause actual results to differ materially from management's current projections, forecasts, estimates and expectations is contained in the company's SEC filings. In addition to the risks and uncertainties set forth in the company's SEC filings, the forward-looking statements in this presentation could be affected by actions of rating agencies, delays in implementing any future price-to-beat fuel factor adjustments, the ability of the company to attract and retain profitable customers, changes in demand for electricity, the impact of weather, changes in wholesale electricity prices or energy commodity prices, the company's ability to hedge against changes in commodity prices and market heat rates, the company's ability to fund certain investments described herein, delays in approval of, or failure to obtain, air and other environmental permits, changes in competitive market rules, changes in environmental laws or regulations, changes in electric generation and emissions control technologies, changes in projected demand for electricity in Texas, the ability of the company to attract and retain skilled labor for planning and building new generating units, changes in the cost and availability of materials necessary for the planned new generation units, the ability of the company to manage the significant construction program to a timely conclusion with limited cost overruns, the ability of the company to implement the initiatives that are part of its performance improvement program and growth strategy, and the terms under which the company executes those initiatives, and the decisions made and actions taken as a result of the company's financial and growth strategies.

Updates on the progress of the company's power generation development program are expected to be provided on a quarterly basis. Today's presentation does not include updates on the progress of the program.

Competition Across The Texas Electric Value Chain

Competition in wholesale markets

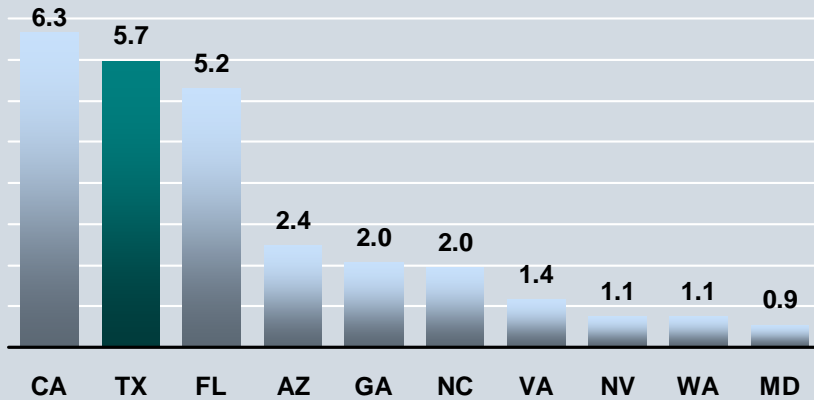
- **Successful generation construction requires high performance across the entire value chain**
- **TXU has developed a scaled program needed to execute in this complex environment**
- **It is unlikely that other developers will build in the near term**

Competition in retail markets

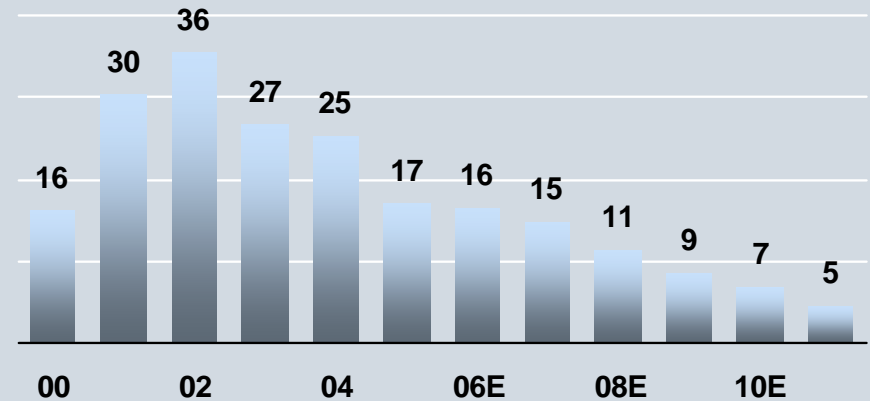
- **Deregulation has created intense competition and retail switching**
- **Expected margins continue to remain below those seen in other competitive markets**
- **TXU continues to focus on delivering value to its customers and profitably growing share**

ERCOT Requires New Baseload Generation To Meet The Needs Of A Rapidly Growing Economy And Aging Generation Fleet

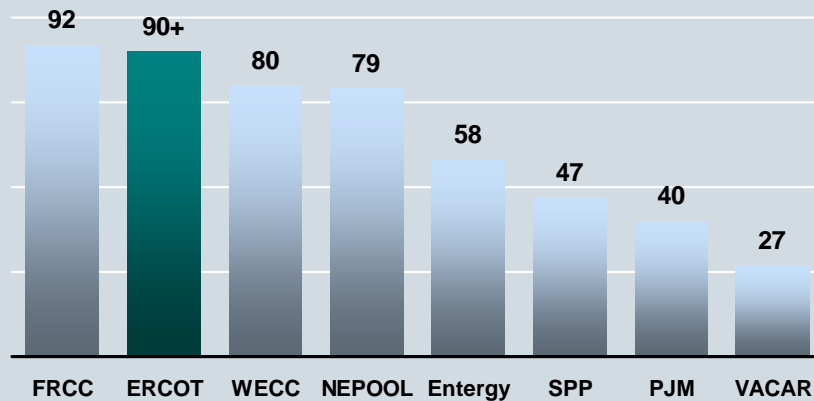
Texas has a rapidly growing population...
 Total population growth
 05-15E; Millions of people



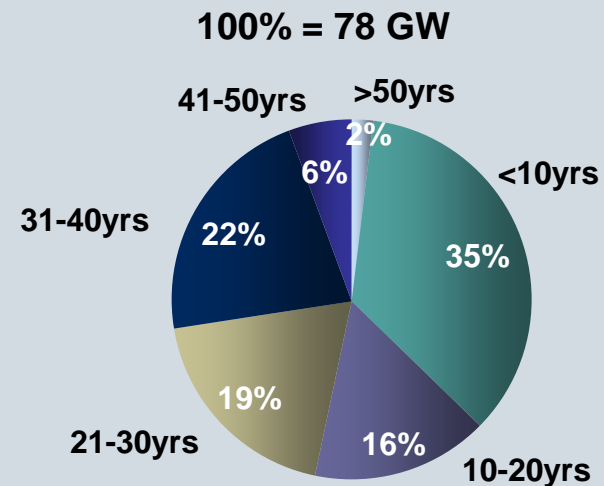
...that will deplete the current reserve margins...
 ERCOT reserve margins
 00-11E; Percent



