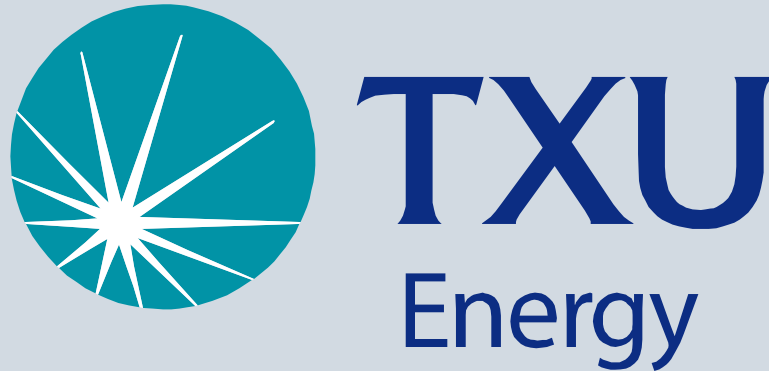


ERCOT Competitive Market Assessment and Overview of TXU Energy Retail Organization



Overview

January 2005

Safe Harbor Statement

This presentation contains forward-looking statements, which are subject to various risks and uncertainties. Discussion of risks and uncertainties that could cause actual results to differ materially from management's current projections, forecasts, estimates and expectations is contained in the company's SEC filings. In addition to the risks and uncertainties set forth in the company's SEC filings, the forward-looking statements in this presentation could be affected by the ability of the company to implement the initiatives that are part of its restructuring, operational improvement and cost reduction program, and the terms under which the company executes those initiatives.

TXU Strategy

Competitive Market Assessment



TXU
Energy

January 2005

Today's Discussion

Impact of restructuring in other industries

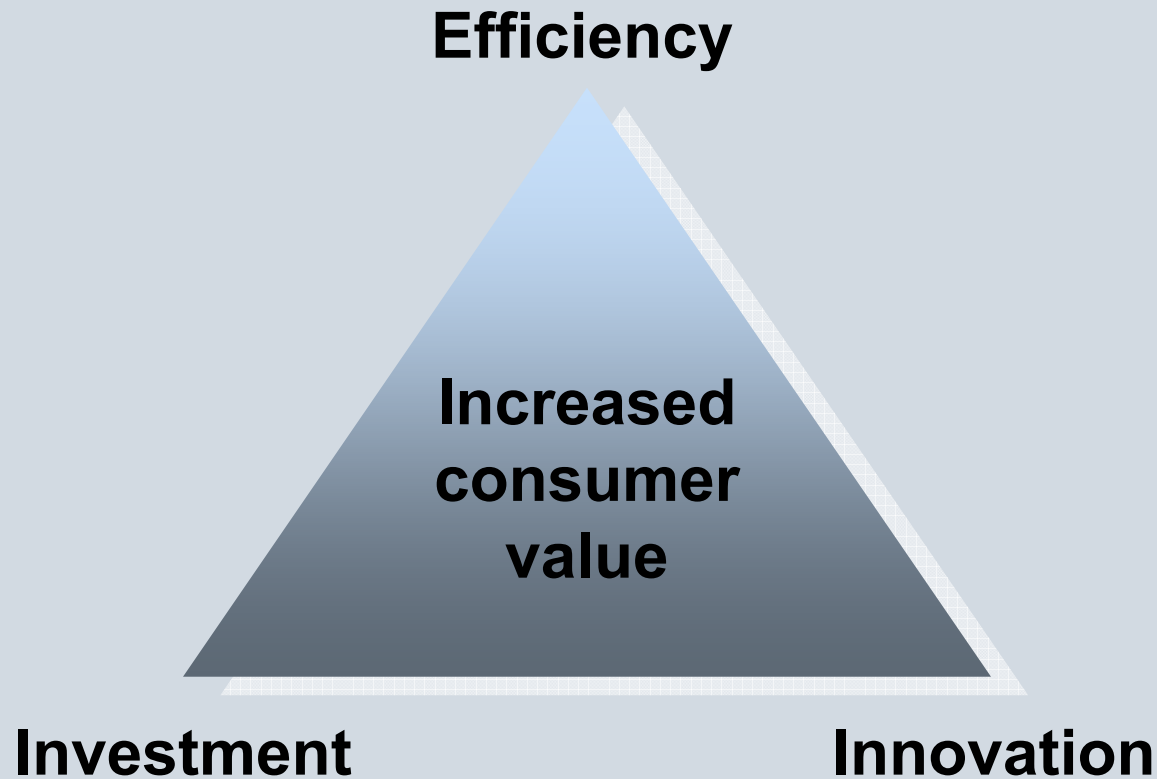
ERCOT market restructuring

Implications for TXU

Key questions

- **How has restructuring impacted other industries?**
- **How has restructuring impacted the Texas wholesale and retail markets?**
- **What are TXU's strategic priorities?**

Over Time Restructuring Allows Customers To Capture The Benefits Of Open Markets And Competition

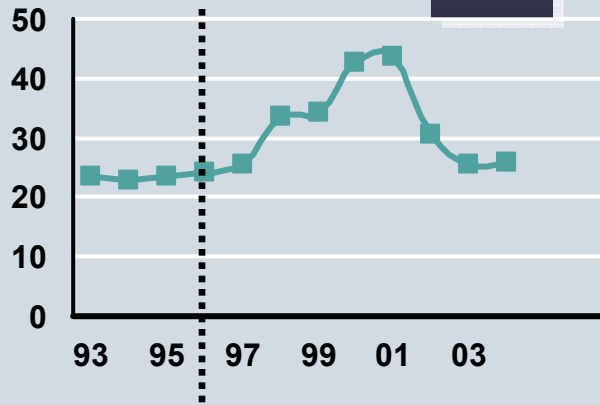


- *Over the long term open markets allocate resources better than monopolies and regulators*
- *"Competition on its worst day is better than regulation on its best day." -Pat Wood, FERC Chairman*
- *"Markets can both price and allocate capital; not just allocate," Financial Times*

Across Multiple Industries, Market Restructuring Has Led To Increased Investment...

**US Telecom
93-04; \$ billions**

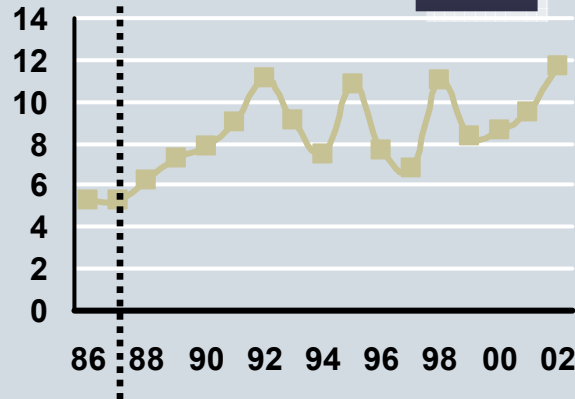
86%



**Telecom
Act of 96**

**US Natural gas
86-02; \$ billions**

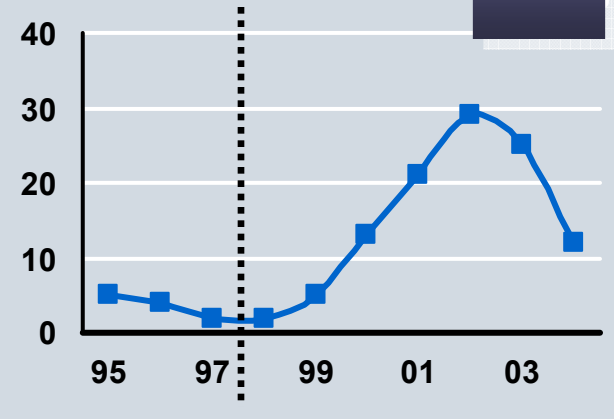
104%



**Order
436/500**

**US Power generation
95-04E; \$ billions**

480%

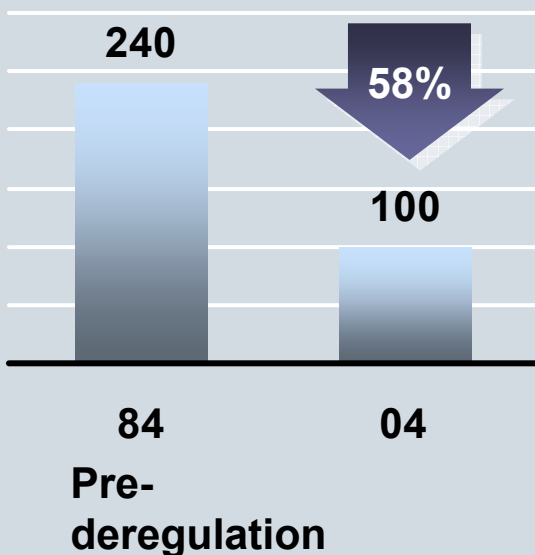


**Wholesale
competition
starts to flourish**

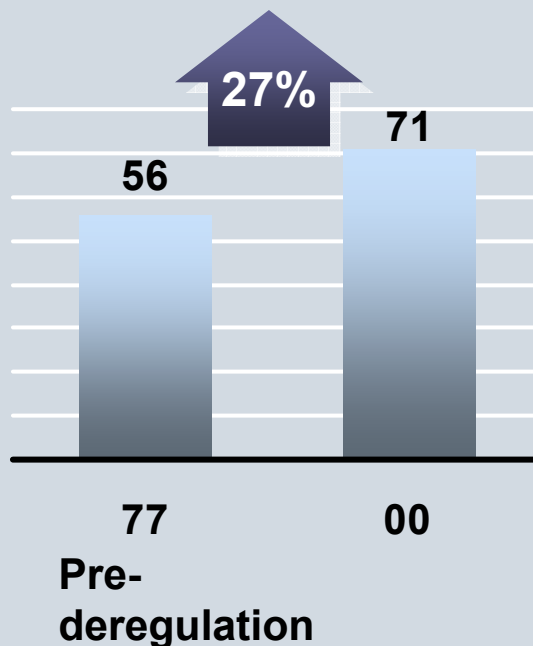
Free markets provide the incentives for investment in infrastructure and technology

...Efficiency Gains...

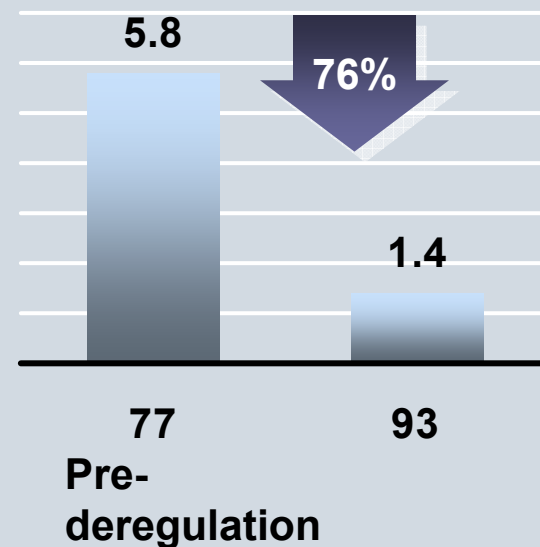
**Smaller workforce:
British Telecom employees
84-04; Thousands**



**Higher Utilization: Percent of
available airline seat miles filled
77-00; Percent**



**Leaner cost structure:
Interstate trucking
operating costs
77-93; Real \$/mile (2004)**



A competitive market provides clear incentives and accountability for constant improvement

...And Innovation Over Time

**New products/technology
post restructuring**

**Timeframe-years
after restructuring**

Cable

- Increase from 30-300 channels
- HDTV technology
- Internet broadband
- Pay-per-view
- Digital Video Recorder (DVR)
- Parental controls

3-5

Telecom

- Call waiting
- Caller ID
- 3-way calling
- Digital Subscriber Line (DSL)
- Cell phones
- Voice over Internet Protocol (VoIP)

5-15

Natural Gas

- Swing option pricing
- Horizontal drilling
- More flexible storage
- LNG liquefaction technology advances

10-20

Airlines

- Frequent flier programs
- Ticketless travel
- Online reservation (Sabre)
- Regional jets with turbofan technology
- Air limos

