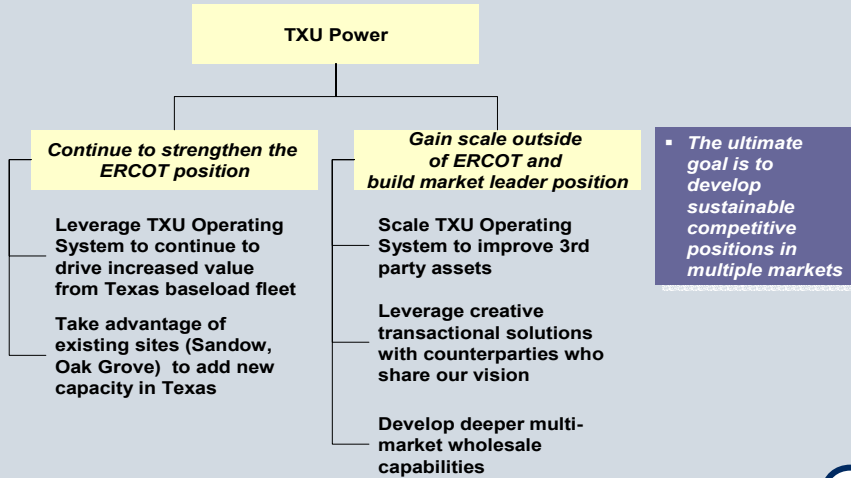


# TXU Power: Expanding In Coal Generation

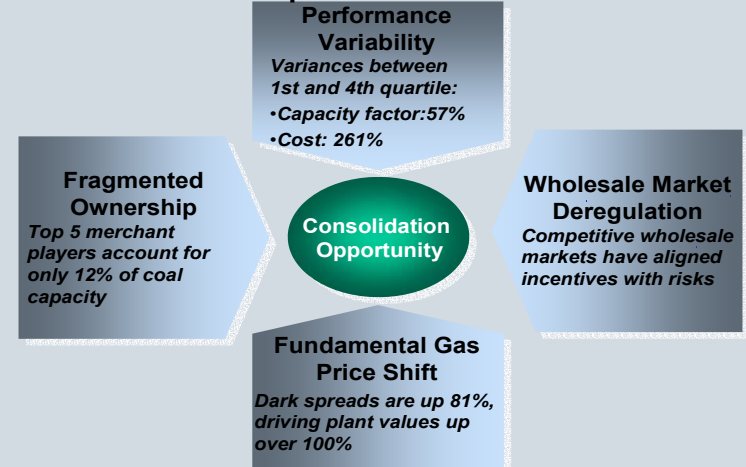


Based On Core Beliefs About Value Creation, TXU Power Has Designed A Bottom-Up Business Unit Strategy



1

Market Forces Have Converged To Create An Opportunity To Consolidate And Improve Coal Generation

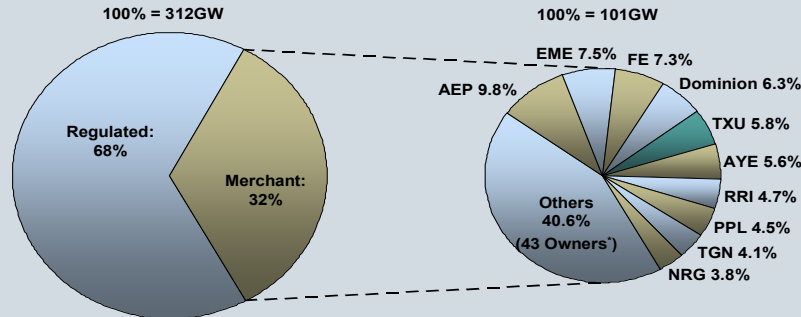


Other asset-intensive industries that have had similar characteristics have consolidated and created value

2

## National Coal Generation Ownership Is Fragmented...

Coal Generation Market Share 05; Percent

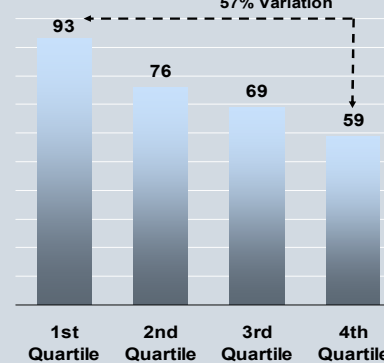


- A "super-major" has yet to emerge in the merchant coal space
- The fragmented sector has allowed suppliers to keep excess rents (e.g., GE)

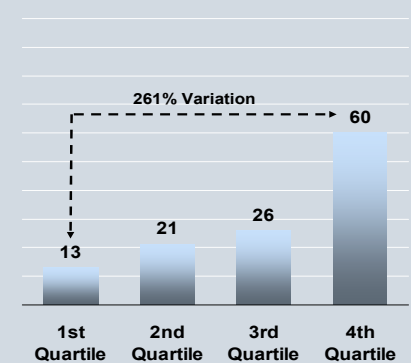
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## ...With High Variability In Performance