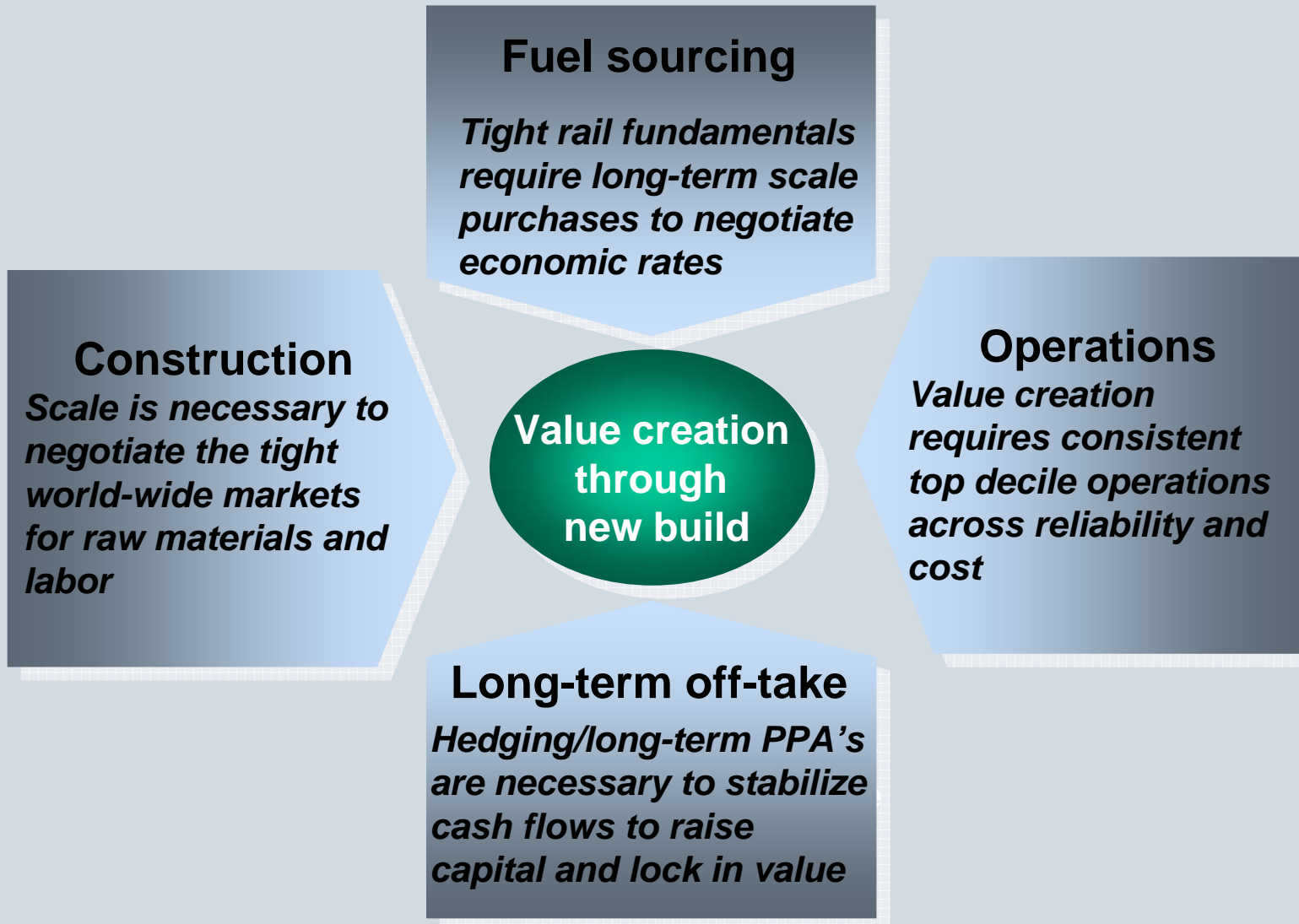
...continuing to keep gas on the margin...
 06; Percent of time gas on the margin



...and stressing an aging generation fleet
 ERCOT generation fleet age
 06; Percent of generation capacity



Successful Execution Of A New Generation Facility Requires High Performance Across The Entire Value Chain

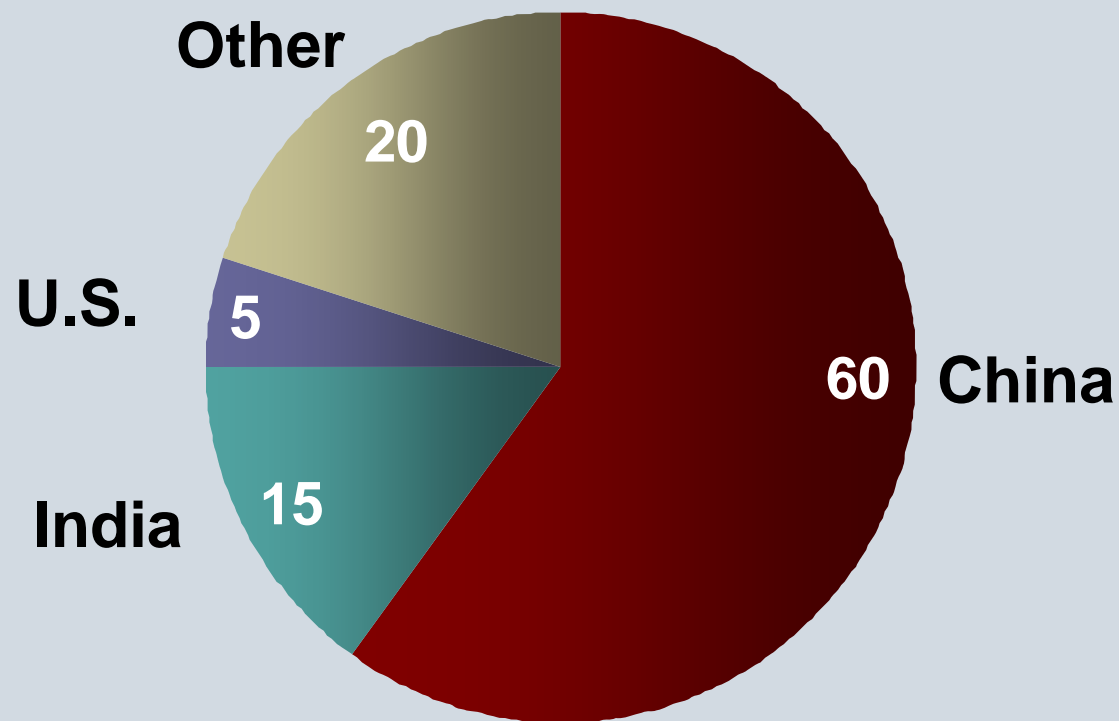


Failure to execute along any one of these dimensions can lead to significant value destruction

Competition For New Generation Spans Not Only Across Regions, But Across The World