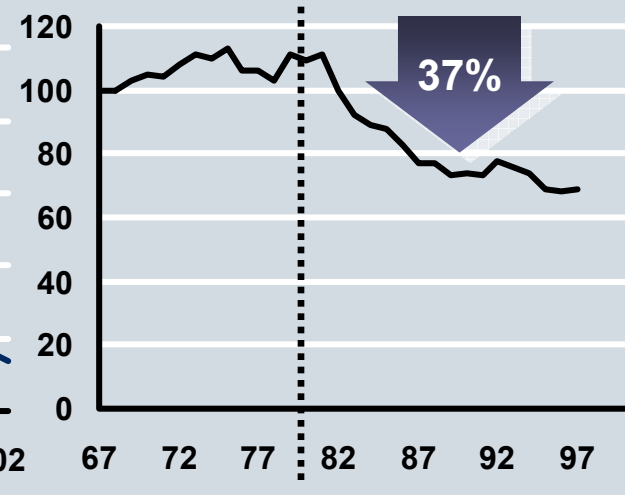
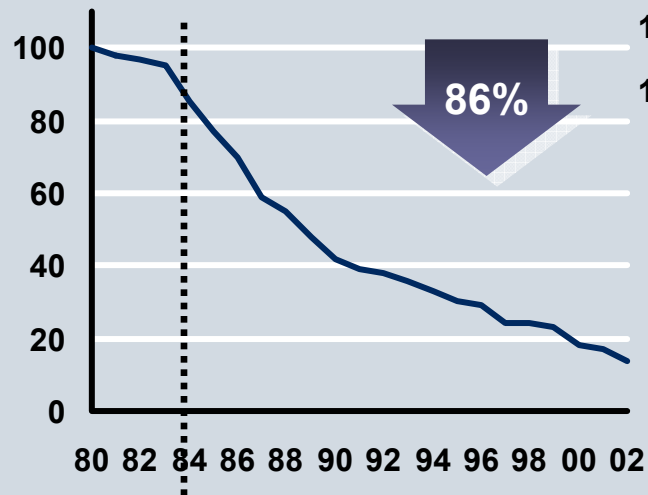
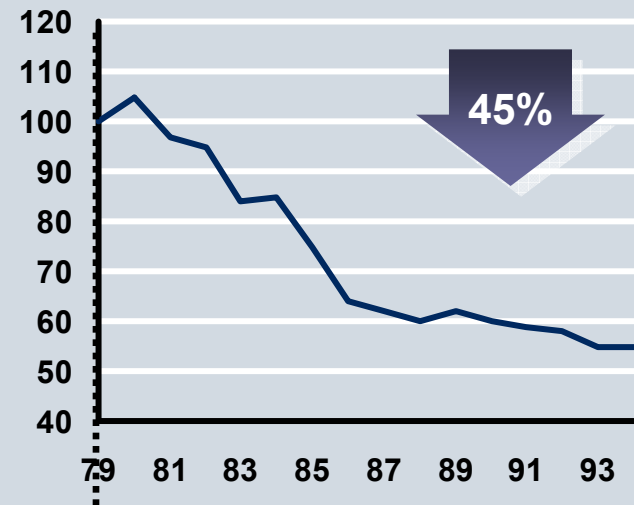
5-15

Restructuring Has Resulted In Lower Prices For Customers Across Multiple Industries...

Airline retail prices
Real yield index (1979=100)
79-94; No units

US long distance
80-02; Index of Real
revenue/minute (1980=100)

Trucking prices (truckload)
67-97; Index of Real \$/ton
(1967=100)



Airline restructuring

Long distance restructuring

1980 Motor Carrier Act

A competitive market forces the efficiency gains through to the customer in the form of lower prices and value added services

...Including Other Restructured Electric Markets

Retail electric prices

Real price index (1990=100)¹

90-03; No units



In these foreign markets it took 3 – 5 years to see absolute price decreases

¹ Australia price index: 1994=100

Source: UK Department of Trade and Industry, Energy Supply Association of Australia, Australian Bureau of Statistics CPI data

Today's Discussion

Impact of restructuring in other industries

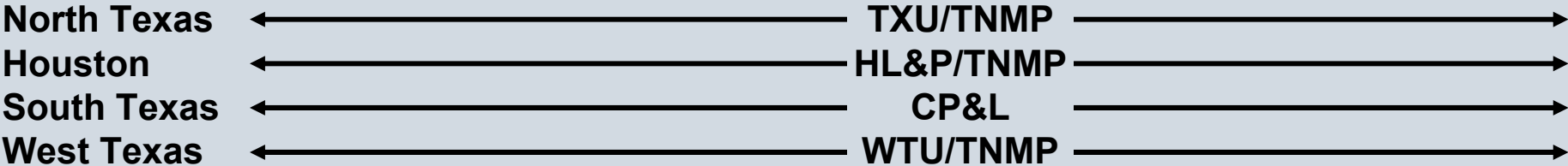
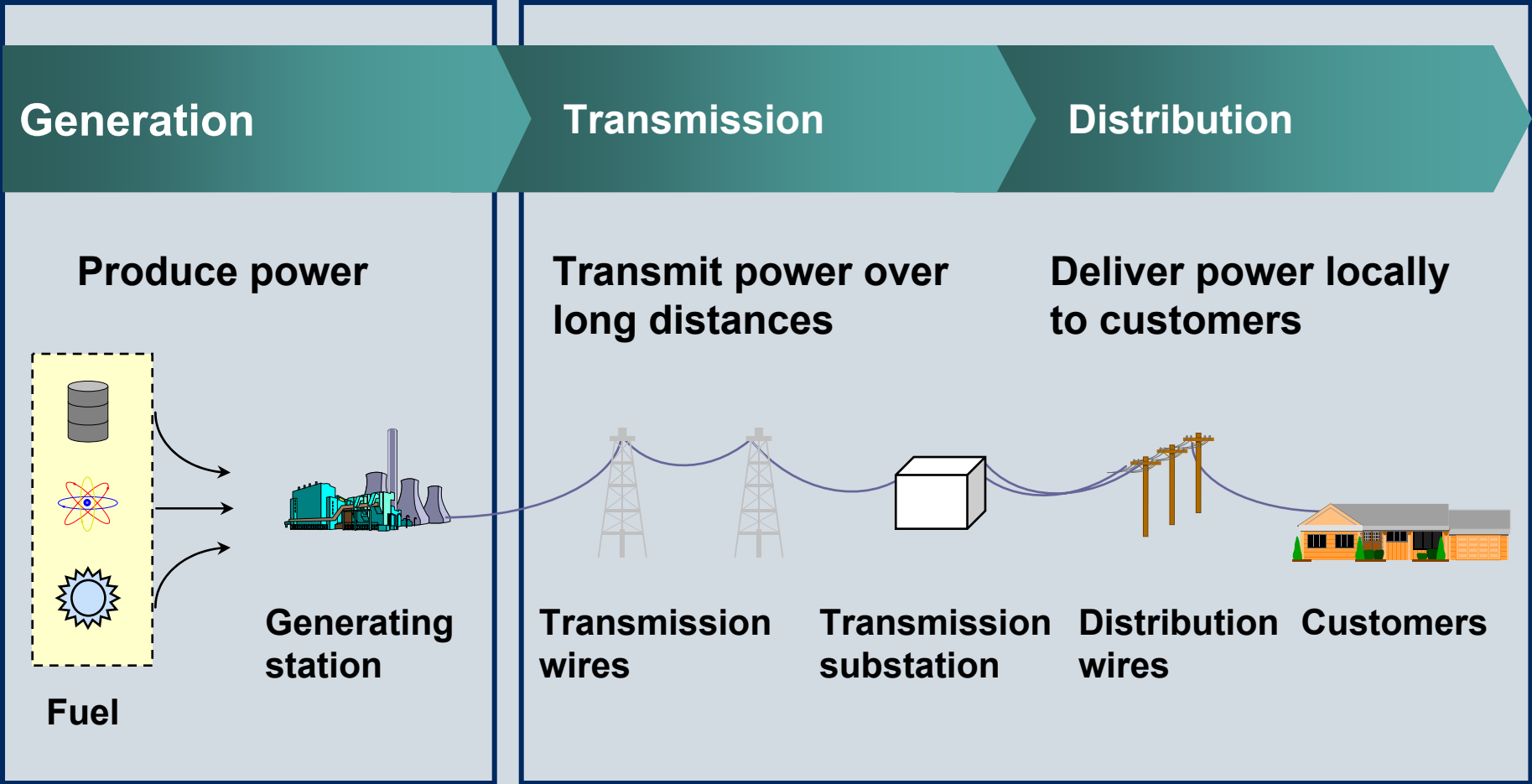
ERCOT market restructuring

Implications for TXU

Key questions

- **How has restructuring impacted other industries?**
- **How has restructuring impacted the Texas wholesale and retail markets?**
- **What are TXU's strategic priorities?**

Utilities Historically Have Been Integrated Monopolies Across The Value Chain



Texas Utility Restructuring Has “Unbundled” The Electric Power Value Chain And Restructured Many Activities

Competitive



67 Generators

- Examples
- ANP
 - Calpine
 - Constellation
 - Exelon
 - FPL
 - Sempra
 - Texas Genco
 - TXU Power

5 T&D


- AEP Central
- AEP North
- CenterPoint
- TNMP
- TXU Electric Delivery

59 active retailers

- Cirro
- Constellation
- Direct Energy
- Entergy
- First Choice
- GEXA
- Green Mountain
- Reliant Energy
- TXU Energy

Restructuring has brought a variety of new players into the market

Companies Have Actively Chosen Different Business Models To Participate In ERCOT...

 Where companies participate

Model	Segments	Examples
-------	----------	----------

Participate in all segments	T	D	<ul style="list-style-type: none"> TXU Corp
	G	R	

Participate in T&D only	T	D	<ul style="list-style-type: none"> CenterPoint AEP Central/North
	G	R	

Participate in retail only	T	D	<ul style="list-style-type: none"> Reliant Energy Green Mountain Gexa
	G	R	

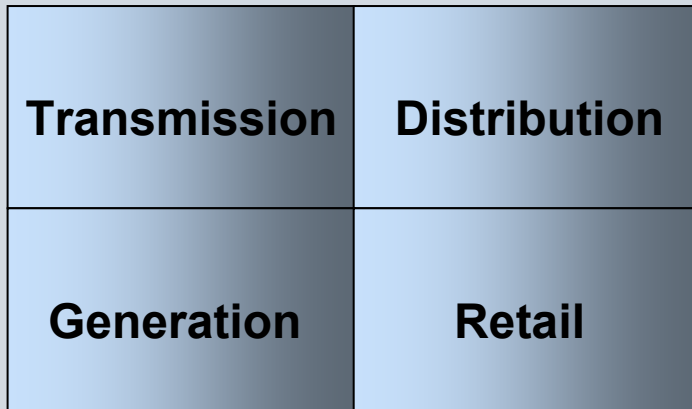
Participate in retail and generation	T	D	<ul style="list-style-type: none"> Centrica/Direct Energy Calpine Constellation
	G	R	

Participate in generation only	T	D	<ul style="list-style-type: none"> Texas Genco FPL
	G	R	

From an integrated model . . .

