

TXU Corporate Strategy: Achieving Market Leadership

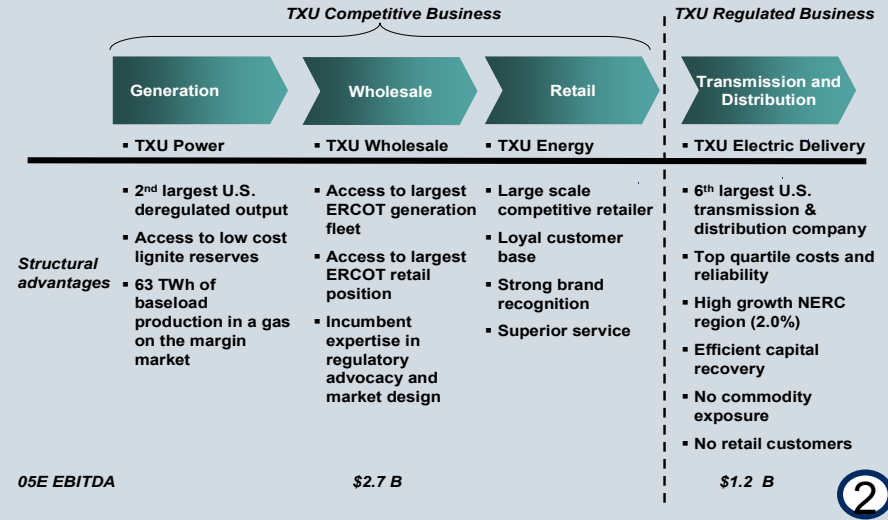


TXU's Strategy Reflects Core Beliefs About What It Takes To Win In The Energy Business

Principle	Rationale
1 <i>Long-Term Success In The Energy Sector Is Based On Having Access To Structurally Advantaged Assets</i>	<ul style="list-style-type: none"> Energy markets will continue to go through cycles; only assets with a structural cost advantage will win over the long term Structurally advantaged positions provide better opportunities over the long term
2 <i>An Industrial Skill Set Is Crucial For Continual High Performance</i>	<ul style="list-style-type: none"> Superior operations and performance management can drive a 200 basis-point increase in ROIC Many companies in the sector have not transformed their performance level to reflect a competitive environment (delta between median and top quartile is 10-20%)
3 <i>Long-Term Winners Must Leverage Not Only Scale But "Quality Scale"</i>	<ul style="list-style-type: none"> Just like in other capital intensive sectors, scale is necessary to standardize operations, gain critical mass, and extract rent from suppliers "Quality scale" is needed to gain access to advantaged new build, and gain competitive and regulatory leadership

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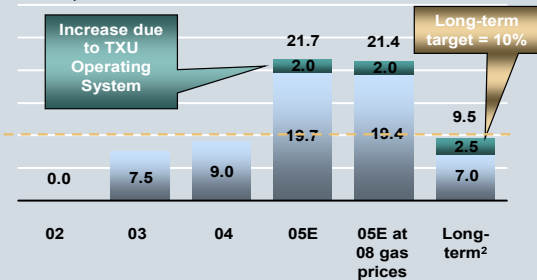
Principle 1: TXU's Core Businesses Are Structurally Advantaged Across The Entire Value Chain



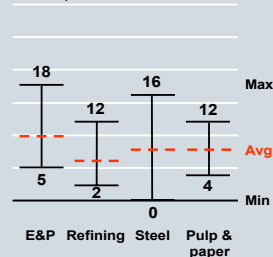
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Principle 2: An Industrial Skill Set Can Drive Superior Returns Over The Long Term

TXU baseload plant return on invested capital (ROIC)¹ 02-05; Percent



ROIC¹ performance in other asset-intensive industries 90-03; Percent



- The Industrial Skill Set combines operational excellence, market leadership, risk/return mindset and performance management
- Application of this skill set will drive more than a 200 bps increase in long term ROIC

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Principle 3: Based On Similarities Between The E&P Sector And The Power Sector...