Net new coal generation capacity
05-10E; Percent

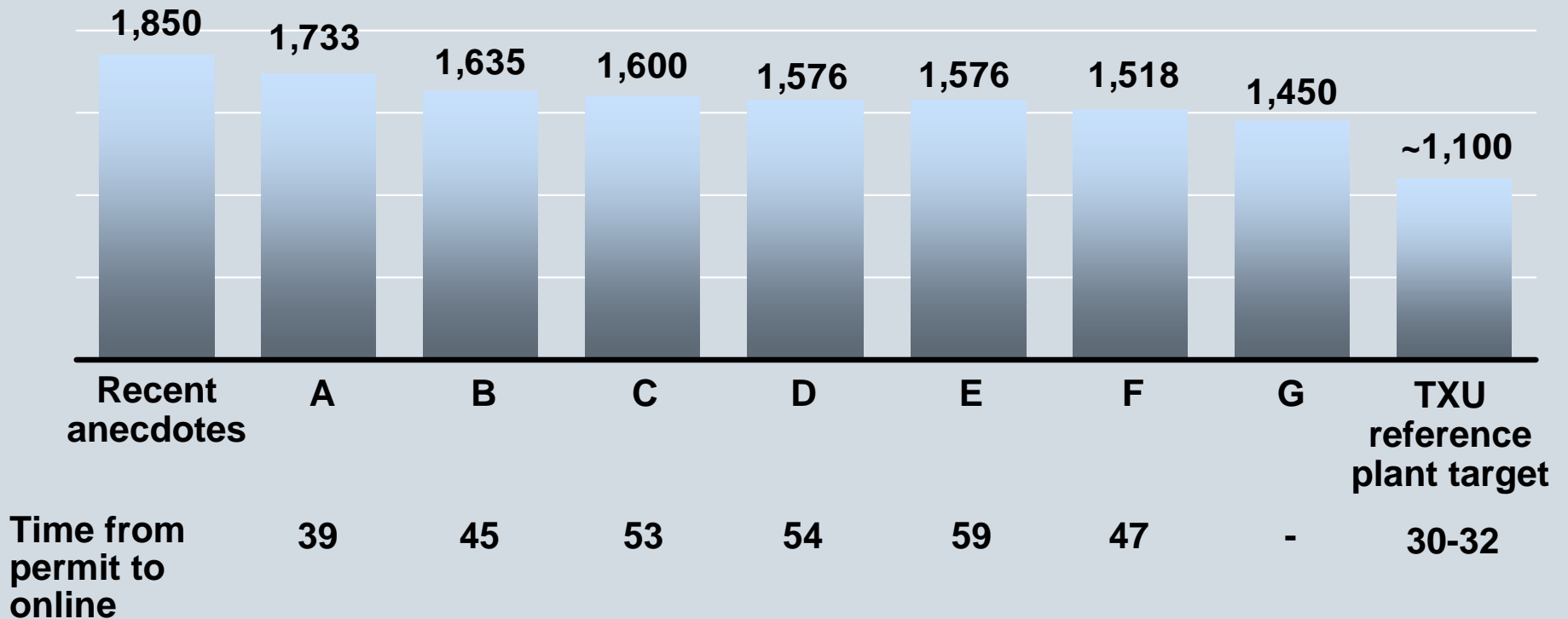
100%= 183 GW



Over the next 5 years, more than 90% of total coal generation development will be built outside of the U.S.

It Is Very Difficult For Sub-Scale Builders To Drive Down Cost And Shorten Schedule...

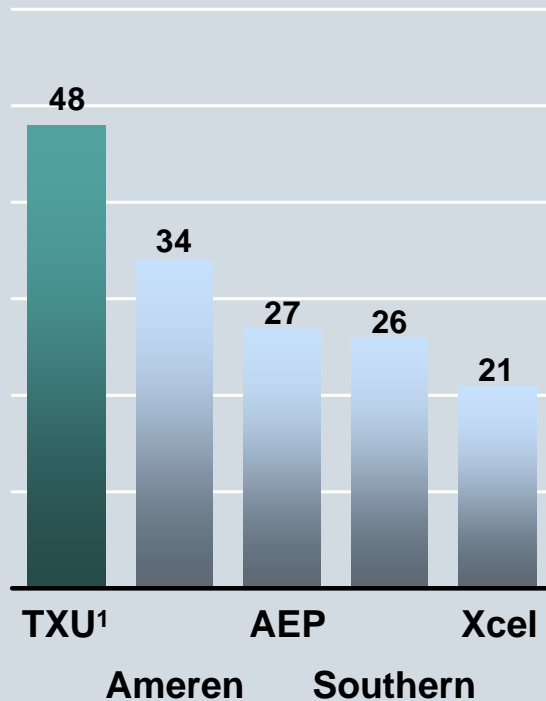
SCPC construction cost estimates/targets
05-06; \$/KW



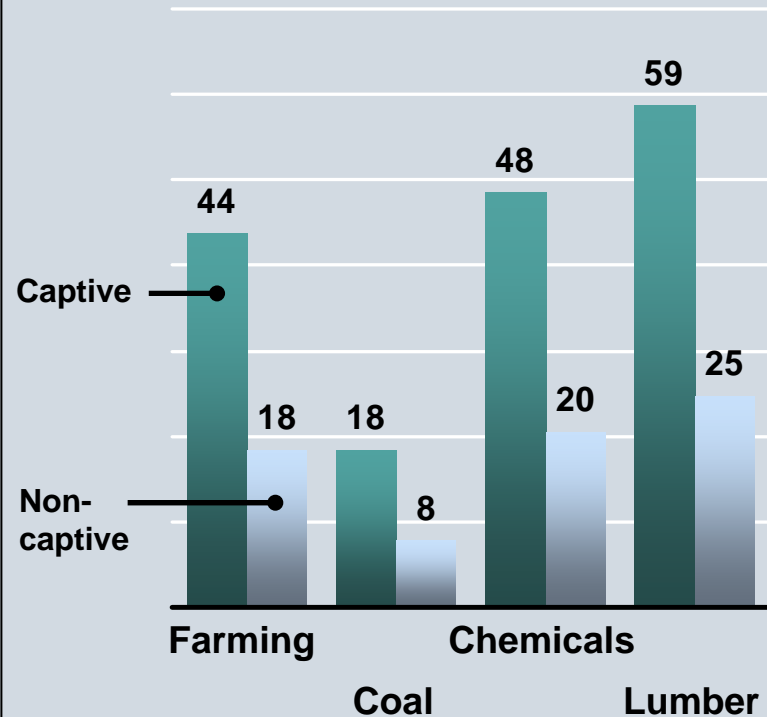
Recent evidence suggests cost escalations of up to 67% from initial estimates