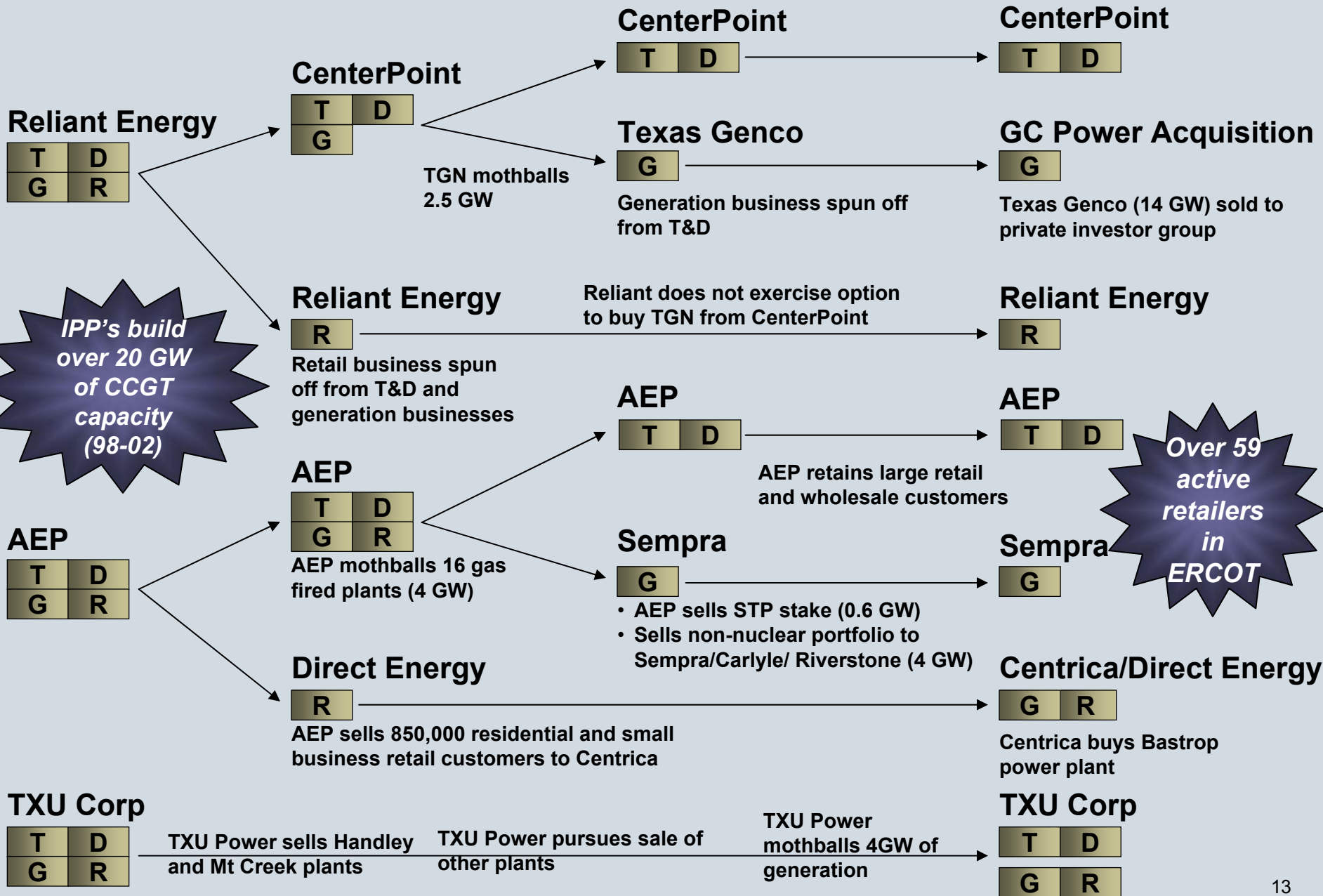


. . . to many functional combinations



• Only time will tell which business models will succeed
 • As the market continues to mature, the winning business model may continue to change

...As Evidenced By Recent Transactions



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

Implementation

Effect

Wholesale

- Established bilateral market between generators and retailers
- Expedited permitting and interconnection for new build

- Large infusion of capital
- Investment in state of the art technology (efficient CCGT)
- Improved operational performance (5%-8% improvement in utilization)

Retail

- PTB intended to provide sufficient headroom to spur competition
- Low barriers for retail certification
- Immediate competitive pricing for large business customers

- Improved customer service
- Large number of competitors (~60)
- New products (“Green Power”, outage notification, online billing)

Competition has already spurred investment, increased efficiency and should continue to encourage innovation and increase value to the consumer

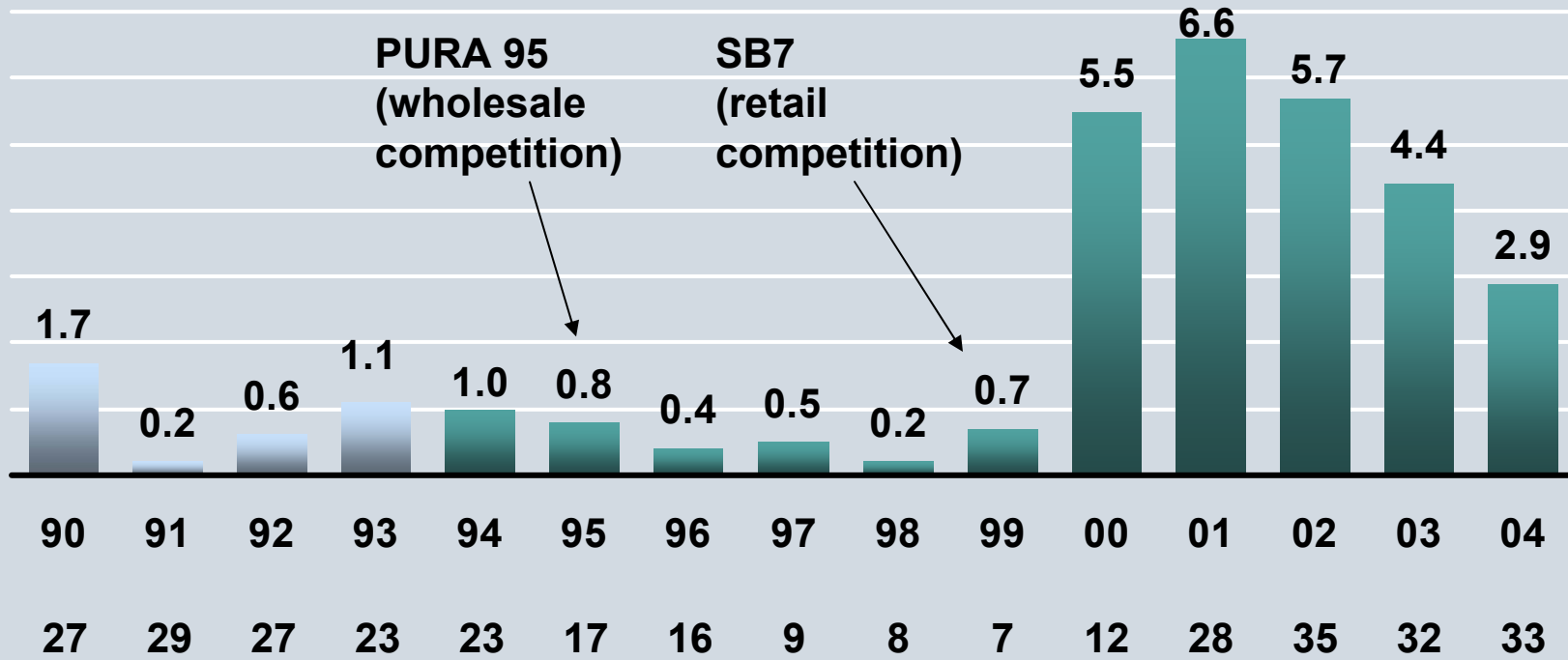
Restructuring Spurred Massive Generation Investment In The ERCOT Market...

Capacity additions
90-04; GW¹

In rate base
 Not in rate base

90-97 Additions= 6 GW

98-04 Additions= 26 GW



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

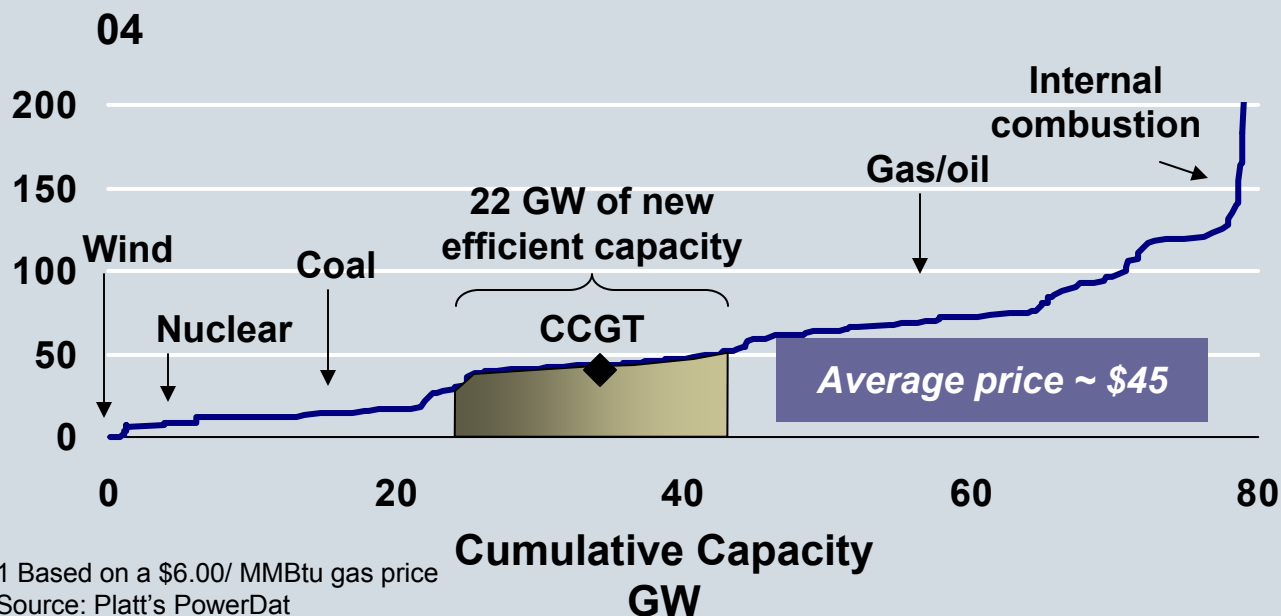
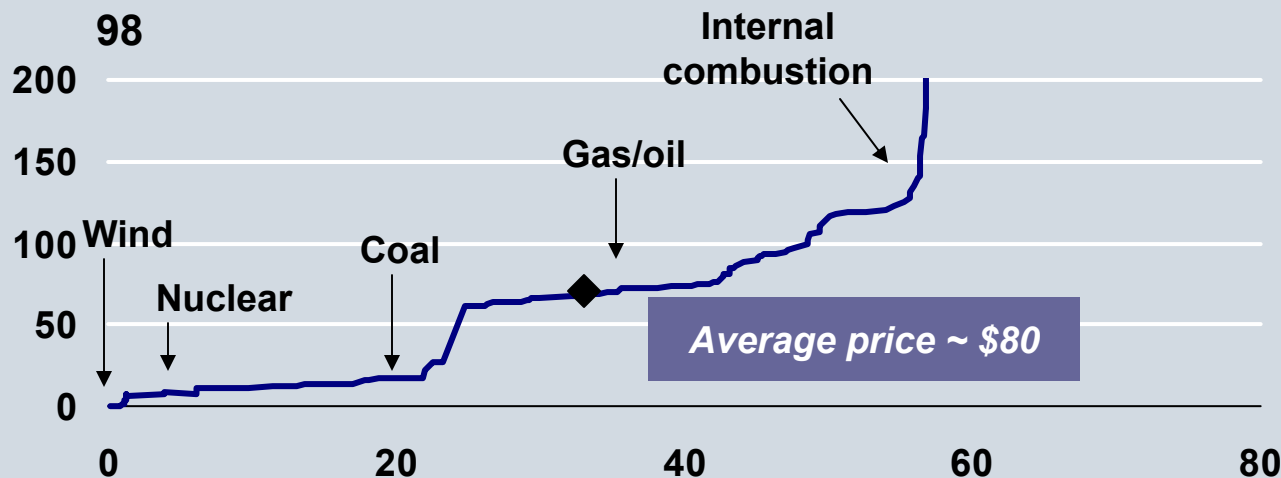
¹ 1 GW = 1000 MW (1 MW serves approximately 1000 homes)