Characteristic	E&P	Power generation	Delivery
Multi-local	Exploration and development driven by local geology and infrastructure	Power marketing constrained to regional transmission grids	Regulated model makes every transmission region different
Capital intensive	Minimum efficient investment > \$1 billion	Minimum efficient investment > \$750 million	T&D companies can often invest up to 10% of their market cap in annual capex
Cyclical	Oil/gas price cycles driven by investment conduct, declining economics and demand cyclicality	Power price cycle driven by gas price volatility, fuel price volatility, demand growth and investment conduct	Regulated returns cycle based on interest rate cycle
Importance of regulatory relationships	Country regimes define development rules and economics	State/federal regulators approve development and competitive market rules	All capex and rate structures must be approved by local/federal regulators

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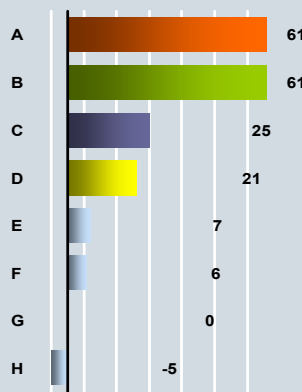
¹ Net income divided by PPE
² Based on 05 operational assumptions with \$5.00/MMBtu gas price and 9.0 MMBtu/MWh heat rate

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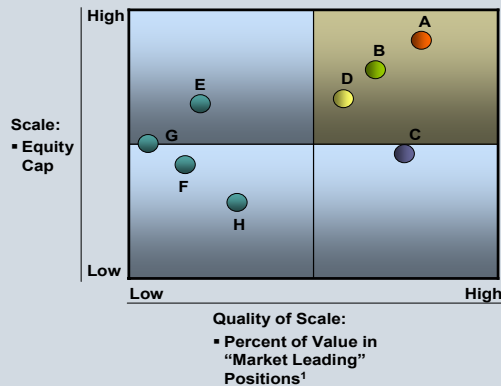


...And Looking At The Characteristics Of The Most Successful E&P Companies...

Shareholder Value Creation (SVC)...
91-01; \$ billions



...has been driven by scale and quality of scale



¹ As of 10/13/2005.
² "Market Leading" positions defined as having greater than 15% investment share in a basin with PVI > 2.

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...The Winning Strategy In The Power Sector Will Require The Combination Of Scale And Quality Of Scale

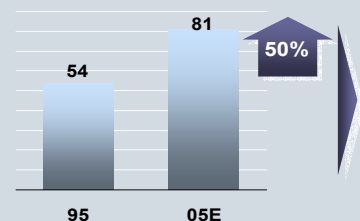
Key Principle	Competitive Advantages	TXU Application
Scale	• Standardization of operating practices	• Applying TXU Operating System across larger portfolio of assets
	• Ability to take part in needed large capital investments	• Taking part in infrastructure build out without "betting the company"
	• Ability to extract excess rents from equipment suppliers	• Leveraging bulk purchases to reduce equipment supplier costs and increase returns
Quality of scale	• Better access to future development opportunities	• Taking advantage of sites like Oak Grove for new build
	• Providing competitive leadership and capital discipline	• Ensuring capital is invested appropriately in needed infrastructure
	• Providing regulatory leadership	• Ensuring that market rules (e.g., Nodal) develop to ensure fair competition

In the E&P sector, the combination of both factors was needed to drive significant value creation over time

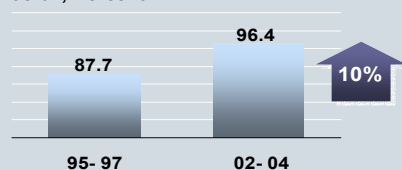
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Scale Is Needed To Achieve High Performance Operations... Nuclear Power Example

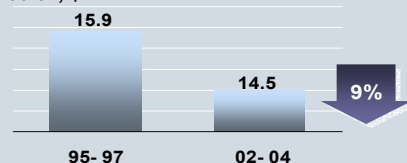
Top 5 merchant nuclear operators
95-05; Percent



Availability
95-04; Percent



Non-fuel O&M
95-04; \$/MWh



- 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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...To Take A Meaningful Part In The Next Infrastructure Build Out...

Major project capex \$ billions	Equity market cap \$ billions	Project as percent of market cap Percent
Deepwater GOM development (e.g., Thunderhorse)	Exxon: 370	1.1
	BP: 233	1.7
	CVX: 124	3.2
2000 MW coal plant	Exelon: 47	6.3
	Dominion: 27	11.1
	TXU: 24	12.5

The E&P leaders have built the scale to take the risk of major new build projects, and in the deregulated power sector, new build projects represent major bets

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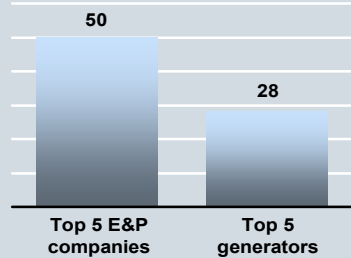
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...And To Fundamentally Shift Economic Rent Away From The More Concentrated Equipment Suppliers

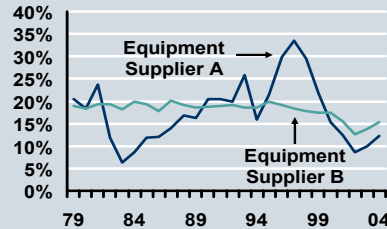
The lack of concentration in power generators...

