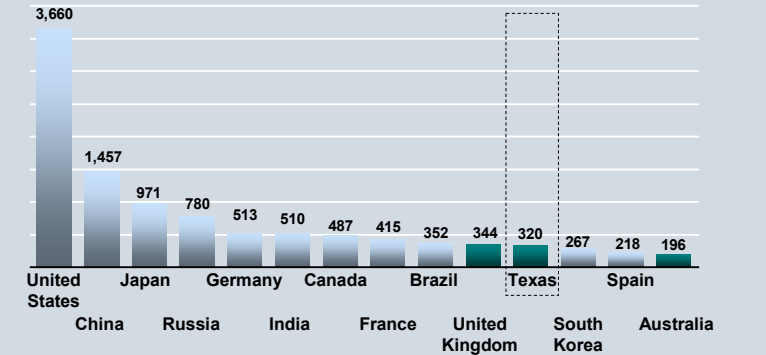


Texas Restructuring: A Success Story



The Texas Electric Market Is One Of The Largest In The World And Now One Of Only A Few Competitive Retail Markets

Electricity consumption 02; TWh

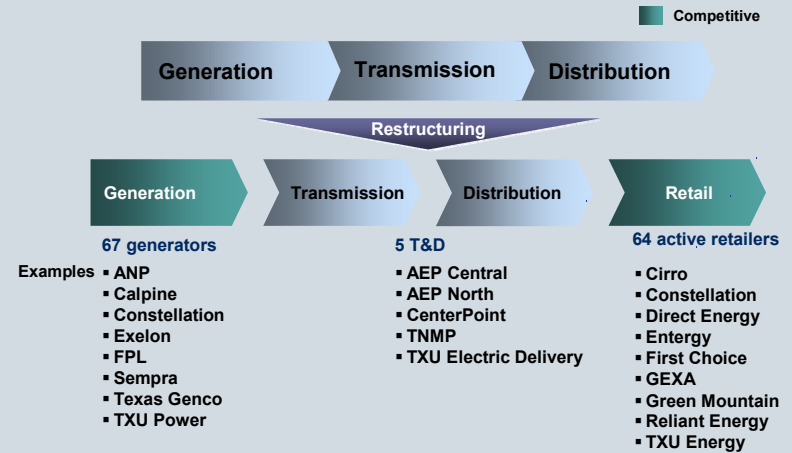


Texas is the 11th largest market in the world

Source: EIA

1

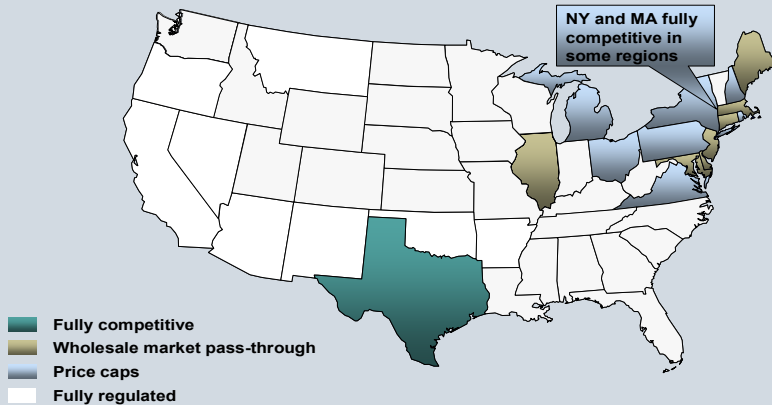
Texas Is The Only State To “Unbundle” The Entire Value Chain...