Source: Energy Velocity; NERC

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

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

◆ Average demand

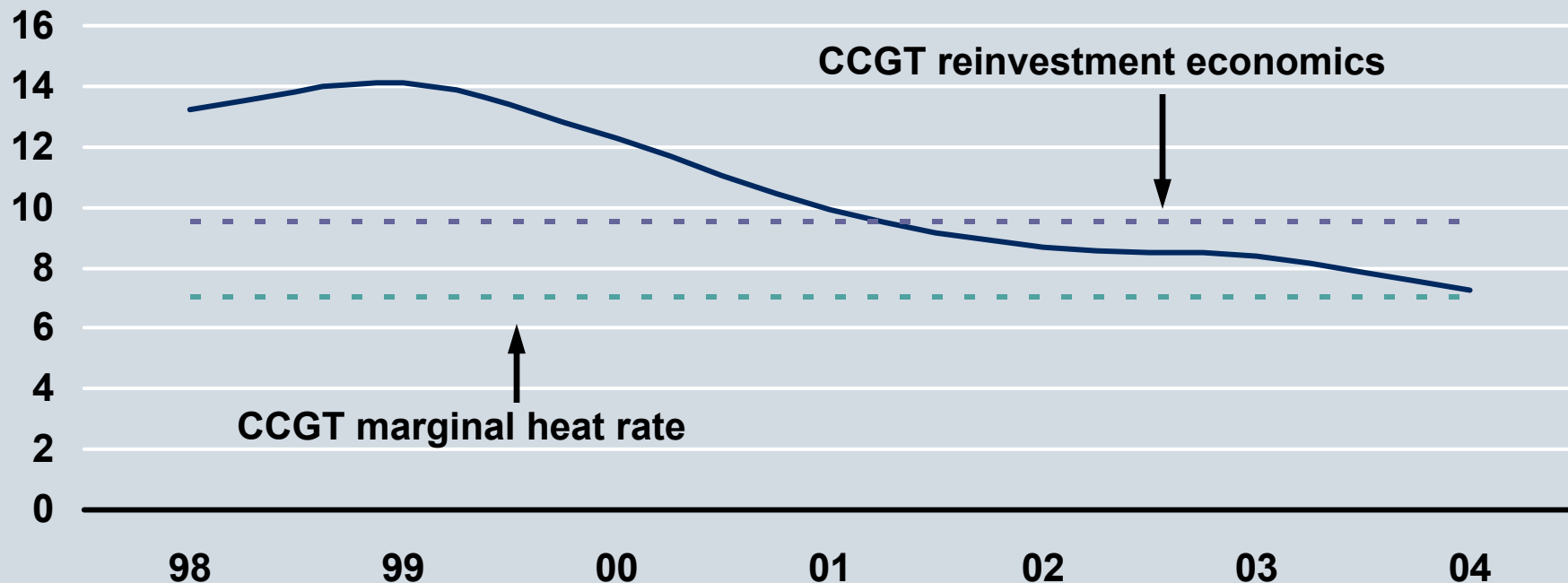


Restructuring led to the investment of over \$15 billion and the addition of the 22GW of efficient CCGT capacity

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

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

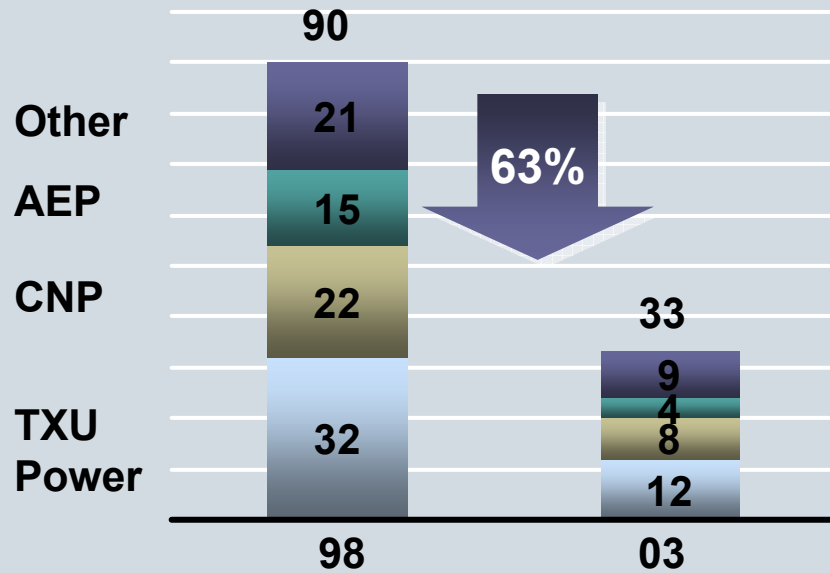
ERCOT heat rate¹ cycle
98-04; MMBtu/MWh



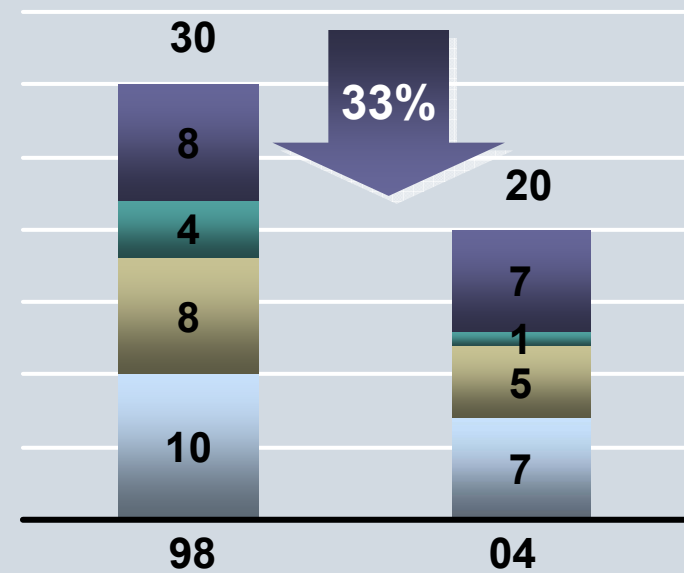
- *New capacity has led to a 40% increase in the efficiency of the marginal unit*
- *This would be akin to improving average automobile gas mileage from 20 mpg to 35 mpg*

...And The Reduced Production From Conventional Gas Units...

Annual production
98-03; TWh



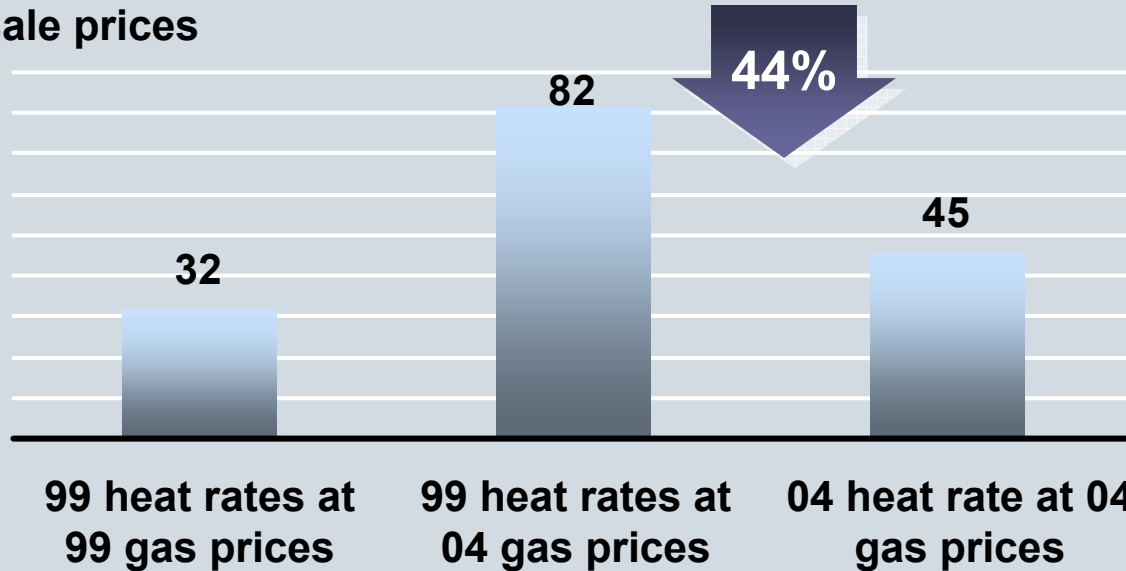
Total available capacity
98-04; GW



- *Over 10 GW of conventional gas generation has been mothballed or retired*
- *Almost \$8 billion dollars has migrated away from these plants*

...Delivering Significant Savings To The Largest Power Purchasers And To Competitive Customers Through REPs

Implied wholesale prices
04E; \$/MWh



99 heat rates at
99 gas prices

99 heat rates at
04 gas prices

04 heat rate at 04
gas prices

Gas price (\$/MMBtu): \$2.27¹

\$5.83²

\$5.83²

Heat rate (MMBtu/MWh): 14³

14³

7.8⁴

Wholesale power prices may have been more than 40% higher if not for the influx of significant new capacity

¹ Based on 99 average Henry Hub spot market price

² Based on Henry Hub spot market average (January 2004-November 9, 2004)

³ Assumes heat rate = 14 MMBtu/MWh (99 ERCOT heat rate)

⁴ Assumes heat rate = 7.8 MMBtu/MWh (04 actual heat rate)

Sources: Bloomberg, MegaWatt Daily

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

Implementation

Effect

Wholesale

- Established bilateral market between generators and retailers
- Expedited permitting and interconnection for new build

- Large infusion of capital
- Investment in state of the art technology (efficient CCGT)
- Improved operational performance (5%-8% improvement in utilization)

Retail

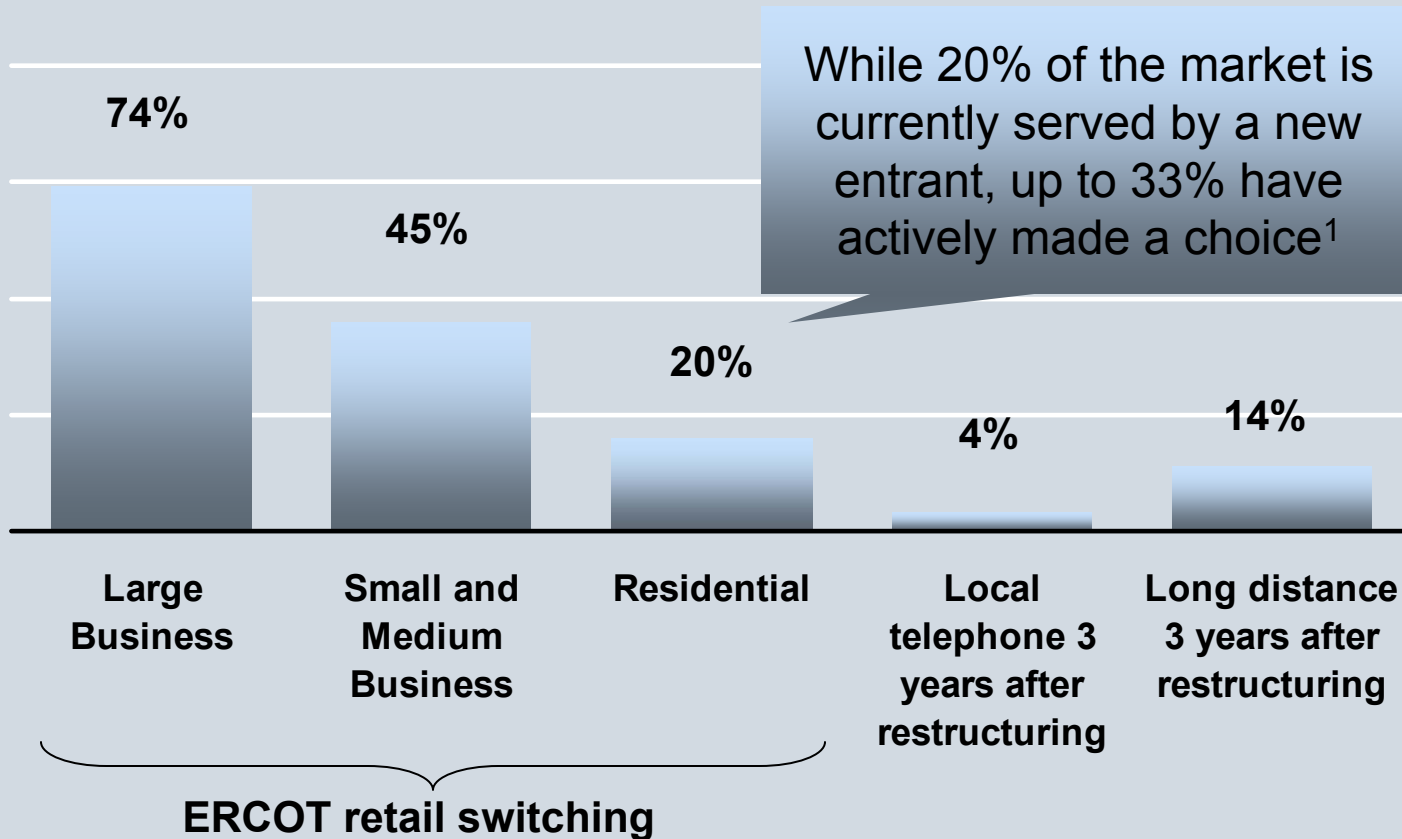
- PTB intended to provide sufficient headroom to spur competition
- Low barriers for retail certification
- Immediate competitive pricing for large business customers