Equipment supplier revenues from top 5 companies 05; Percent



...Has allowed the equipment suppliers to reap excessive rents for long periods of time

Power suppliers ROIC 79-04; Percent



Over the last 25 years, average ROIC's for power equipment suppliers have been greater than 17%

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The Same Benefits That "Quality Of Scale" Has Brought To The E&P Sector Will Translate To The Power Sector

Global E&P

Power

"Regional Market Leader" strategy

- Large discoveries (>1 billion boe) with low operating and development costs and act as basin "anchors"

- Baseload (nuclear and coal) assets in gas on the margin markets act as regional "anchors"

Leads To

Better access to future development

- Leading companies in a basin/country have advantaged knowledge of geology and are the 'natural owners' of leases and developments

- Leading companies have ability to leverage existing positions to add incremental capacity or build new plants (TXU's Oak Grove Plant)

Competitive leadership

- Leading companies have the ability to better time investments in production with needed infrastructure and demand

- A strong market position gives better insight into fundamentals, allowing for better procurement and timing of investment decisions

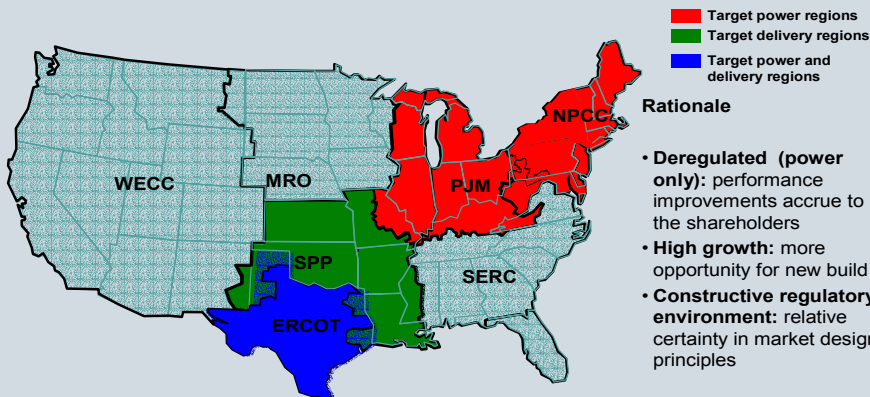
Regulatory leadership

- Leading companies have "seat at the table" to help shape national and international market rules

- Sufficient market scale earns a company a "seat at the table" to help shape market rules and regulatory structures

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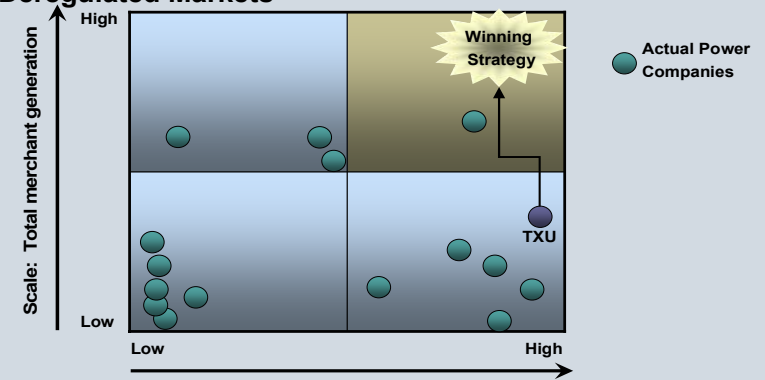
While There Are Players In Individual Markets With "Market Leading" Positions, There Is No Player Who Has Been Able To Replicate Their Position Across Multiple Markets



TXU's vision is to create "Market Leading" positions in ERCOT, PJM, and NPCC

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TXU Energy's Aspiration Is To Follow The "Regional Market Leader" Strategy And Replicate Its Quality Scale Position In Other Deregulated Markets



Quality of Scale: Percent of value in "Market Leading" positions¹

- No deregulated company has been able to establish "quality scale" in multiple markets
- There are a number of companies that have high quality positions but lack the scale to extract "Market Leader" value

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¹ "Market Leader" defined as solid fuel TWh >10% of NERC region merchant TWh.