Restructuring has brought a variety of new players into the market

2

...Making It The Only Market With True Wholesale And Retail Competition



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

3

ERCOT Was Designed So That Customers Could Capture The Benefits Of Open Markets And Competition

	What Texas Did Right	How Customers Benefited
Wholesale	<ul style="list-style-type: none"> Simple bilateral market Expedited permitting and interconnection 	<ul style="list-style-type: none"> Significant investment in state of the art technology (efficient CCGT) Improved operational performance
Retail	<ul style="list-style-type: none"> Immediate competitive pricing for customers PTB provided headroom and mechanism to pass on commodity changes Low barriers for entry 	<ul style="list-style-type: none"> Many competitive options Risk management products Lower prices than under continued regulation New products (loyalty programs, “green power”)

The Texas Legislature correctly designed the retail framework to:

- Ensure Texans have access to reliable electricity at competitive prices and improved customer service
- Foster competitive behavior and encourage entrepreneurship, while continuing to protect consumers

4

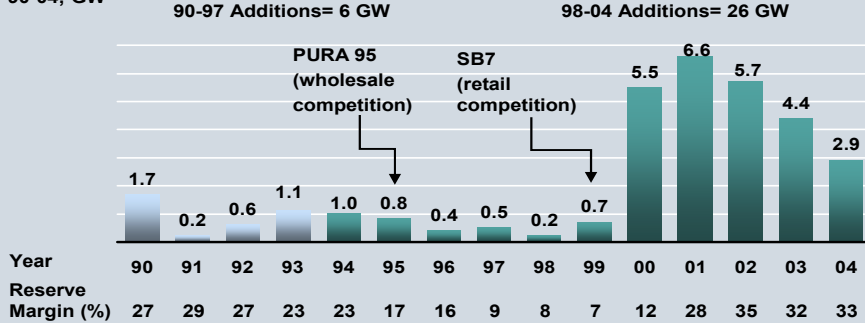
Texas Restructuring: A Success Story



Restructuring Spurred Massive Generation Investment In The ERCOT Market...

Capacity additions

90-04; GW¹



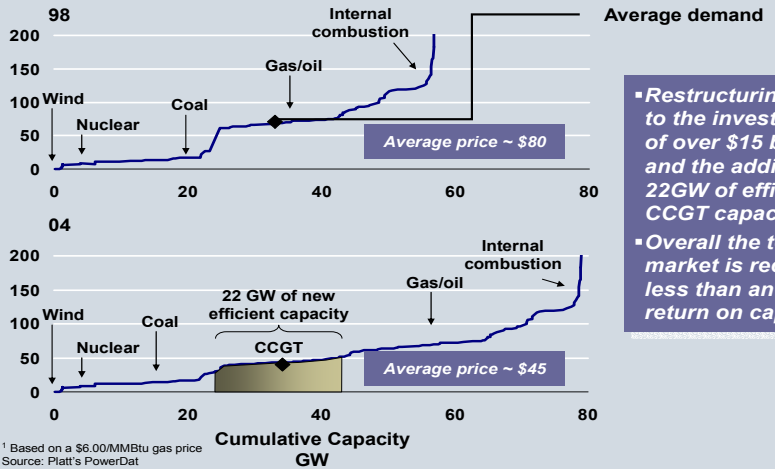
From 98-04, more than \$15 billion was invested in generation infrastructure – none of which was in the rate base

¹ GW = 1,000 MW (1 MW serves approximately 1,000 homes)
Source: Energy Velocity; NERC

5

...Bringing Efficient CCGT Capacity Into The ERCOT Generation Portfolio...

ERCOT generation portfolio: Average variable cost¹
98 vs. 04; \$/MWh



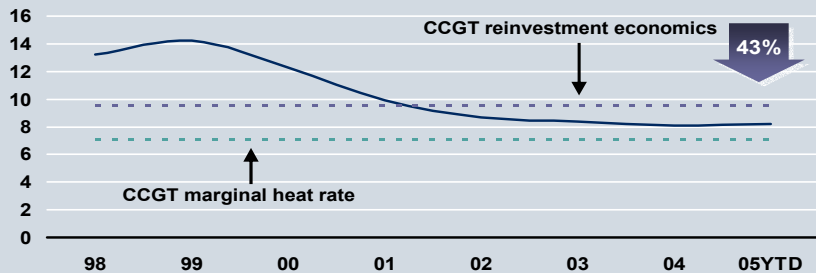
▪ Restructuring led to the investment of over \$15 billion and the addition of 22GW of efficient CCGT capacity
▪ Overall the total market is receiving less than an 8% return on capital