- Improved customer service
- Large number of competitors (~60)
- New products (“Green Power”, outage notification, online billing)

Competition has already spurred investment, increased efficiency and should continue to encourage innovation and increase value to the consumer

ERCOT Has Seen Significant Switching Across All Customer Classes

Total new entrant market share
June 04; Percent of load

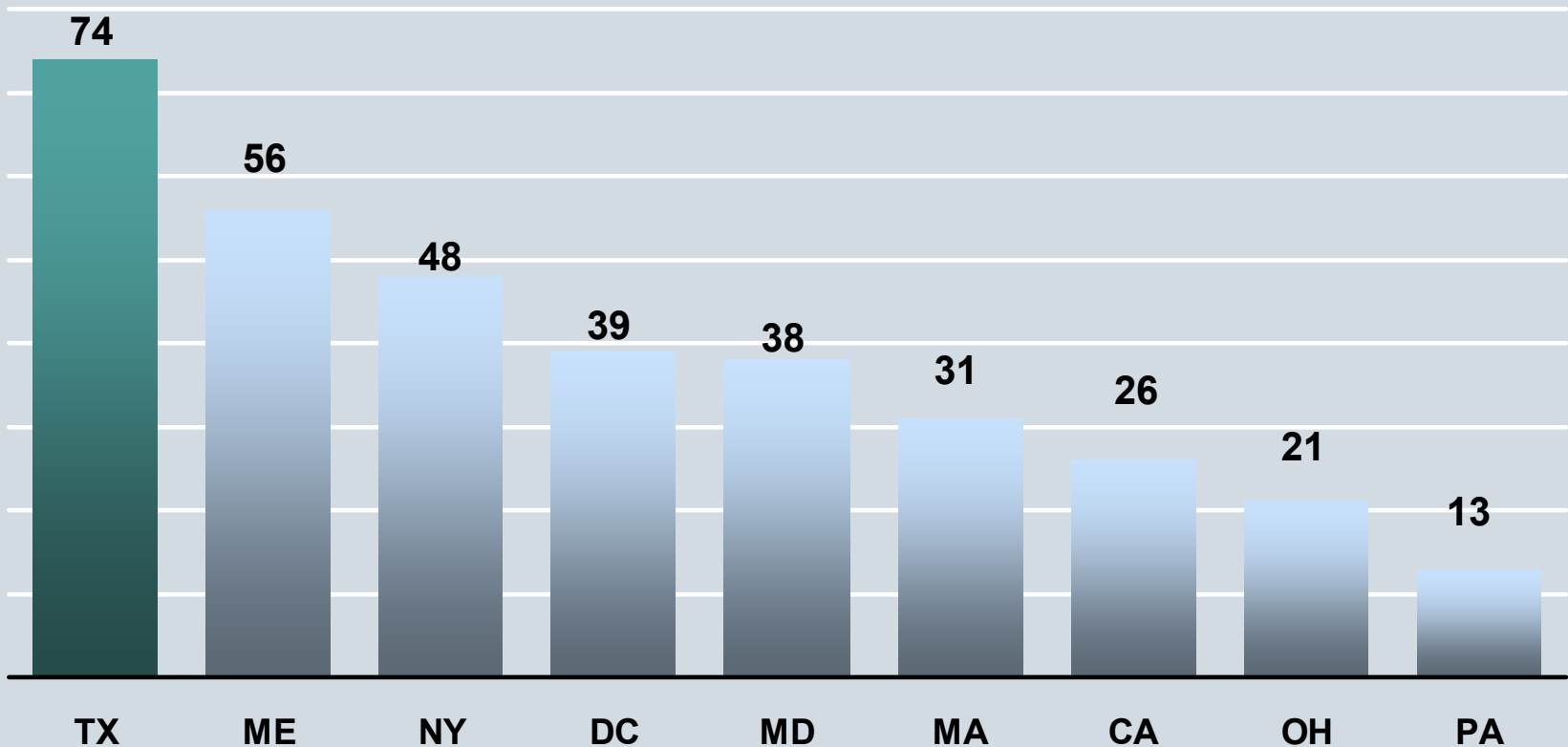


ERCOT has seen higher switching levels than other restructured industries

¹ Based on TXU incumbent territory; 575,000 customers served by a new entrant; approximately 100,000 customers have switched back
Source: PUC, KEMA, TXU, FCC

Texas Is Leading The Nation In New Entrant Market Share...

Total new entrant large business market share¹
June 04; Percent of load

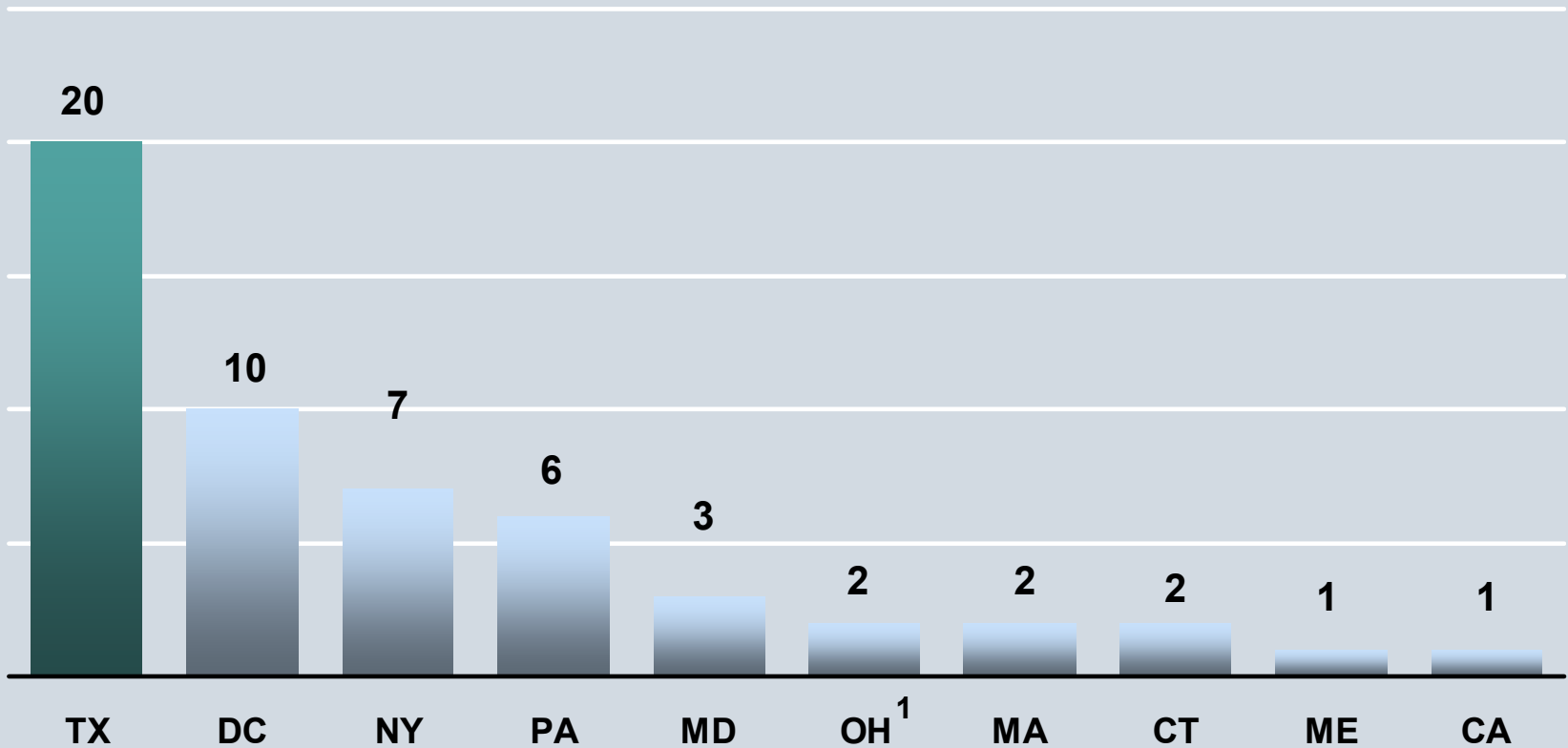


Large business customers quickly took advantage of competitive rates

¹ Figures represent an average of Commercial and Industrial switch rates
Source: PUC, KEMA

...And Residential Retail Competition

Total new entrant residential market share
June 04; Percent of load

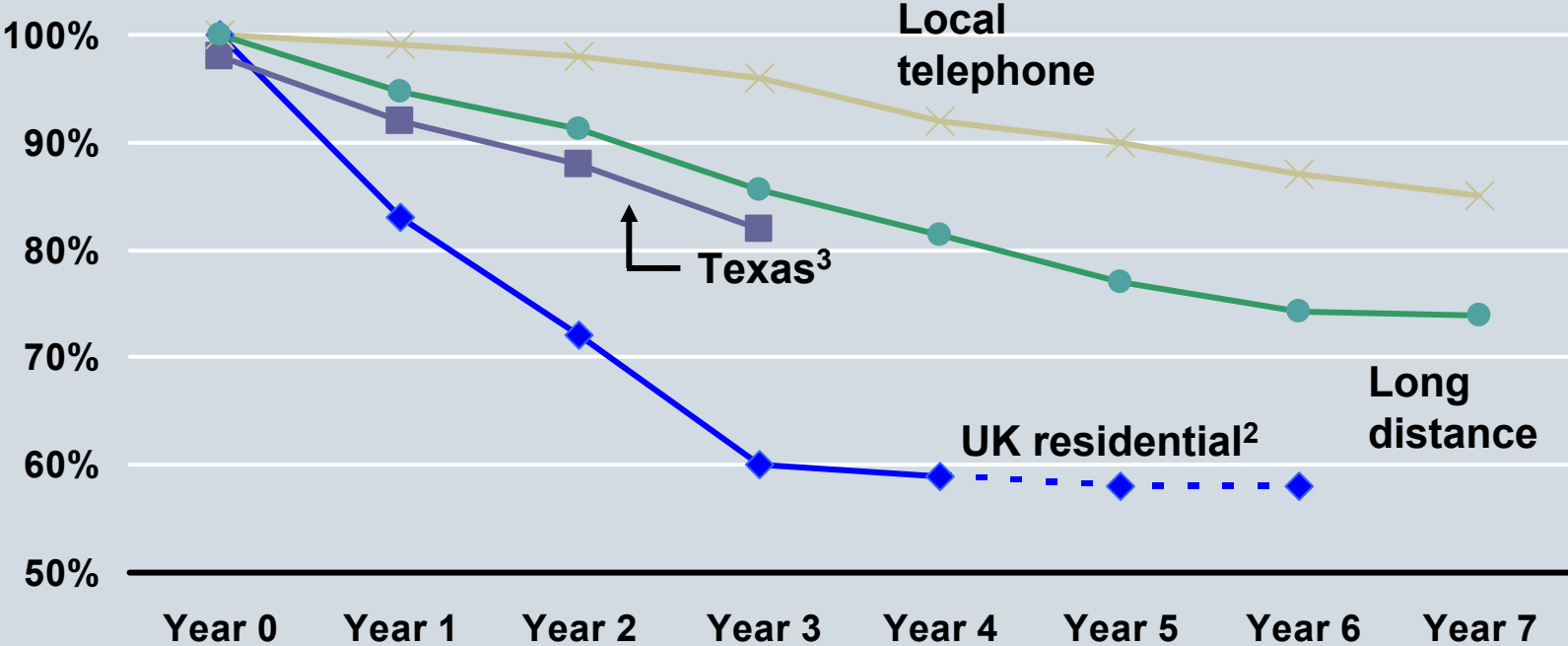


ERCOT has the most active restructured residential retail market in the US

¹ Excludes 17% attributable to municipal aggregation (based on CERA estimate) because municipal aggregation is not customer choice

Although Residential Switching Trails Large Customer Switching, It Remains in Line With Other Successful Restructured Markets...

