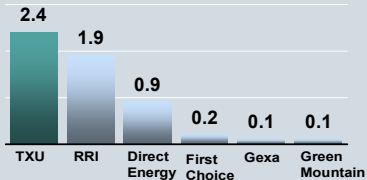


# TXU Energy: Winning In Competitive Retail



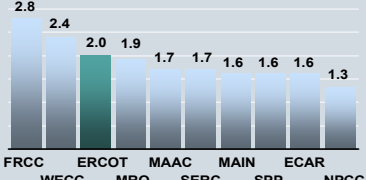
## TXU Retail/Wholesale Is The Largest Competitive Retailer In A Growth Market

Large competitive customer base  
Sept 05; Millions of customers<sup>1</sup>



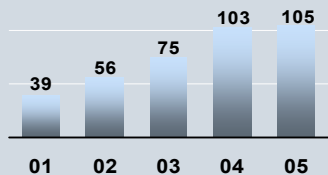
<sup>1</sup> Customers = meters  
Sources: KEMA, company filings

High growth  
05E-14E; Percent annual growth



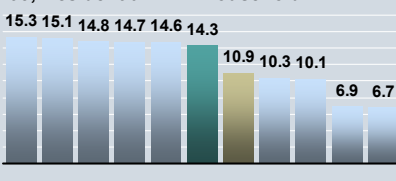
Source: NERC

Highly competitive market  
Oct 05; Number of certified ERCOT  
retailers



Source: PUC

Strong demand (consumption)  
03; Residential MWh/household



Top 6 states by consumption and others by population  
Sources: EIA, BEA

1

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

### TXU Retail/Wholesale

#### Return The North Texas Consumer Franchise To Profitability

Introduce innovative products and pricing plans that meet customer needs and provide sustaining margins

Continue to redefine customer service to distinguish TXU Energy from its competitors

Continue to advocate for a market-based structure that encourages competition

#### Opportunistically Build Profitable Businesses In Other Customer Segments

Take advantage of higher headroom opportunities in South Texas to acquire residential customers

Focus on higher margin customers in small, medium, and large commercial segments

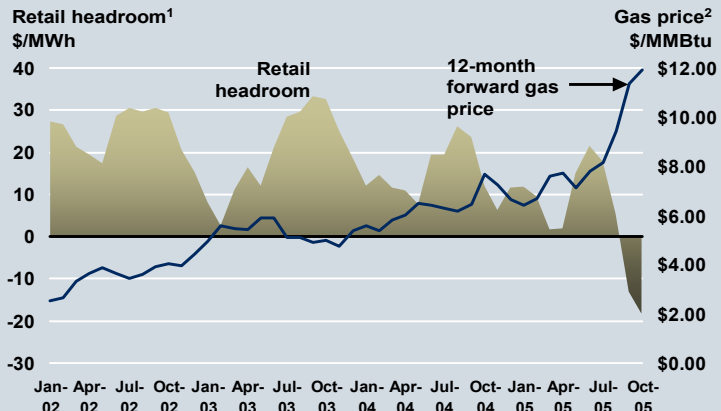
Continue to drive cost leadership to enhance competitiveness across all segments

- TXU Energy's top priority is to restore profitability to North Texas
- TXU will continue to monitor opportunities outside of Texas

2

## Although Margins In This Business Are Currently Negative Due To High Gas Prices ...

North Texas residential headroom vs. Gas price since market open  
02-05; Mixed measures



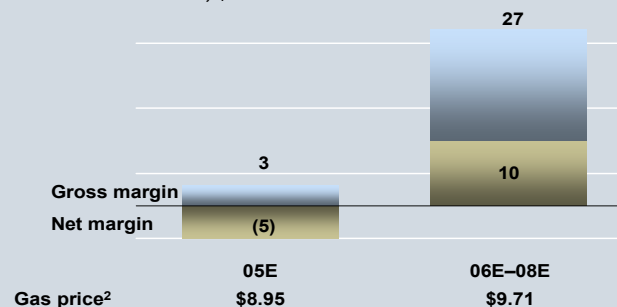
<sup>1</sup> Based on average customer usage of 16,000 kWh/yr. with PUC-approved residential load profile; headroom defined as PTB rate - cost of energy (avg. NYMEX 12 mo. strip x 7.8 heat rate x assumed 25% for load shaping, congestion, line losses and other ancillary costs) - avg. wires cost (based on published TXU Electric Delivery rates, excluding clawback).

<sup>2</sup> NYMEX 12-month strip through 10/31/05.

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## ... They Are Expected To Improve With The Approved Fuel Factor Adjustment And Should Continue To Expand Over The Long Term Based Upon The Current Gas Curve

Projected headroom<sup>1</sup>  
05E-08E; \$/MWh



The combination of the adjusted fuel factor and backwardation of the curve allow headroom and net margins to recover to reasonable levels

<sup>1</sup> Based on actual fuel factors through Oct-05 and \$11.52/MMBtu for all future periods; assumes avg. customer usage of 16,000 kWh/yr.