¹ Based on a \$6.00/MMBtu gas price
Source: Platt's PowerDat

6

...Leading To A Significant Reduction In Market Heat Rates

ERCOT heat rate¹ cycle
98-05YTD²; MMBtu/MWh



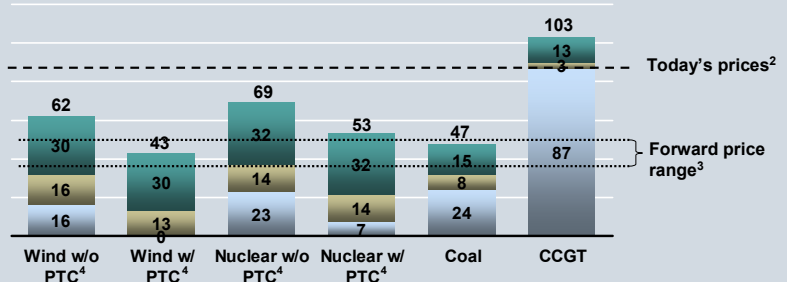
▪ New capacity has led to a 40% increase in the efficiency of the marginal unit
▪ This would be similar to improving average automobile gas mileage from 20 mpg to 35 mpg

¹ Heat rate is a measure of the efficiency of converting a unit of fuel (MMBtu) into a unit of electricity (MWh); lower heat rates implies higher efficiency.
Based on day ahead electricity and gas prices.
² As of 10/11/05

7

Competition Has Forced Marginal Pricing, Preventing Marginal Generators From Receiving Full Compensation For Capital Invested

Full reinvestment economics¹
05²; \$/MWh



▪ While today's prices justify possible new build, forward prices make it extremely risky
▪ TXU's Oak Grove investment is advantaged both on a cost basis and a fuel basis

¹ Wind capacity factor=40%; Nuclear=90%; Coal=90%; CCGT=60%
² 06 prices as of 10/13/05 (\$11.40/MMBtu)
³ Assumes range of \$4.50-\$5.50/MMBtu natural gas prices and 7x24 Heat rate of 8-9 MMBtu/MWh
⁴ PTC= Production Tax credit
Source: EIA, Herwood

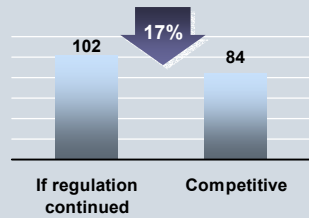
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Texas Restructuring: A Success Story

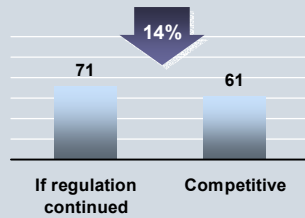


Customers Have Already Begun To Reap The Benefits Of Competition

Average residential prices¹
02-05E²; \$/MWh



Average large business prices¹
02-05E²; \$/MWh



Even with historically high natural gas prices, customers have benefited from access to lower electricity prices than they would have experienced under regulation

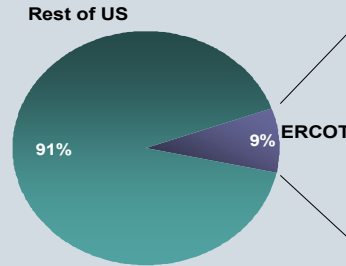
¹ Competitive Residential price based on average 15% discount (02-'05E) to TXU PTB offered by market competitors. Competitive large business rates include 10% wholesale gross-up and 1% net margin. Regulated world assumes 4.7 GW added capacity in the rate base at a cost of \$600/kw, O&M costs approximately \$38/kw-yr resulting in an average cost of \$129/kw-yr in the rate base, SB7 mandated environmental costs approx. \$400 million resulting in average cost of \$12/kw-yr in the rate base. Comanche Peak stranded costs \$1.2 billion resulting in average cost of \$87/kw-yr in the rate base.