Incumbent market share¹
 Years since restructuring; Percent

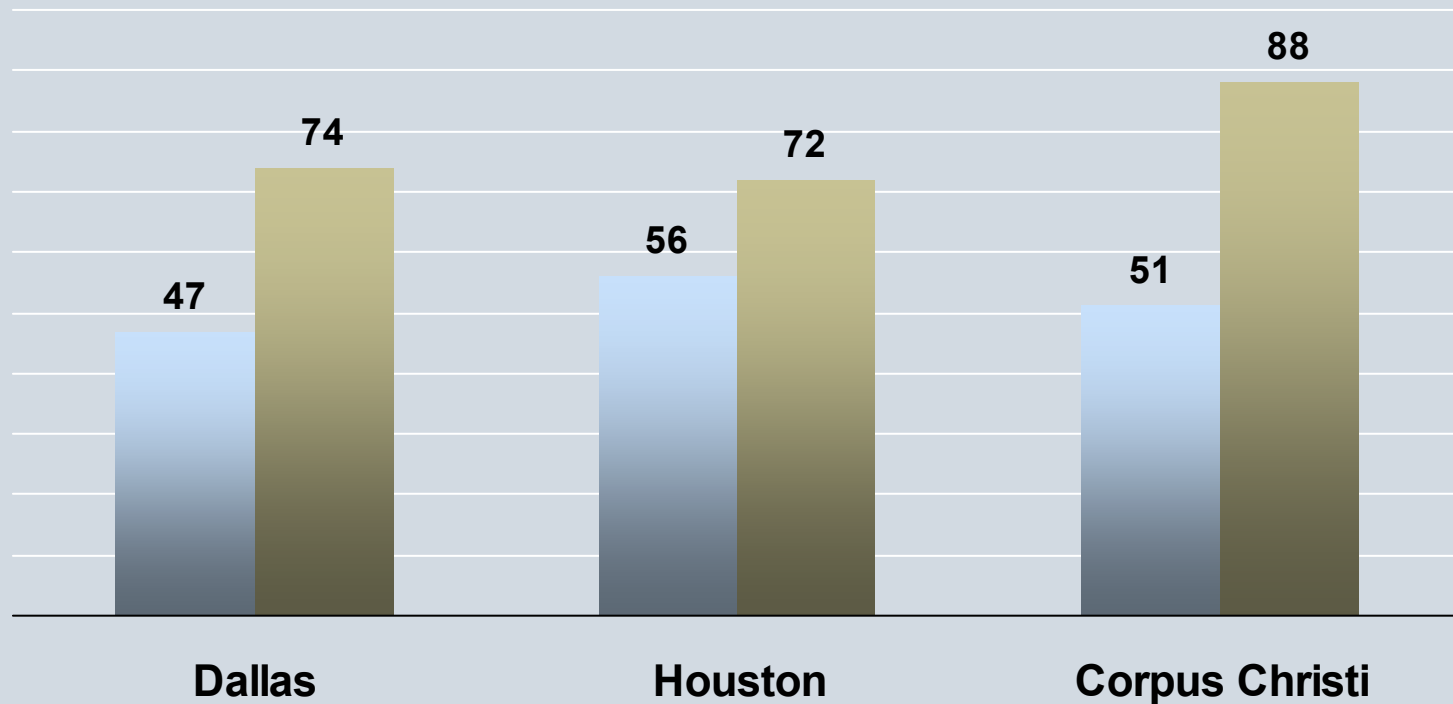


¹ Market share estimates based on customer count
² Estimates for 2003 and 2004
³ Average of North Texas and Houston market share
 Source: PUC; OFGEM, FCC

...And Overall Awareness of Competitors And Choice is High

Unaided awareness of competitive electric providers¹
02-04; Percent

02²
04²



Customer awareness of competition itself is nearly ubiquitous, with over 90% of customers aware that they have a choice of supplier

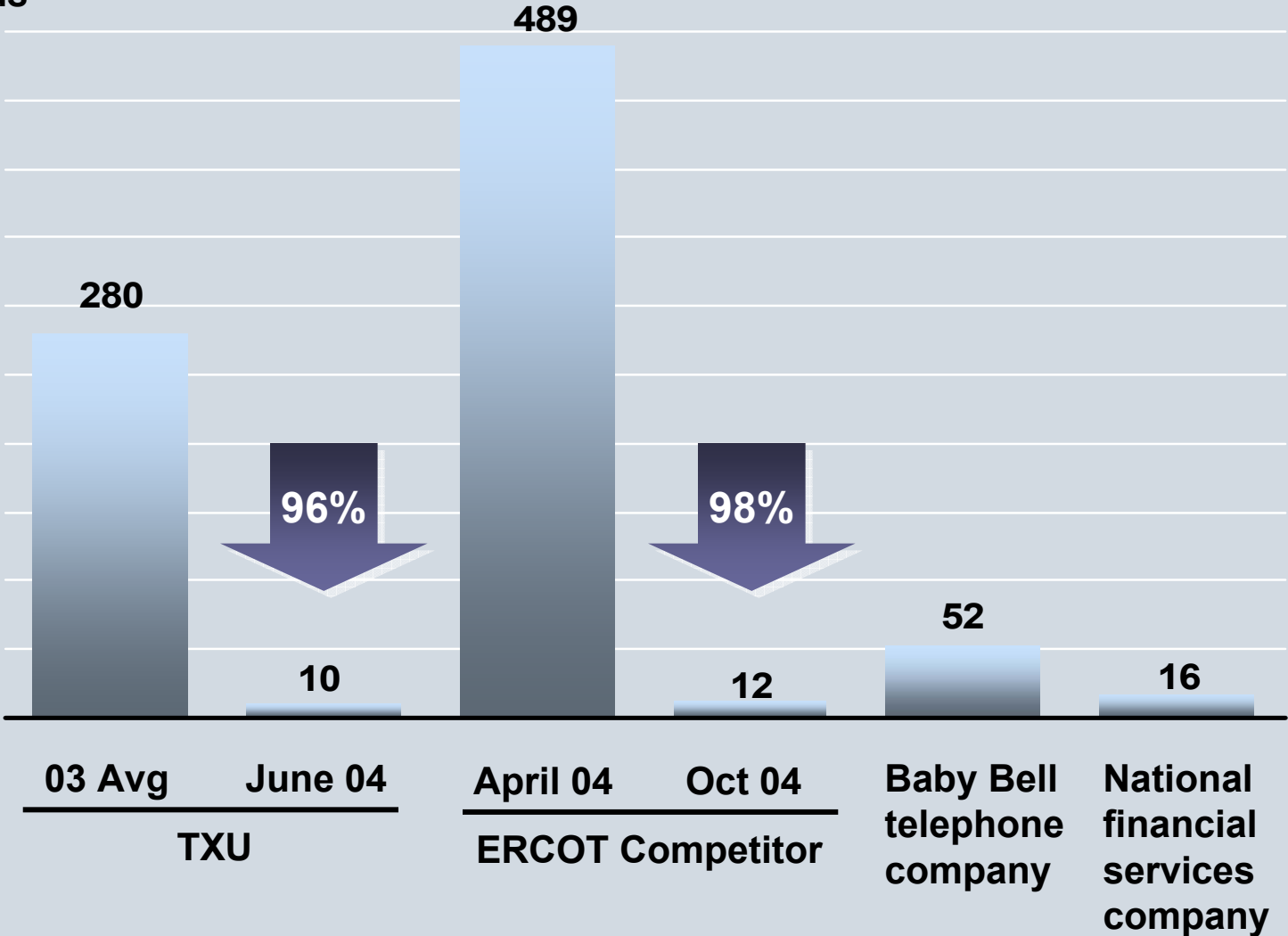
¹ Unaided awareness defined as percentage of customers who can identify at least one competitive retailer without prompting

² 02 data based on 2Q02 results; 04 data based on 3Q04 survey results

Source: TXU

Competition Has Already Forced Competitors To Respond With Better Service

Average speed of answer
03-04; Seconds



Source: TXU

Since Market Open Natural Gas Prices Have Increased By More Than 150%

20 day rolling average of 12 month NYMEX gas strip
02-04; \$ / MMBtu

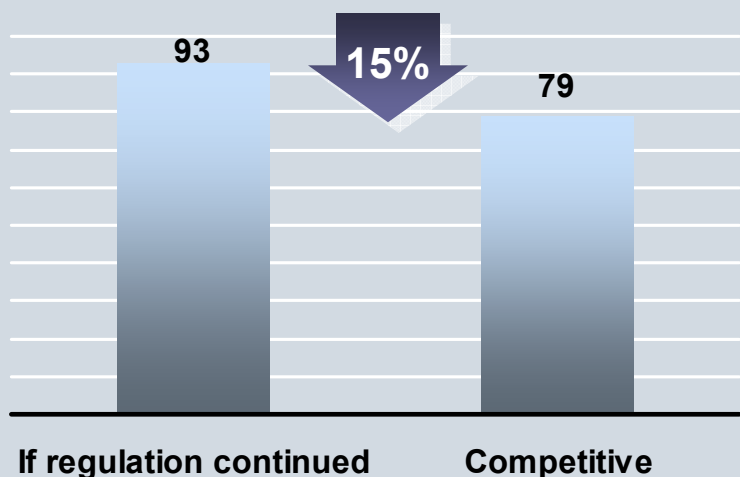


Gas prices have risen drastically due to:

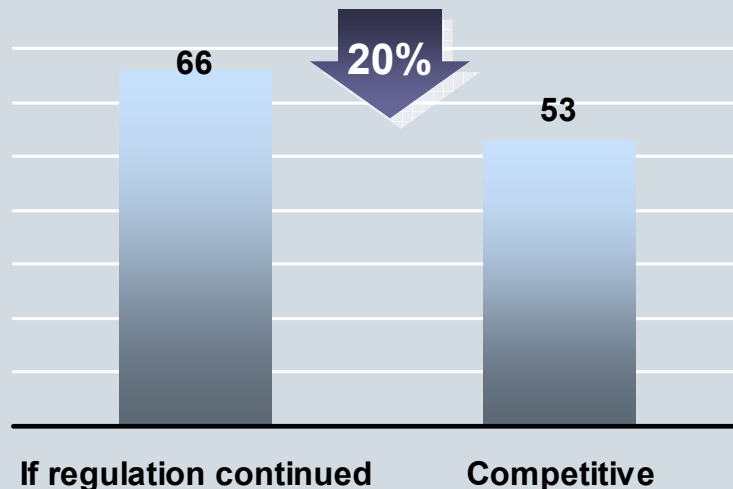
- *Faster than expected declines in Eastern Canada, and the shallow water Gulf of Mexico, with higher cost replacement capacity*
- *Unexpected supply decreases due to 04 hurricanes*
- *Higher than expected demand growth in China*
- *Strong US economy combined with increased utilization of gas in US power industry*
- *Limited near term LNG supply*

Customers Have Already Begun To Reap The Benefits Of Competition...