<sup>2</sup> Actual prices through Oct-05, forward prices based upon NYMEX curve as of 10/31/05.

4

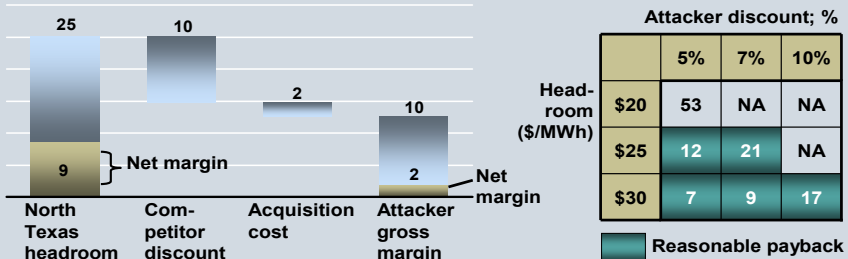
# TXU Energy: Winning In Competitive Retail



## Long-Term Headroom Of Approximately \$25/MWh Is Needed To Allow Competitors To Earn A Reasonable Risk Adjusted Return

Attacker gross and net margins with 7% discount and headroom of \$25/MWh<sup>1,2</sup>  
07E; \$/MWh

Breakeven payback for new customer month  
07E; Months<sup>1,2</sup>



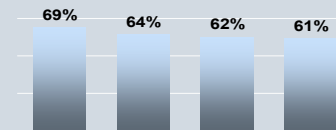
With an average customer life of three years and competitive discounts of at least 5 – 10%, headroom of over \$20/MWh is needed for attackers to achieve positive economics

<sup>1</sup> TXU Energy margins estimated using NYMEX 10/31/05 gas strip for calendar 06, average consumption of 16.0 MWh per year.  
<sup>2</sup> Attacker economics based on above, with discounts from PTB as shown, acquisition costs of \$105/customer amortized over 36 months, marginal SG&A of \$3/MWh, and bad debt of 1.3%.

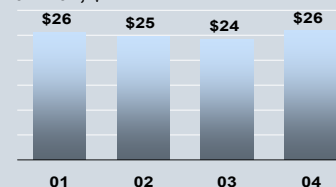
5

## The UK Experience Supports \$20 - \$30/MWh Headroom And Suggests Incumbency Can Create Resilient Market Shares

Incumbent Native Market Shares  
01 - 04; Percent



UK Retail Energy Gross Margins<sup>1</sup>  
01 - 04; \$/MWh



- On an equivalent basis to ERCOT, UK residential incumbents achieved gross margins averaging approximately \$25/MWh from 01 to 04
- Six years after market open, UK incumbents continue to hold the majority of their legacy customers, while acquiring new customers in other areas

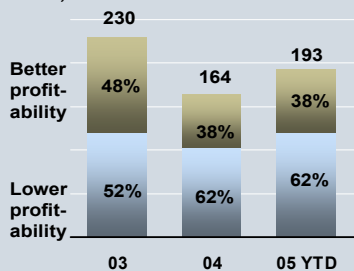
<sup>1</sup> Gross margins for combined electricity and gas customers (all major competitors offer both energy types and may discount either or both). Margins reported by Datamonitor and adjusted for definitional differences between UK and TXU reporting. 01 - 04 average FX of \$1.60/£ assumed for all years.  
Source: Datamonitor, PA Consulting, TXU Energy analysis

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## TXU Energy Is Focused On Maintaining Profitable Market Share In Both North Texas And South Texas...

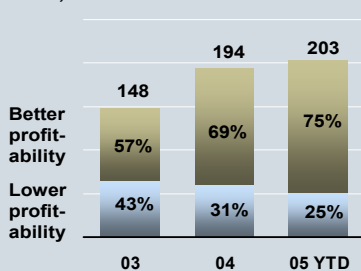
Losing lower profitability customers in North Texas...

In-territory residential switching  
03-05; Thousands of customers



...Gaining higher profitability customers out of territory

Out-of-territory customer counts  
03-05; Thousands of customers

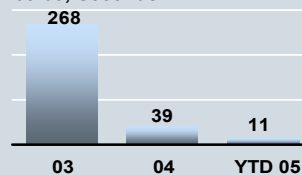


TXU Energy is focused on retaining profitable in-territory customers and building a profitable out-of-territory business

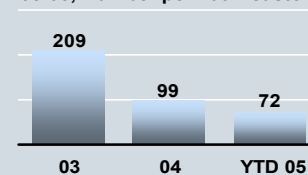
7

## ...By Delivering Superior Customer Service And Execution...

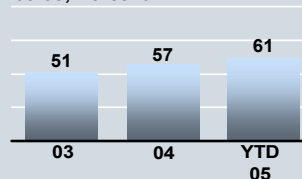
Average speed to answer (ASA)  
03-05; Seconds



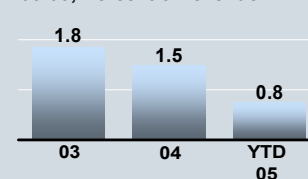
PUC complaints  
03-05; Number per 100K customers