... And To Negotiate Economic Rail Rates, Especially With Captive Rail

Powder River Basin (PRB) coal consumption 05; Million tons



Implications of captive rail 01; \$/ton



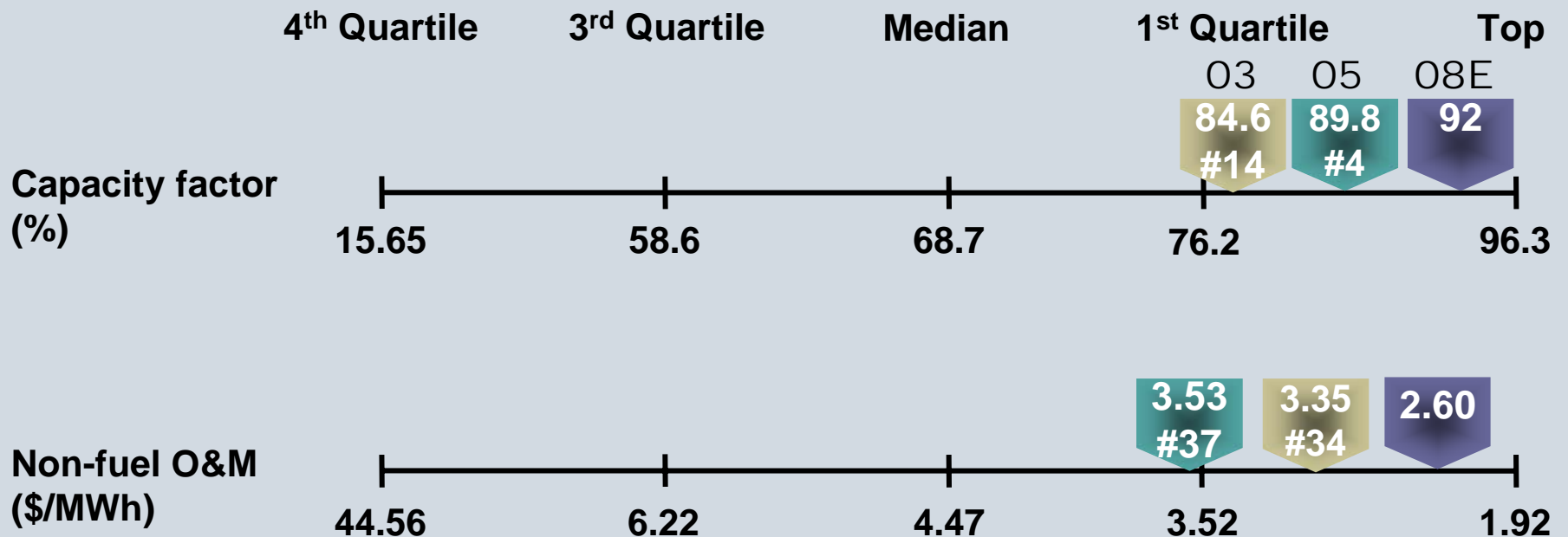
TXU will become the largest shipper of PRB coal and can have dual rail access at all units

¹ TXU includes current consumption, expected fuel switching and planned ERCOT PRB reference plants.

Source: MSHA and commercial information, CURE

High Performance Operations Are Needed To Drive Down The Total Cost Of Production

Lignite operations performance¹
03-08E; Mixed measures (n=140)

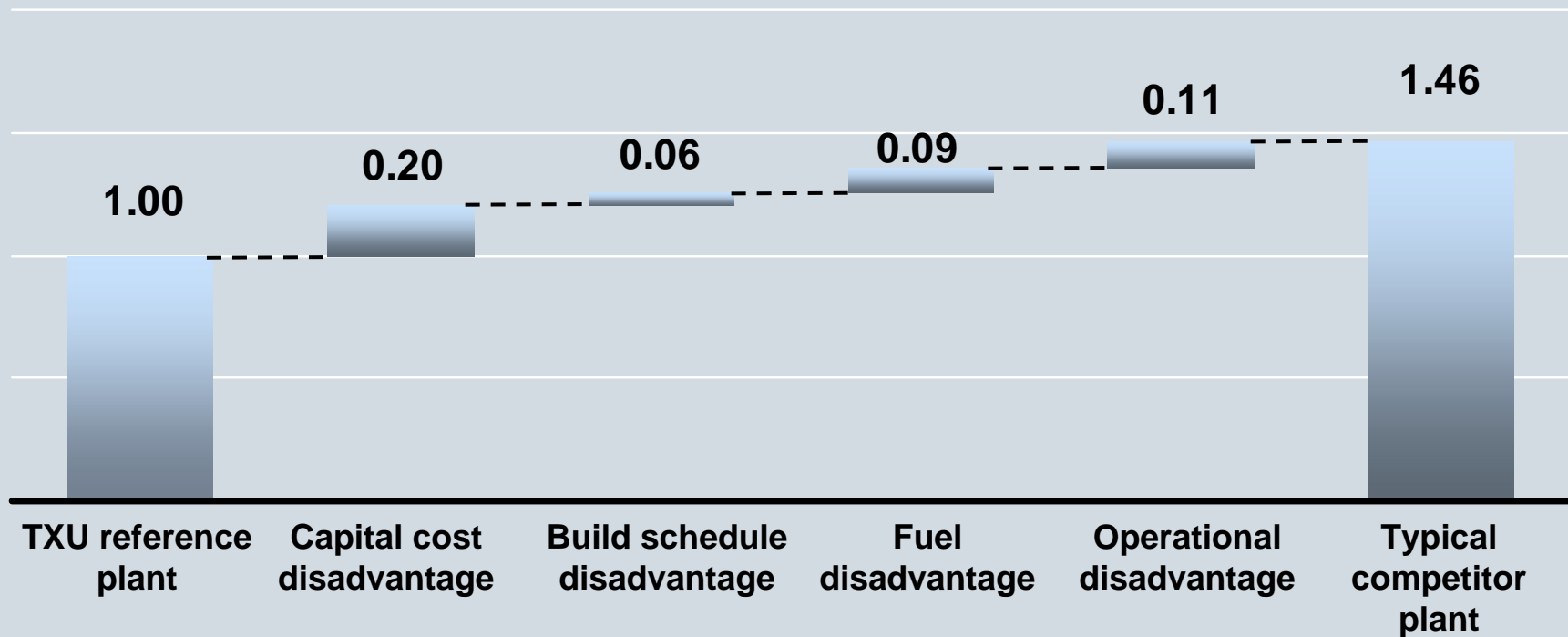


- Every 1% improvement in capacity factor is worth \$27/KW of value
- Every \$1/MWh reduction in non-fuel O&M is worth \$68/KW of value

¹ Normalized for scrubbing and fuel type

Taken Together, TXU Will Be Able To Provide Lower Cost Power Than Its Competitors