Average residential prices¹
02-04; \$ / MWh



Average large business prices¹
02-04; \$ / MWh

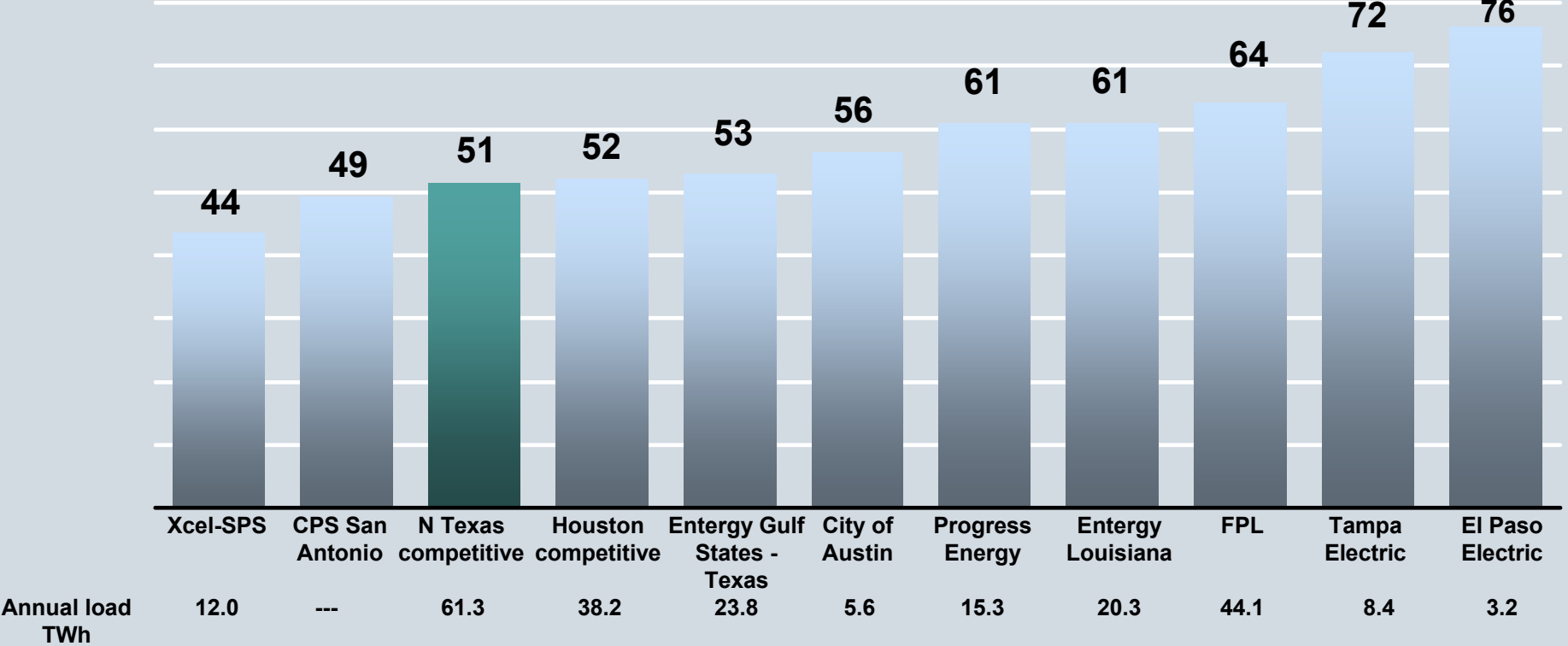


- *Customers have benefited from access to lower electricity prices than they would have experienced under regulation*
- *Similar to other industries, over time competition will continue to force the residential price down*
- *The Texas retail electric market is developing more quickly than other restructured industries (e.g., telecom)*

¹ Competitive Residential price based on 15% discount to TXU PTB as currently offered by market competitors, e.g., Cirro (14.6%); Competitive large business rates include 10% wholesale gross up and 5% net margin; Regulated world assumes 9.6 GW added capacity in the rate base (as opposed to 22GW actually built) at a cost of \$600/kw, O&M costs approximately \$36/kw-yr resulting in an average cost of \$127/kw-yr in the rate base

...Evidenced By The Competitive Large Business Rates...

Average large business rates¹
02-04; \$ / MWh

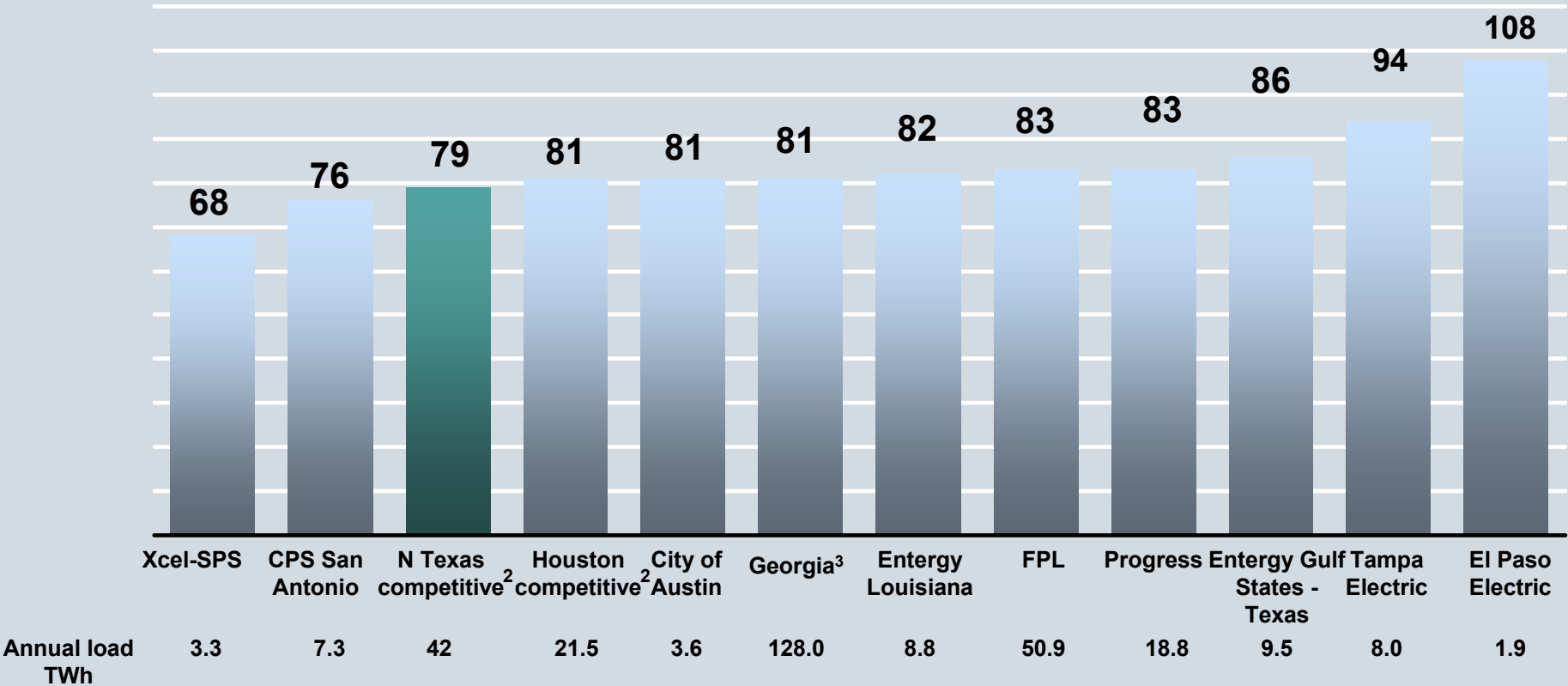


- *Even with high gas prices, North Texas customers have access to some of the lowest rates in the Southern United States*
- *“Of the companies relocating jobs (from California), 35% are sending them to Texas – more than all of the other 48 states combined,” Dallas Business Journal*

¹ Based on a 2.5 MW customer with a 80% load factor; average monthly price weighted by load; assumes price remains constant Sep 04 –Dec 04
Source: PUCT, Florida PSC

...And Competitive Residential Rates

Average residential customer(1000 KWh/month) retail rates¹
02-04; \$ / MWh



Even with high gas prices residential customers in competitive ERCOT areas have access to some of the lowest rates in the Southern United States

¹ Based on average monthly prices weighted by monthly usage; prices through Sep 04; assumes price remains constant through remainder of 04

² Competitive Residential price based on 15% discount to TXU PTB as currently offered by market competitors, e.g., Utility Choice (14.9%), and Cirro (14.6%)

³ Average of all rates in Georgia (Southern, Municipalities, Electric Membership Cooperatives)

Although There Is Still Room For Improvement In ERCOT, It Does Not Require Legislative Action

Market design or governance element	Potential improvement
Retail market	Establish additional tools and mechanisms for retailers to control bad debt
Wholesale market design	Send clearer signals for generators to respond to demand, manage production and balance load
Delivery regulation	Implement additional incentives or mandates to ensure adequate delivery capacity to meet market needs

- The potential exists to create additional value for the customer by removing inefficiency in the market*
- The SB7 framework remains sound; market participants and the PUC will continue to work together to achieve greater efficiencies*

Today's Discussion

Impact of restructuring in other industries

ERCOT market restructuring

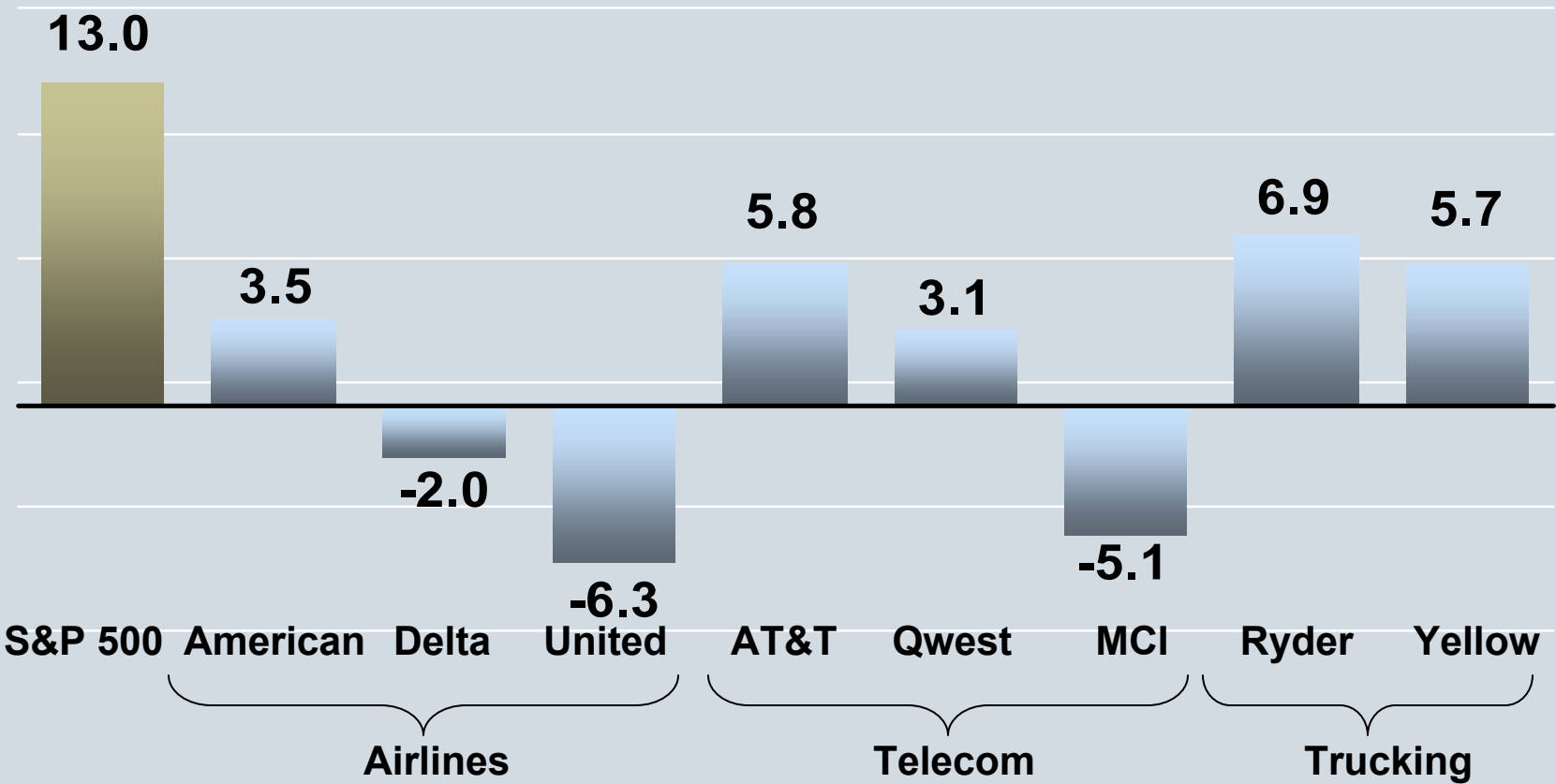
Implications for TXU

Key questions

- **How has restructuring impacted other industries?**
- **How has restructuring impacted the Texas wholesale and retail markets?**
- **What are TXU's strategic priorities?**

Incumbents Have Generally Had Problems Making The Transition From The Regulated World To The Deregulated World

Annual total return to shareholders (CAGR)
83-03; Percent



Deregulated incumbents have generally severely underperformed the broader market

Source: Compustat

How Do We Prevent Ourselves From Falling Into The Same Trap As Other Incumbents?