First call resolution  
03-05; Percent



Bad debt expense  
03-05; Percent of revenue



TXU Energy's goal is to deliver world-class customer service to enhance retention while maintaining a relentless focus on costs

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# TXU Energy: Winning In Competitive Retail

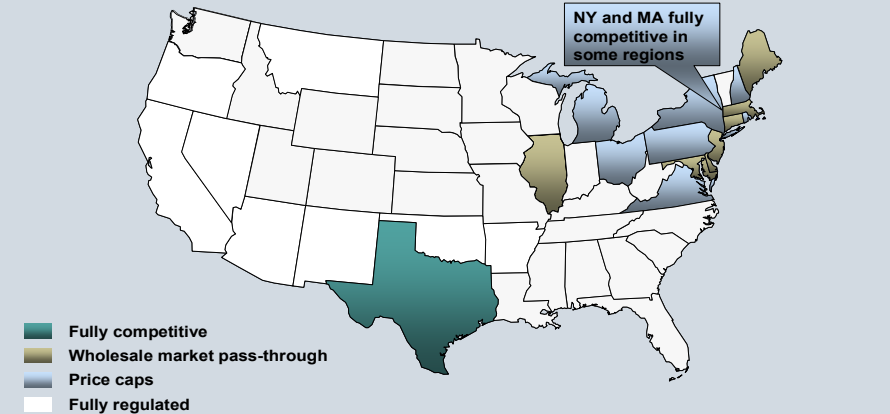


## ...And By Developing A Rich Product Suite For Residential Customers

Timing	Example Products
Existing and Announced	<ul style="list-style-type: none"> <li>• "The Power of Freedom Plan" (fixed price option at January 06 price levels for all of 06)</li> <li>• Standard offer (variable price, month-to-month, similar to PTB)</li> <li>• Home surge protection</li> </ul>
Near-term (06)	<ul style="list-style-type: none"> <li>• Fixed or variable price terms of 1 – 3 years</li> <li>• Renewable energy product</li> <li>• Usage-customized products (e.g., home type, high/low usage)</li> <li>• HVAC tune-ups</li> </ul>
Longer-term (07 and beyond)	<ul style="list-style-type: none"> <li>• Advanced pricing plans                             <ul style="list-style-type: none"> <li>• Pre-paid energy</li> <li>• Time-of-use / critical peak pricing</li> <li>• Real time pricing</li> </ul> </li> <li>• Home services                             <ul style="list-style-type: none"> <li>• Energy management (e.g., usage audits, analysis, control)</li> <li>• Energy assurance (e.g., power surge insurance)</li> <li>• BPL internet access and services</li> </ul> </li> <li>• Distributed generation / back-up power</li> </ul>

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## Unfortunately, Texas Is The Only Market That Has Allowed True Retail Competition To Flourish

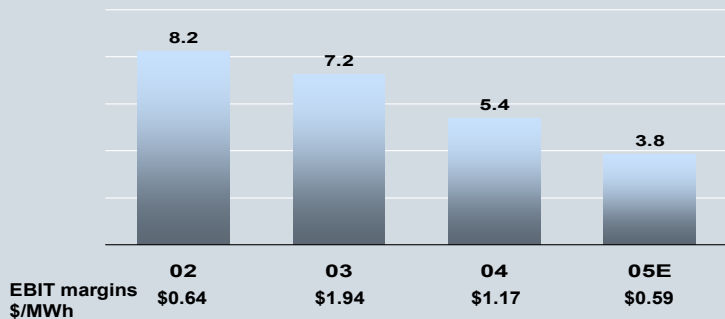


The combination of failed attempts to deregulate (California) and the recent surge in commodity prices has stalled efforts in other markets

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## Large Commercial And Industrial Opportunities Outside Of Texas Are Limited Due To Collapsing Margins...

National risk-adjusted LCI gross margin<sup>1</sup> 02-05; \$/MWh



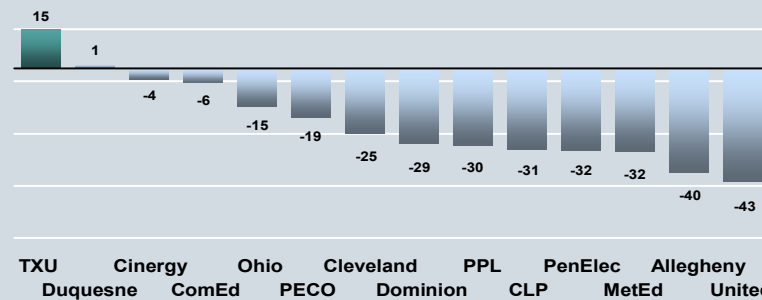
Despite power price increases of nearly 90%, LCI prices have increased only 40% due to tough competition and sophisticated customers

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<sup>1</sup> Adjusted to account for collateral requirements

## ...And The Lack Of Headroom In Other Deregulated Residential Markets Outside Of Texas Makes Profitable Growth Difficult

Headroom (gross margin) 04-05; \$/MWh



The retail position acts like a large underwater hedge in almost all markets other than Texas

Source: Northbridge

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