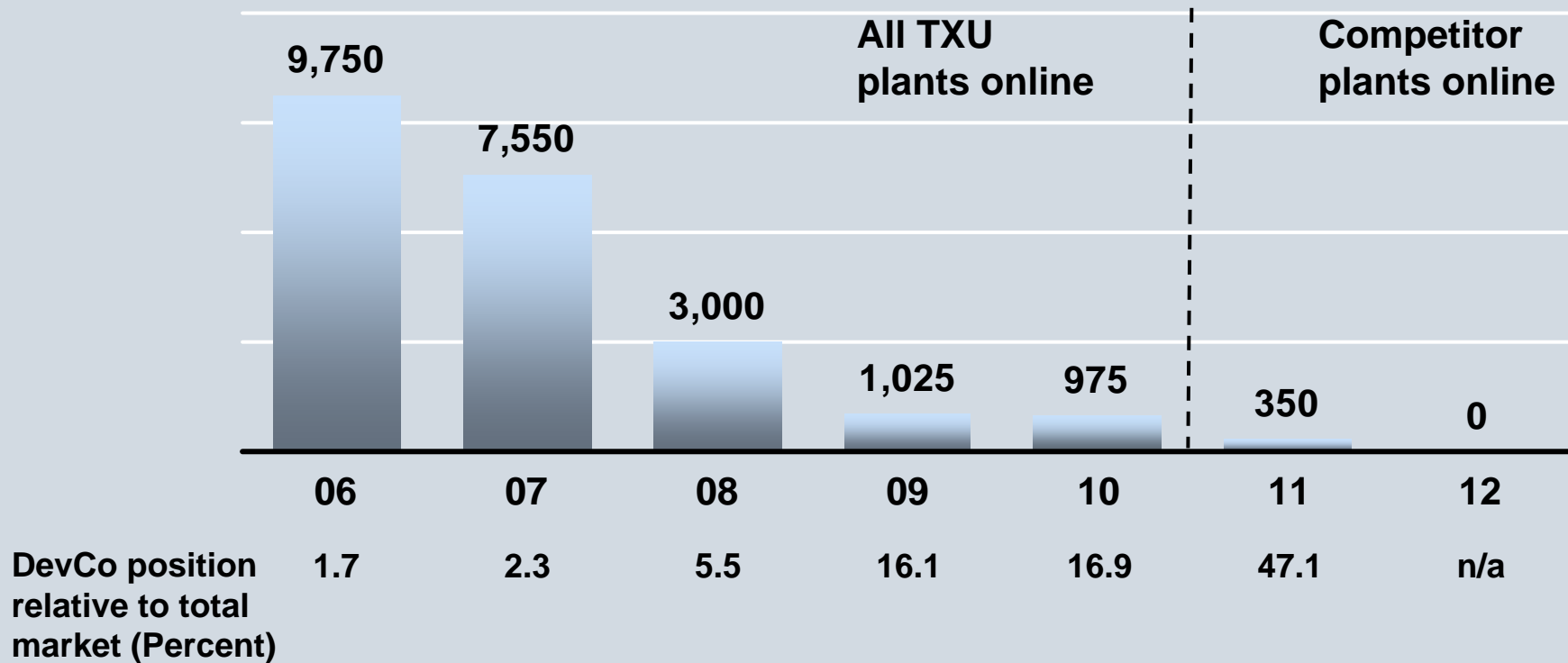
Breakeven power price
06E; Index (TXU=1.00)



The TXU model provides a ~\$19/MWh all-in cost advantage over the typical developer

The Shorter Construction Timeline Allows TXU To Access The Forward Gas Market To Economically Hedge Output

Liquidity of NYMEX gas market
06-12; Average daily contract transactions



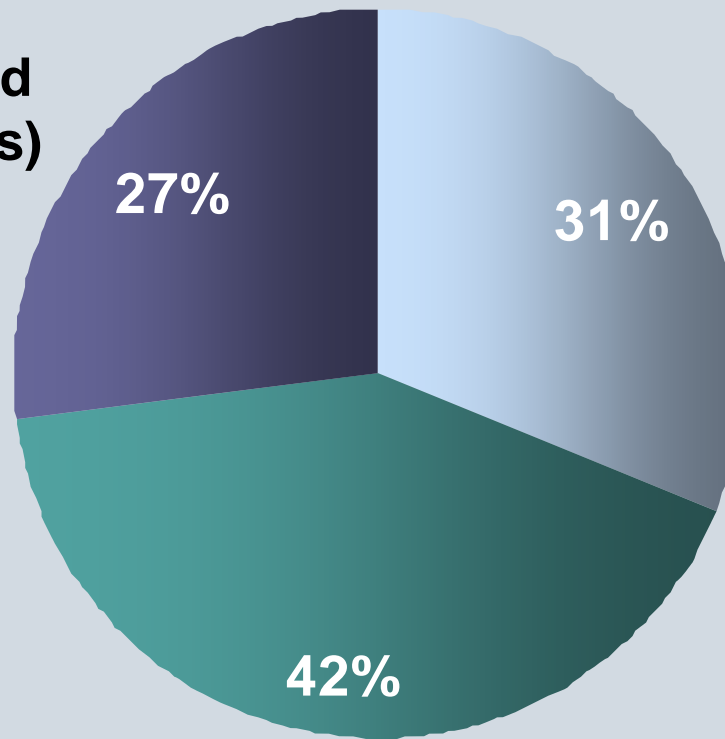
The drop off in liquidity makes it difficult for a plant coming online in 2012 or later to materially hedge its output through the NYMEX market

Based Upon A Shorter Construction Schedule And Lower Costs Of Production, TXU Is The Natural Provider For Long-Term PPAs In Texas

Incremental Texas municipal and cooperative load
05-15E; Percent

100% = 3.6 GW

Demand not targeted
(n=15 counterparties)

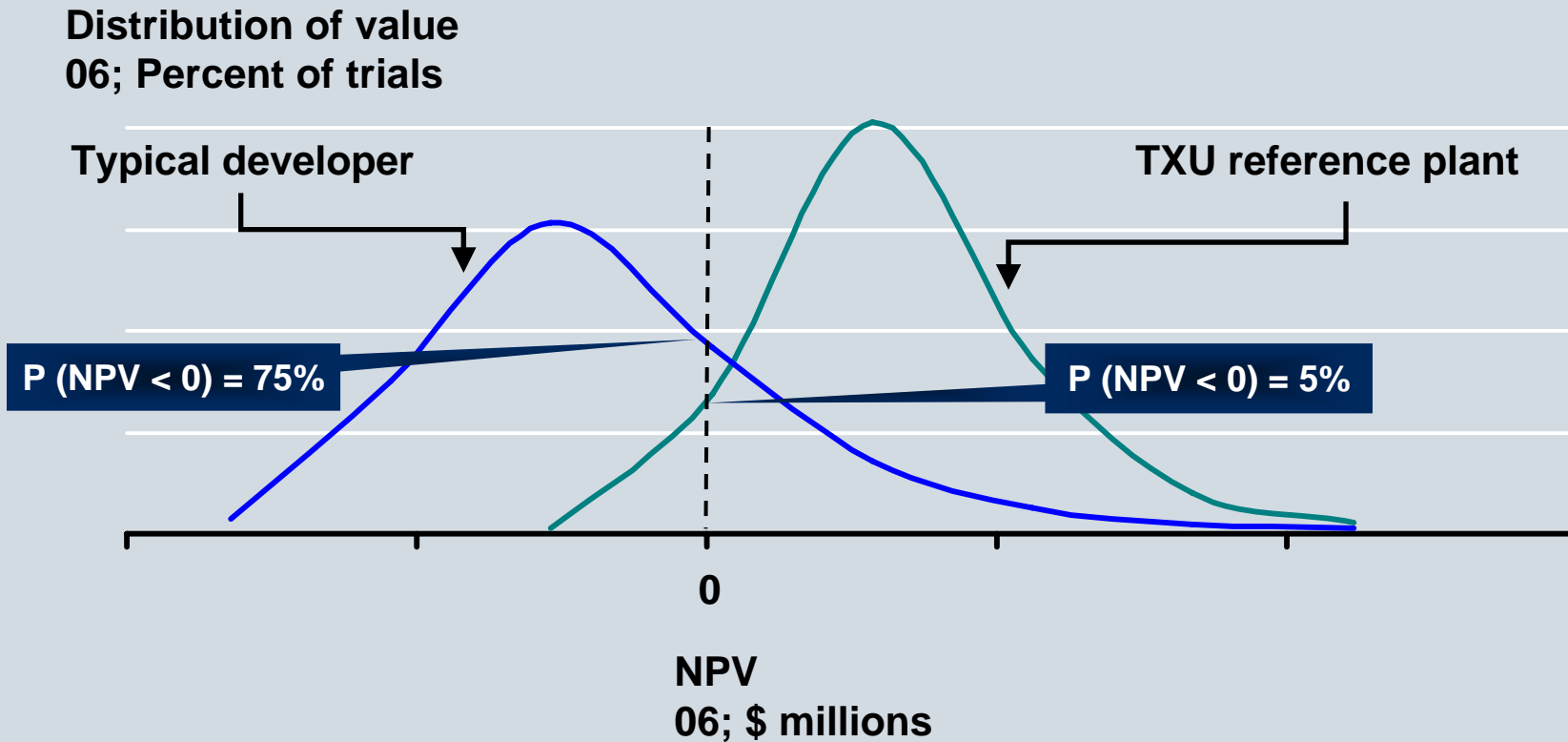


Active negotiations

Targeted demand

TXU expects to sell forward approximately 75% of the incremental municipal and cooperative load