² Based on forward curve as of 10/4/05.
Source: TXU Energy, ECOM model

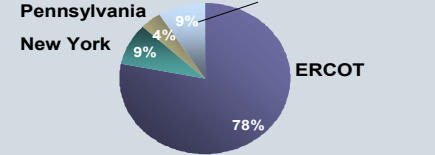
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ERCOT Accounts For Nearly 50% Of US Switching...

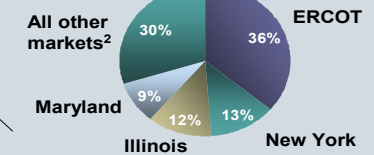
Total US electricity sales
04; 100% = 3,550 TWh



Residential switching by state
04; 100% = ~ 38 TWh



Large commercial switching by state
04; 100% ~ 133 TWh



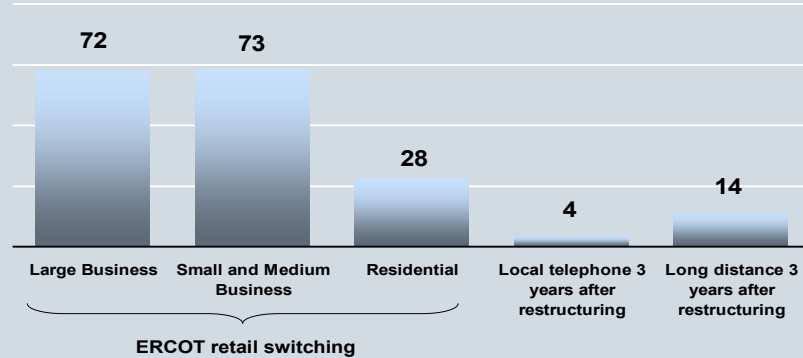
While ERCOT is only 8% of total electric sales in the US, it comprises 78% of residential switching and 36% of LCI switching

¹ Includes AZ, CA, CT, DC, DE, IL, MA, MD, ME, MI, MT, NH, NJ, NV, OH, OR, RI, VA
² Includes MI, PA, CA, ME

10

...With All Segments Taking Advantage Of The Competitive Environment

Significant competition: Net incumbent switch rates
May 05; Percent of load



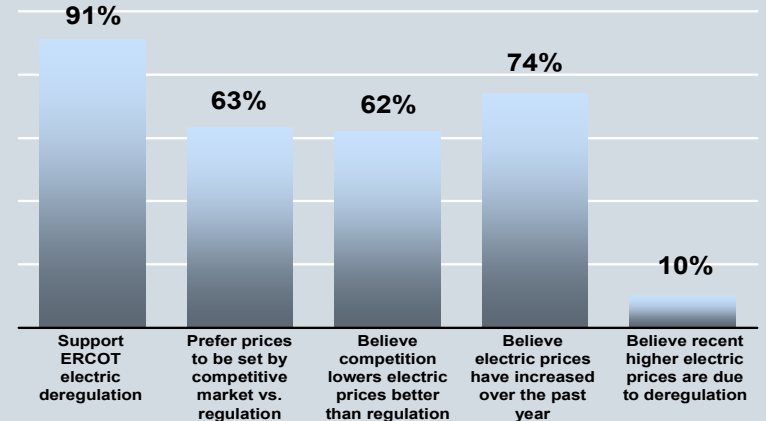
Even customers that have remained with the incumbent receive multiple competitive bids (often more than 10 bidders)

Source: KEMA, FCC, CERA

11

Despite Recent Price Increases, Customer Support Continues To Be Strong

Percent of customers



Source: TXU Energy, random digit dial among all households in the competitive ERCOT electricity market

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