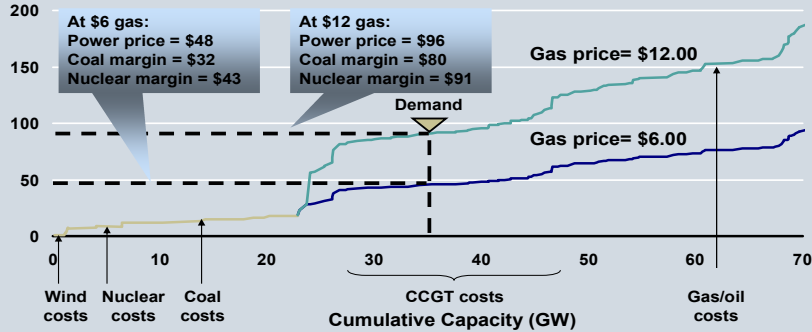


TXU Wholesale: Understanding Markets – Managing Risk



TXU's Gas Position Is Derived From Its Baseload Generation Fleet...

ERCOT generation portfolio: average variable cost
04-06E; \$/MWh

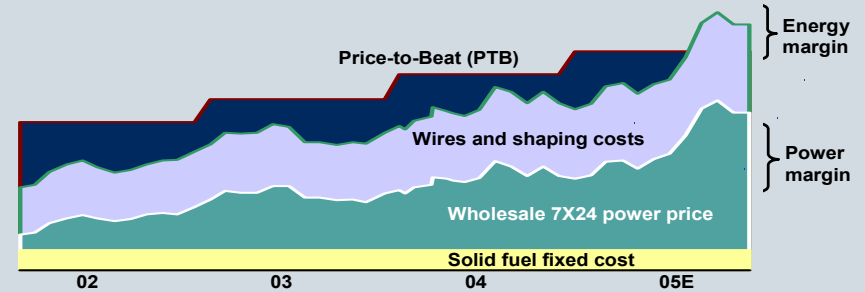


Gas prices set ERCOT power prices 95% of the time
 If Gas prices go...
 ...Price of wholesale power goes...
 ...TXU Power's margin goes... = "Long" Gas

1

...But Is Balanced By Its Retail Position

Economics of TXU Energy (retail) and TXU Power (generation)
02-05; \$/MWh (illustrative)



TXU Energy and TXU Power margins are counter-cyclical:

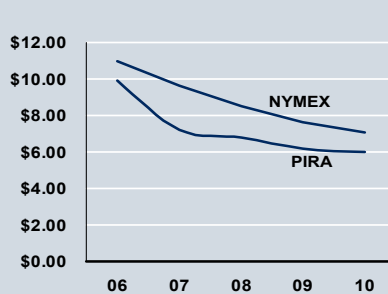
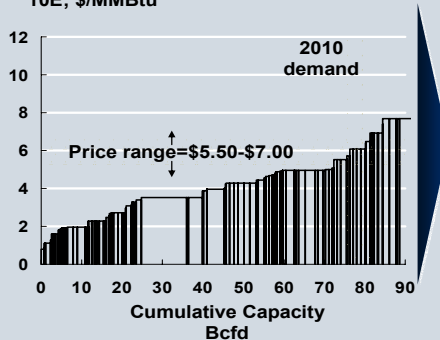
- As gas prices rise and Power margins expand, Energy margins fall until the retail price (PTB until 1/1/07) is raised
- As gas prices fall and Power margins contract, Energy margins expand

2

TXU Believes The Fundamentals Support Backwardation In The Natural Gas Curve...

U.S. and Canada gas supply and demand (12 Bcfd LNG addition)
10E; \$/MMBtu

Natural gas price forecasts
06E-10E; \$/MMBtu

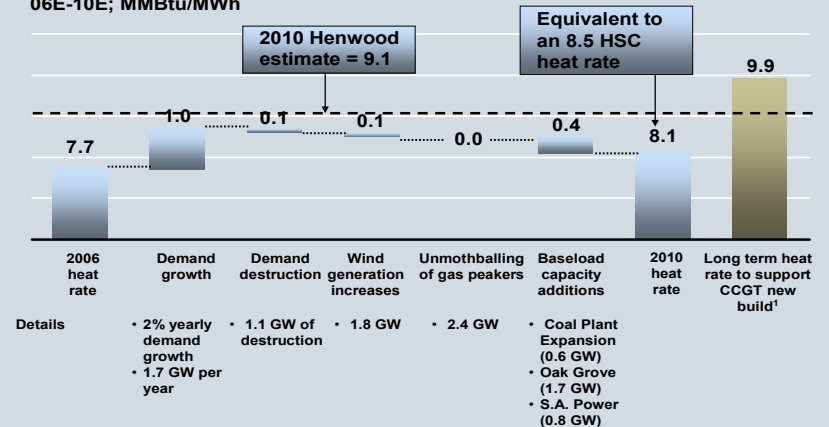


While the gas curve is backwardated, fundamentals still support historically high prices

3

...And Significant Heat Rate Recovery Over The Next Ten Years

ERCOT market 7X24 heat rates (NYMEX)
06E-10E; MMBtu/MWh



- Details
- 2% yearly demand growth
 - 1.7 GW per year
 - 1.1 GW of destruction
 - 1.8 GW
 - 2.4 GW
 - Coal Plant Expansion (0.6 GW)
 - Oak Grove (1.7 GW)
 - S.A. Power (0.8 GW)

The growth in ERCOT supports limited baseload expansion

¹ Based on \$5.00 gas prices.