The Combination Of Superior Performance And Ability To Hedge Will Make TXU's Investment Thesis Attractive To Both Debt And Equity Investors



TXU's development strategy significantly decreases the risks associated with high capital cost, long lead-time coal generation investments

Competition Across The Texas Electric Value Chain

Competition in wholesale markets

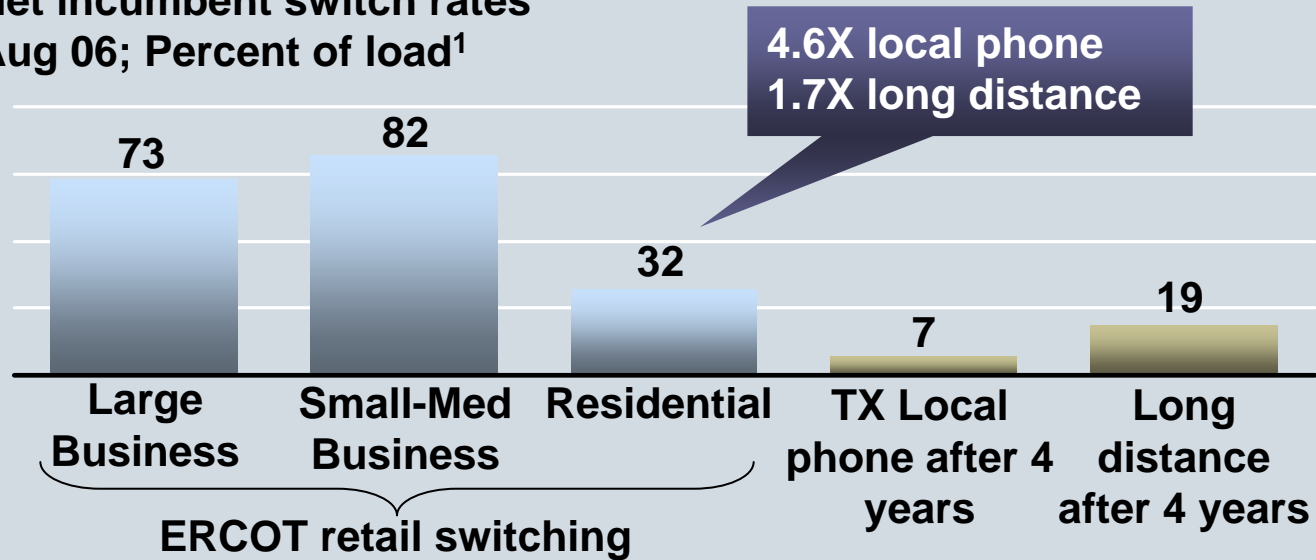
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Competition in retail markets

- **Deregulation has created intense competition and retail switching**
- **Expected margins continue to remain below those seen in other competitive markets**
- **TXU continues to focus on delivering value to its customers and profitably growing share**

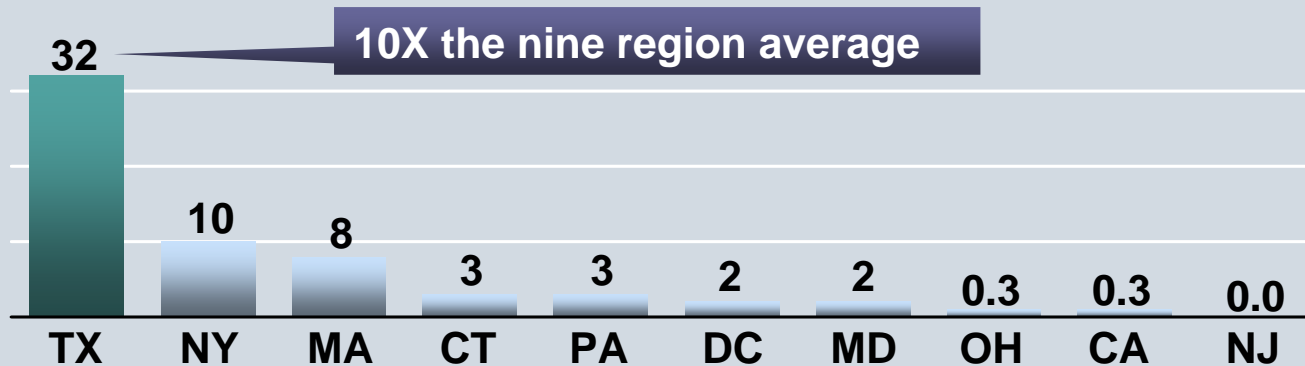
The Texas Electric Retail Market Has Seen Significant Switching, Making Texas The Only Functioning Competitive Retail Market

Net incumbent switch rates
Aug 06; Percent of load¹



“I know of no society that has been marked by a large measure of political freedom, and that has not also used something comparable to a free market to organize the bulk of economic activity.”
Milton Friedman