Capacity factor 02-04; Percent



Non-Fuel O&M 02-04; \$/kW-yr



The combination of fragmentation, industry distress and recent deregulation has limited consistent performance improvement

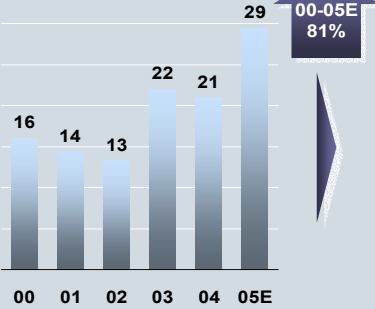
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# TXU Power: Expanding In Coal Generation

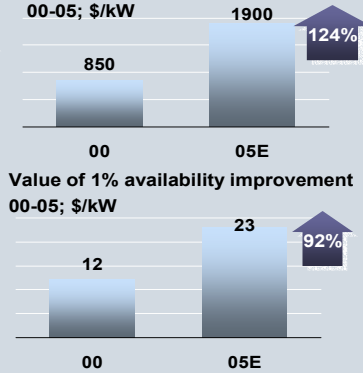


## The Shift In Gas Fundamentals Has Increased Both Underlying Values And The Value Of Potential Improvement

Dark spread<sup>1</sup>  
00-05; \$/MWh



Large coal plant value<sup>2</sup>  
00-05; \$/kW



- The increase in gas prices has made investment in coal a much more valuable option
- 2005 gas prices have made the TXU Operating System 10X more valuable than in 2000

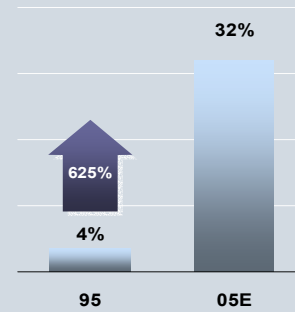
<sup>1</sup> Difference between all-hours energy price and coal plant fuel cost at 10.5 heat rate

<sup>2</sup> Value for large scrubbed plant in PJM; Based on forward gas curves in 2000 and 2005; Assumes 6% WACC

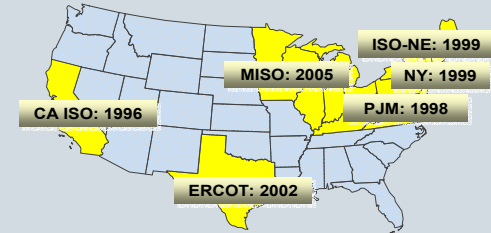
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## Wholesale Market Deregulation Has Better Aligned The Rewards Of Performances With Potential Risk

Merchant share of US coal capacity  
95-05; Percent



Wholesale markets develop  
95-05



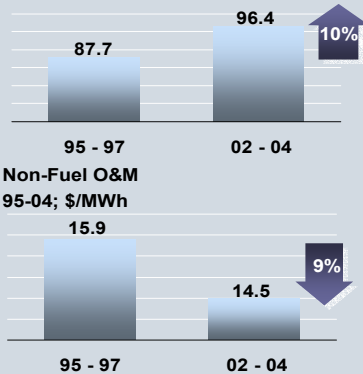
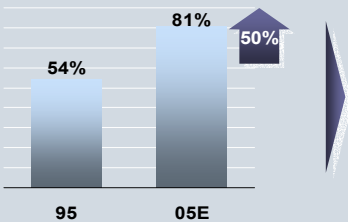
The ability to create and keep value through performance improvements makes this strategy more viable today

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## Just As In The Nuclear Sector, Consolidation Should Allow For Significant Performance Improvements

Availability  
95-04; Percent

Top 5 merchant nuclear operators  
95-05; Percent



- Nuclear consolidation has driven substantial performance improvements
- Improvements have changed public opinion: In 1995 46% approved of nuclear generation 38% opposed; Today 70% approve only 24% oppose

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## Identifying The Value Opportunity Starts With Focusing On Assets That Fit TXU's Core Strengths...

	US Fleet	US Coal	US Merchant Coal	US Merchant Coal >100 MW
# Plants	15,757	597	279	108
Capacity (GW, 04)	959 GW	306 GW	95 GW	80 GW
Generation (TWh, 04)	3,950 TWh	1,950 TWh	550 TWh	530 TWh