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TXU Wholesale: Understanding Markets – Managing Risk



Over The Next Three Years TXU Will Remain Relatively Neutral To Natural Gas And Become Longer Heat Rate

Well controlled: Natural gas position
06E-08E; Million MMBtu

Growth potential: Heat rate position
06E-08E; Million MWh

	06E	07E	08E		06E	07E	08E
Current baseload production	470	460	460	Current baseload production	61	61	62
Gas plants	-	-	-	Gas plants	5	5	6
Total "native long" position	470	460	460	Total "native long" position	66	66	68
Retail "short" position ¹	(380)	(330)	(300)	Retail "short" position ¹	(50)	(42)	(38)
PPAs/Tolls/Other forward power and gas sales	(50)	(80)	(100)	PPAs/Tolls/Other forward power and gas sales	(3)	3	2
Underlying position	~30-40	~40-50	~50-60	Underlying position	~13	~27	~32
Percentage hedged	93-98%	89%	87-89%	Percentage hedged	80%	59%	53%

TXU has locked in ~ 90% of its natural gas exposure and is maintaining the majority of its long term heat rate exposure

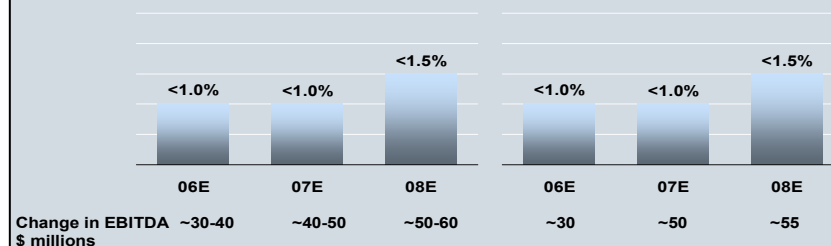
¹ Assumes retail price remains constant

5

TXU's EBITDA Will Remain Relatively Insensitive To Natural Gas Price Changes And Heat Rate Changes

EBITDA impact Of \$1 / MMBtu change in natural gas
06E-08E; Percent

EBITDA impact of 0.2 MMBtu/ MWh change in market heat rate¹
06E-08E; Percent



Over the next three years, TXU has a small sensitivity to natural gas price and heat rate changes

¹ Based on 06 natural gas price=\$11.00, 07 natural gas price =\$9.65, 08 natural gas price =\$8.49.

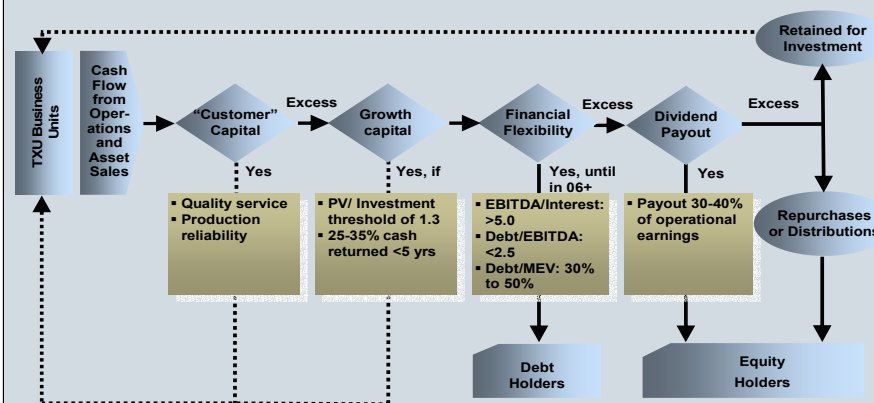
6

TXU Will Use All Available Tools To Manage Risks...

Initiative	Tools	Key Beliefs
Hedge year 1-5 gas exposure	<ul style="list-style-type: none"> • NYMEX/OTC swaps and options (near to mid term only) • LCI contracts/PTB load (near term only) 	<ul style="list-style-type: none"> • Hedging is too expensive in most cases, and over time reduces value
Capital structure	<ul style="list-style-type: none"> • Lower debt levels (free cash flow and/or equity issuance) • Extend term; defer principal payments • Structured transactions to monetize long term gas position (virtual gas field) 	<ul style="list-style-type: none"> • TXU can enhance risk capacity by reducing debt • Capital markets may offer opportunity to hedge long-term gas exposure
Business portfolio (M&A, vertical integration)	<ul style="list-style-type: none"> • Merge with a company with lower and/or different risk exposures • Sell or monetize portion of assets to reduce risk and debt 	<ul style="list-style-type: none"> • Diversification and risk mitigation are a consideration though value considerations govern • Transactions that would amplify commodity exposure not excluded from consideration

7

...And Implement Them Through Its "Cash Scrubber"



The cash scrubber will govern the allocation of operating cash flow and the deployment of growth capital

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