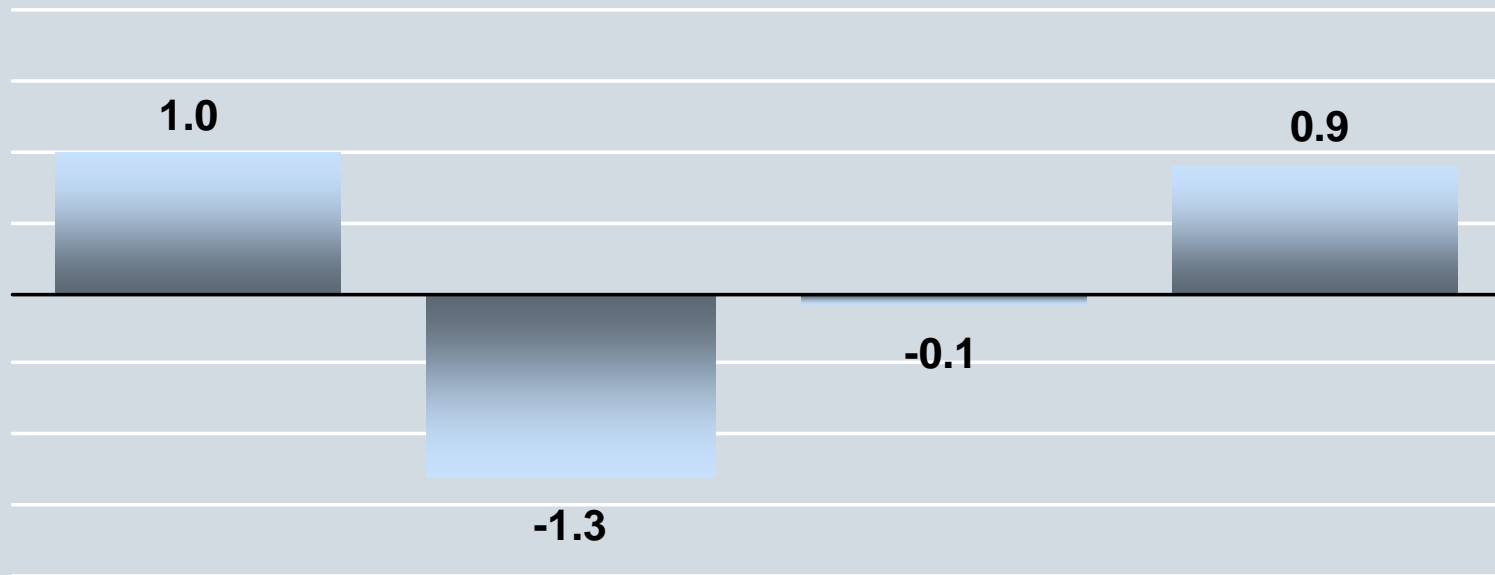
Net residential incumbent switch rates
Oct 05-Aug 06; Percent of load¹



¹ Texas data as of 08/31/06 per ERCOT - business switching reflects load whereas residential reflects customer counts; NJ as of 7/06 from NJ Board of Public Utilities; PA as of 10/05 from PA PUC; data for other states from July/August 06 KEMA Retail Energy Foresight Report and ranges from 3/31/06-7/21/06. Ohio excludes load attributable to municipal aggregation per OPUC August 2005 report.

Competition Continues To Maintain Forward Margins At Levels Below Those Seen At Market Open

North Texas incumbent retail net margins¹
02-07E; Index (1/1/02=1.0)



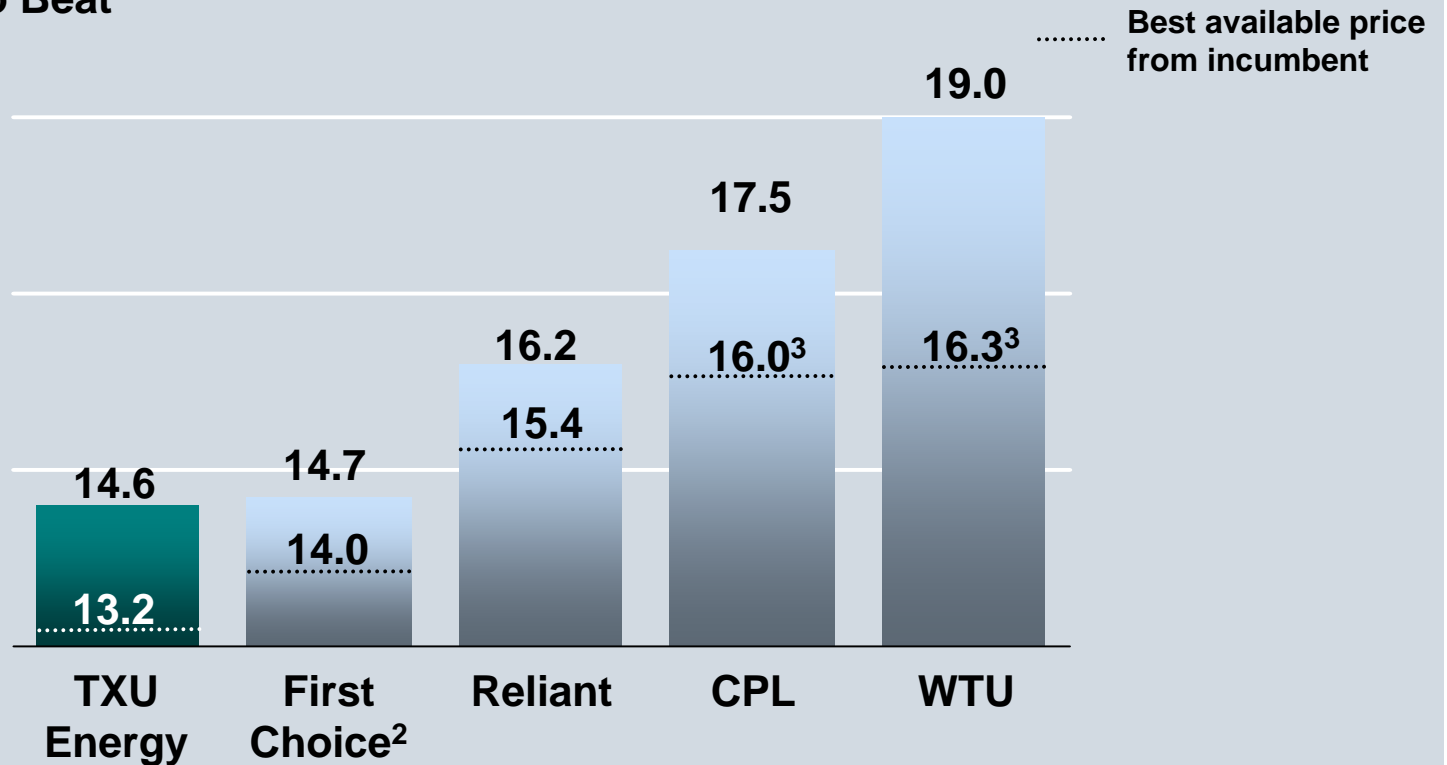
	Retail market open (1/1/02)	Before 10/05 filing	Post 10/05 filing	07E
NYMEX Gas	\$3.11	\$11.53	\$11.53	\$7.99 ²
Fuel factor gas	\$3.11	\$7.87	\$11.53	\$11.53

¹ Based on a residential customer with 1,500kWh average usage per month and PUC standard load profile; energy cost based on NYMEX 12-month strip

² NYMEX closing prices as of 9/15/06

North Texas Has The Most Competitive Rate Structure...

Annualized Price to Beat¹
06; Cents/kWh



Incumbent
customers⁴
(Thousands)

TXU Energy	1,823	129	1,222	429	89
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TXU Energy leads the industry by providing both the lowest PTB and the lowest best available price among incumbents in their historical service areas

¹ Annualized residential price at 1,500 kWh average monthly usage pattern based upon PTB in effect as of 9/21/06.

² First Choice Power has filed for a PTB fuel factor adjustment that will result in a lower PTB if approved by the PUCT.