### Rationale

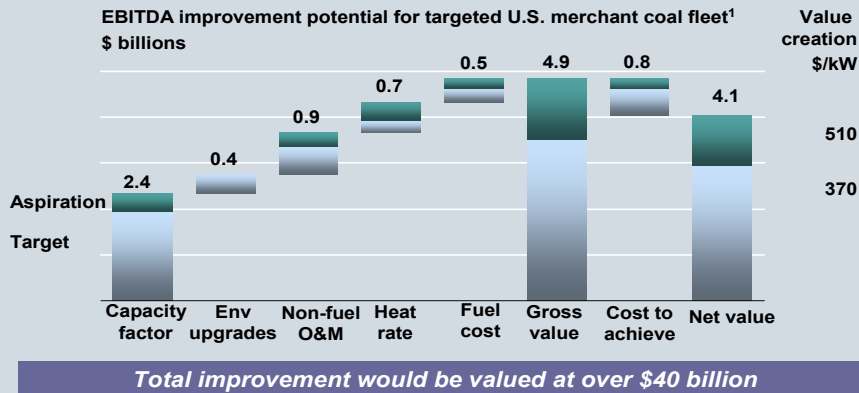
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|--|--|--|
| <ul style="list-style-type: none"> <li>• Nuclear already consolidated</li> <li>• Gas plants are a market timing bet</li> <li>• TXU Operating System focused on coal</li> </ul> | <ul style="list-style-type: none"> <li>• Greater opportunity to retain value in merchant fleet</li> <li>• Quicker/cheaper transaction execution</li> </ul> | <ul style="list-style-type: none"> <li>• Operating System most effective on large plants</li> <li>• Small plants generally older and marginal</li> </ul> |
|--|--|--|

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# TXU Power: Expanding In Coal Generation



## ...And Estimating The Performance Improvements By Replicating TXU's Performance Across The Entire Merchant Coal Fleet



<sup>1</sup> Power prices estimated using 2010 forward price of \$7.05 natural gas.

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## Applying These Value Levers To Individual Plants Produces A Targeted Origination List Of Counterparties

Operator	EBITDA Improvement \$ millions		Relative Improvement Percent	
	Target	Aspiration	Target	Aspiration
A	140	180	50	60
B	160	220	40	50
C	220	300	30	40
D	245	345	30	40
E	225	325	30	40
F	95	140	25	40
G	85	130	25	35
H	100	150	25	35
I	100	160	20	30
J	115	165	15	20
K	50	70	15	20

**TXU will leverage creative transaction structures to minimize premiums**

<sup>1</sup> Operated capacity at units >100 MW.  
<sup>2</sup> 2010 EBITDA improvement assuming \$7.05 gas; Value estimates reflect entire forward curve.

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## TXU Will Pursue An Array Of Transaction Vehicles To Manage Risk And Avoid Large Premiums

Vehicle	Benefits	Risks
<b>Corporate acquisition</b>	<ul style="list-style-type: none"> <li>Allows use of equity</li> <li>Clear control</li> <li>Avoids auction pricing</li> <li>Allows bulk purchase</li> <li>Leverages other TXU strengths</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory approval</li> <li>Social issues</li> <li>Premium may be necessary on unwanted assets</li> </ul>
<b>Joint venture/MOE</b>	<ul style="list-style-type: none"> <li>Avoid auction pricing</li> <li>Access to counter parties hesitant to sell</li> <li>Allows bulk purchase</li> </ul>	<ul style="list-style-type: none"> <li>Allocation of profits</li> <li>Operational control less clear</li> </ul>
<b>Exchange/swap</b>	<ul style="list-style-type: none"> <li>Use of TXU asset shares as currency provides risk benefits</li> </ul>	<ul style="list-style-type: none"> <li>Limited pool of counterparties</li> <li>Finite currency</li> <li>Not true growth</li> </ul>
<b>Asset purchase</b>	<ul style="list-style-type: none"> <li>Allows target purchase</li> <li>Clear control</li> </ul>	<ul style="list-style-type: none"> <li>Auction pricing</li> <li>Cash currency creates commodity risk</li> <li>Limited pool of assets</li> </ul>

**The strategy must be very opportunistic and flexible enough to leverage different structuring options**

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## TXU's Aspiration To Double The Size Of The Coal Portfolio Over The Next 5+ Years

	Coal capacity (GW)	Coal generation (TWh)	% of 2010 target	Capital investment (\$ billions)	Oper. Earnings <sup>1</sup> (\$ billions)
2006 TXU	5.8	46	36-47	0.0 <sup>2</sup>	1.0
Coal Plant Expansion	0.5	4	3-4	0.6	0.10
Oak Grove	1.7	14	11-14	2.0	0.35
Other Texas existing sites	0.5	4	3-4	0.6	0.11
Organic growth	2.7	22	17-22	3.2	0.6
TXU today + Organic growth	8.5	68	53-69	3.2	1.6
Potential transactions	3.5-7.0	30-60	31-47	3.9-7.7	0.8-1.6
<b>2010 Target</b>	<b>12-15.5</b>	<b>98-128</b>	<b>100</b>	<b>7.1-10.9</b>	<b>2.4-3.2</b>

**TXU is pursuing a multi-pronged strategy of organic growth and transactions to reach its portfolio goals**

<sup>1</sup> Based on \$60/MWh power.  
<sup>2</sup> Does not include sustaining Capex.

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