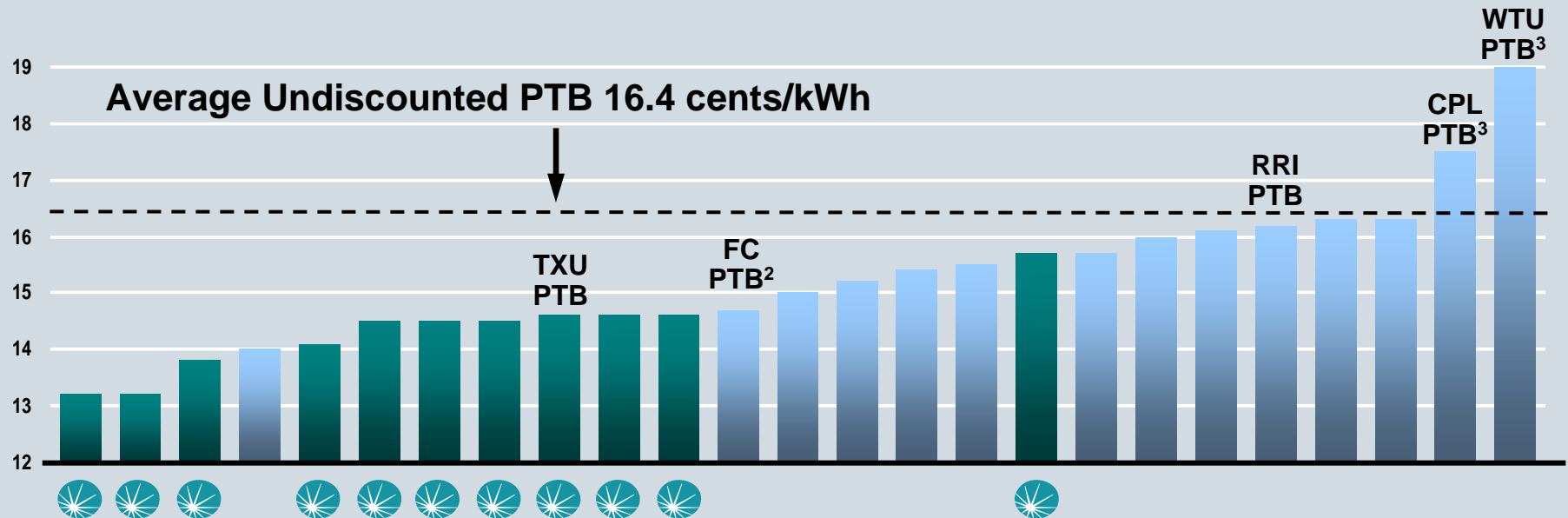
³ Existing residential customers as of 6/30/06 began paying this price on 7/1/06.

⁴ As of 12/31/05 per PUCT.

Source: PUCT, TXU Energy

... And TXU Energy Offers 10 Of The 11 Lowest Single Family Prices Among Incumbents In Their Historical Areas

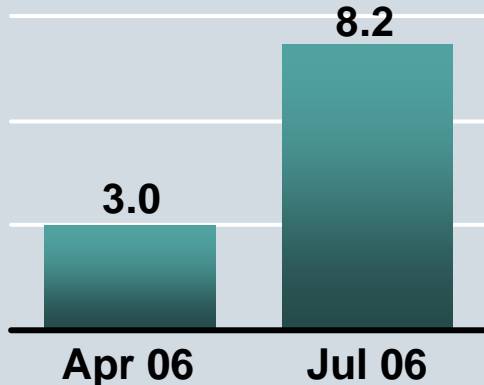
Residential single family offers from incumbent providers¹
06; Cents/kWh



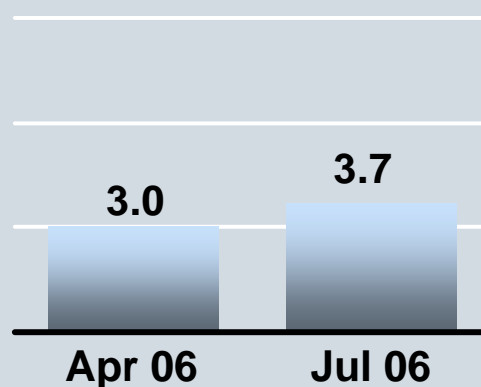
TXU Continues To Deliver Its Customers Superior Service And Value

Relative customer satisfaction with ERCOT retail providers in incumbent territory 06; Ratio of very satisfied responses/very unsatisfied responses

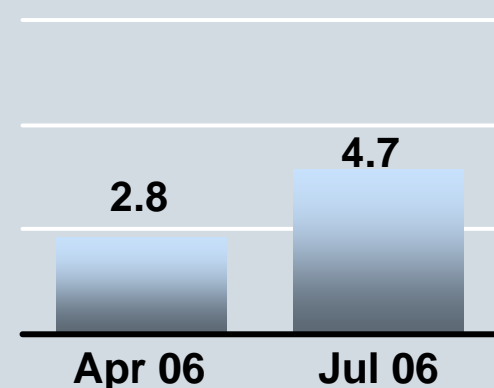
TXU



Incumbent A

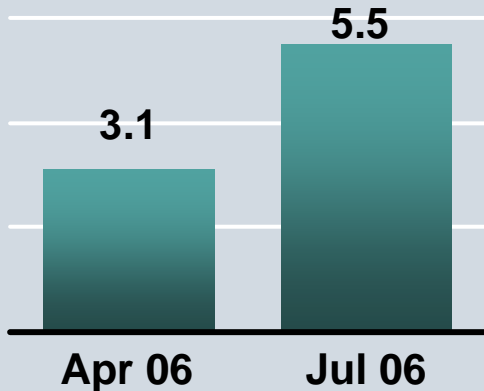


Incumbent B

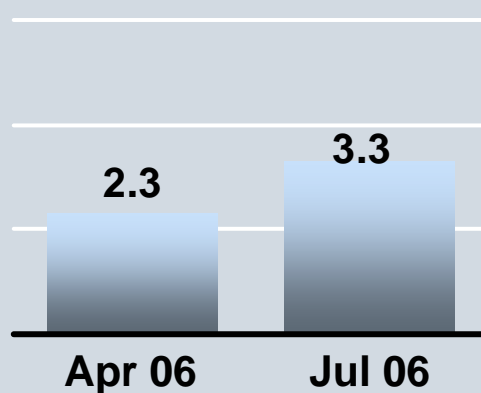


Relative customer value from ERCOT retail providers in incumbent territory 06; Ratio of excellent and very good responses/poor responses

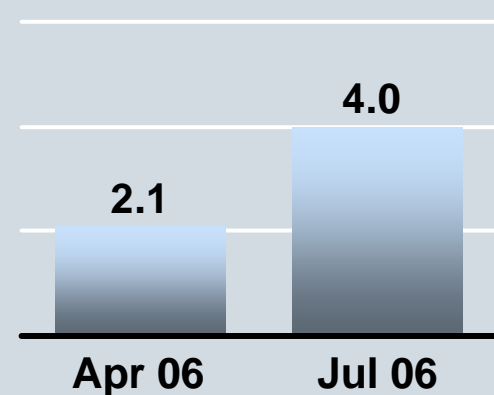
TXU



Incumbent A



Incumbent B



TXU continues to improve the value it delivers to its customers

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