“The brief booms that airlines occasionally enjoyed in the 1980s and 1990s encouraged them to believe that radical change wasn’t necessary. Change didn’t happen fast enough because it was always a moving target,”

Alfred Kahn, Chairman of Civil Aeronautics Board

Relentless Focus On The Three Critical Performance Drivers Is Critical



Operational Excellence

- Top decile reliability
- Industry leading capacity factors
- World class industrial production costs
- Lean corporate SG&A

Market Leadership

- Superior customer service/ brand management
- Value based pricing
- Asset/supply optimization
- Commodity risk management
- Profitable growth

Performance Management

- High performance culture
- Balanced cascading scorecards
- Incentives linked to key value drivers

TXU Energy Overview



TXU
Energy

January 2005

TXU Energy Is One Of TXU's Three Core Businesses, With Similar Performance Levers



TXU Power

Strategy	Objectives	Implementation
<ul style="list-style-type: none"> • Cost leadership • Operational excellence 	<ul style="list-style-type: none"> • Top decile cost performance • Top decile production performance 	<ul style="list-style-type: none"> • TXU operating system(lean) • Strategic sourcing



TXU Energy

<ul style="list-style-type: none"> • Commercial excellence • Cost leadership • Market leadership 	<ul style="list-style-type: none"> • Excellent customer service • Retain and grow profitable customer base • Top decile purchased power performance 	<ul style="list-style-type: none"> • Customer experience • Customer segmentation
---	--	--

Today's Focus



TXU Electric Delivery

<ul style="list-style-type: none"> • Cost leadership • Operational excellence 	<ul style="list-style-type: none"> • Achieve industry leading safety performance • Top decile reliability • Top decile cost performance • Earn allowable return 	<ul style="list-style-type: none"> • TXU operating system(lean) • Strategic sourcing • Technological innovation
---	---	--

Operational Earnings Performance Drivers

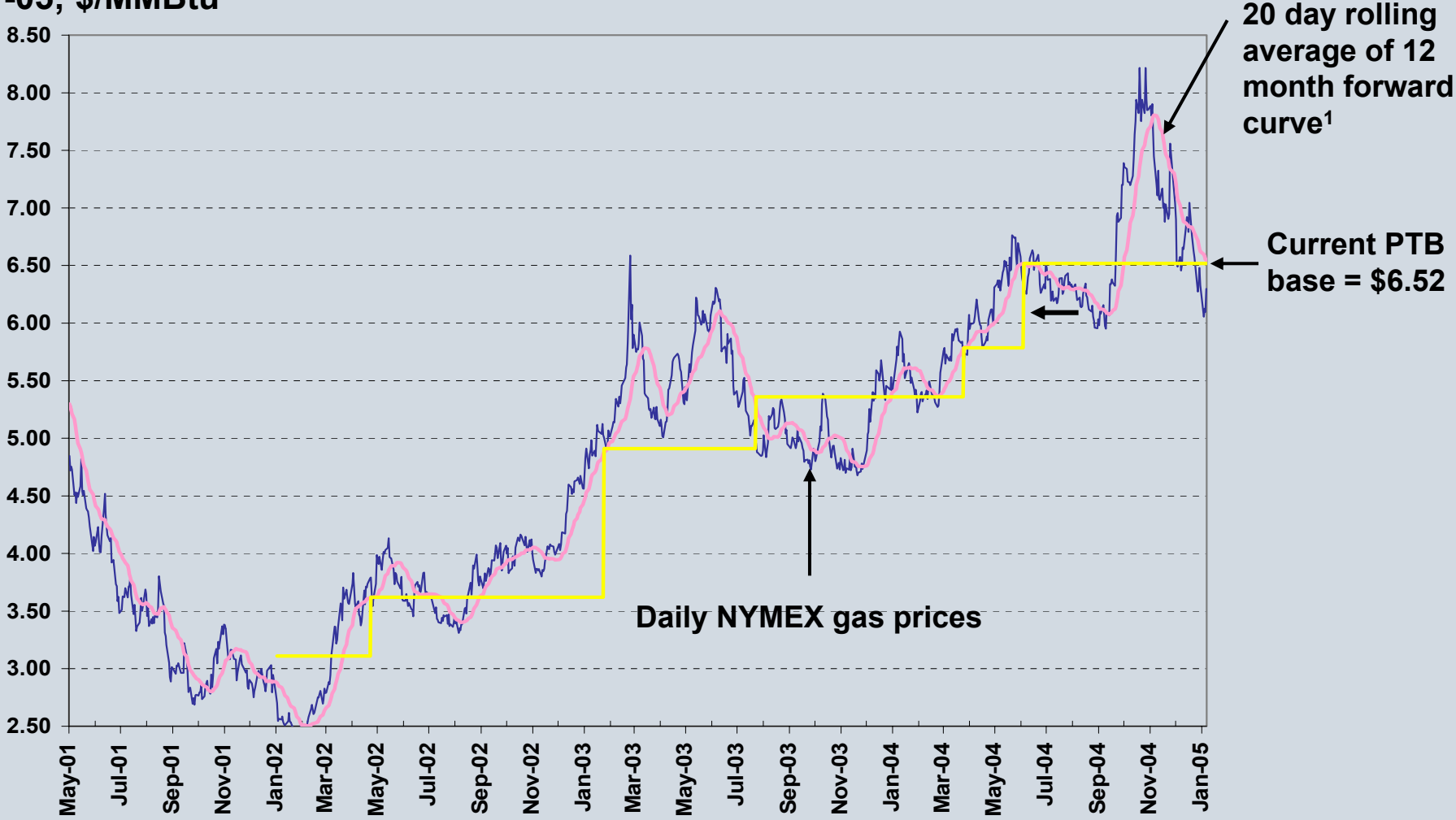
04E vs. 05E; \$ per diluted share

Performance Driver	05E
04E operational earnings outlook range	2.65 – 2.70
Change in average diluted shares outstanding	0.90
TXU Power	
Increased revenues from wholesale market price changes	1.45
Reduced O&M expenses (operating, benefit, lease, other)	0.20
Increased production from coal generation	0.11
Reduced fuel expense	0.04
Increased expenses related to two-unit nuclear outage (O&M, purchased power)	(0.27)
TXU Energy	
Increased expenses from wholesale market price changes	(1.49)
Increased revenues from 04 fuel factor adjustments and out of territory growth	0.82
Reduced SG&A expenses (CapGemini Energy contract, bad debt)	0.37
Reduced expense – purchased power and gas plant optimization, restructured PPAs	0.28
Increased revenues from 2/05 fuel factor adjustment (50% of \$6.92 fuel factor)	0.16
Increased margin in large business segment	0.15
Reduced O&M expenses (gas plants)	0.13
Reduced expenses and revenue losses due to hedge roll-off	0.11
Reduced wires expense	0.06
Reduced margin from mass market customer churn	(0.04)
TXU Electric Delivery	
Increased contribution margin	0.25
Corporate & Other	(0.03)
Other	0.08
Interest expense	(0.24)
05E operational earnings outlook range	5.65 - 5.85

1) Operational Earnings Per Share (a non-GAAP measure): Per Share (diluted) income from continuing operations, excluding special items and net of preference share dividends. TXU forecasts earnings on an operational earnings basis because forecasts of material non-recurring items are not practical. TXU relies on operational earnings for evaluation of performance and believes that analysis of the business by external users is enhanced by visibility to both reported GAAP earnings and operational earnings.

TXU PTB Gas Price Base Has Increased 210% Since Market Open

Historical Gas Prices vs. Forward Curve 01-05; \$/MMBtu



TXU Energy Consists of 3 Market-Facing, Customer-Centered Businesses

Consumer Markets

(Retail residential customers)

Jim Burke

Focus: Retain in-territory PTB customers and acquire out-of-territory customers

Business Markets

(Retail small business thru large industrials)

Kevin Bohn

Focus: Retain PTB customers and profitably contract for non-PTB load

Wholesale Markets

(Wholesale counterparties)

Larry Leverett

Focus: Optimize and balance supply and load portfolios for lowest cost and highest margin

...enabled by support functions and CapGemini Energy

Commercial Management:

Dung Tran

Strategy and Communications:

Brian Tulloh

Regulatory and Legal:

Bill Moore

Key Focus Areas For TXU Energy

- **Retain in-territory customers**
- **Capture profitable LCI, out-of-territory customers**
- **Reduce bad debt**
- **Lower cost of supply and ancillary services**
- **Lower business costs (operating systems and efficient business processes)**
- **Improve performance management**
- **Participate in public policy issues (e.g., PTB)**
- **Develop growth opportunities**

Consumer Markets Overview



TXU
Energy

January 2005

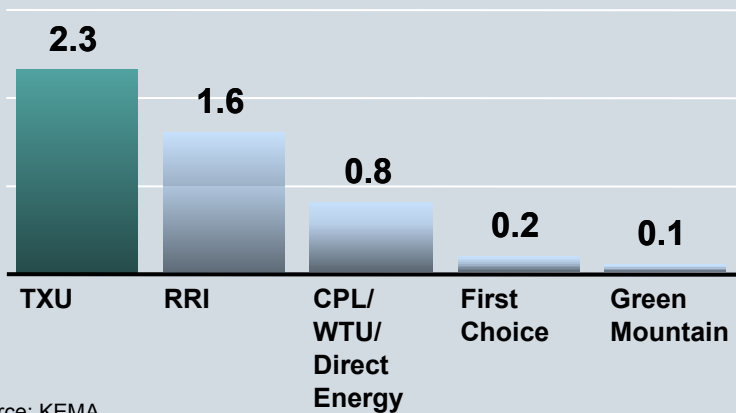
Consumer Markets Overview

Planned Topics

- **Market Context**
- **Organizational Approach**
- **Pricing and Economics**
- **Customer Service Initiatives**
- **Marketing Initiatives**

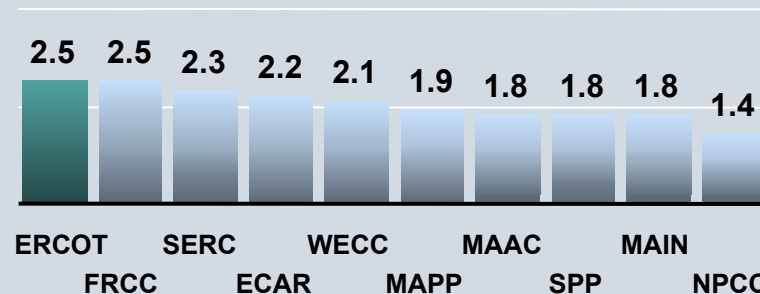
TXU Energy Is The Largest Retailer In A Growing Competitive Market

Large competitive customer base
03; Millions of customers



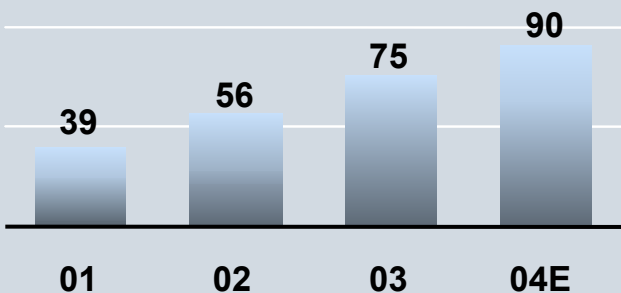
Source: KEMA

High growth
03-12E; Percent annual demand growth



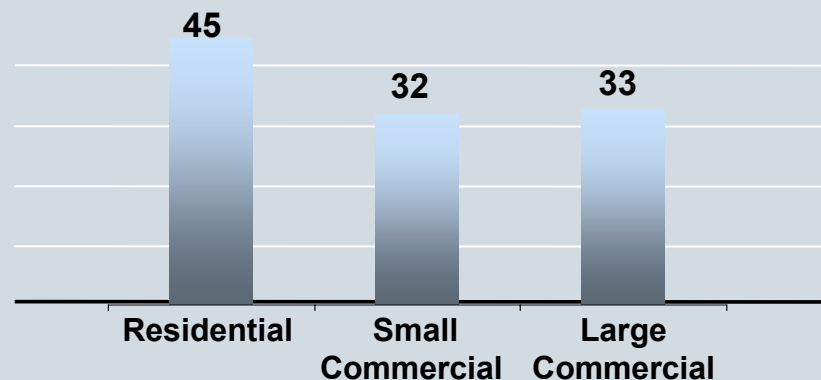
Source: NERC

Highly competitive market
02-04; Number of certified ERCOT retailers



Source: PUC

TXU market share¹
September 04; Percent



TXU Load²

(TWh, 9 mos) 26.6 8.6 19.9

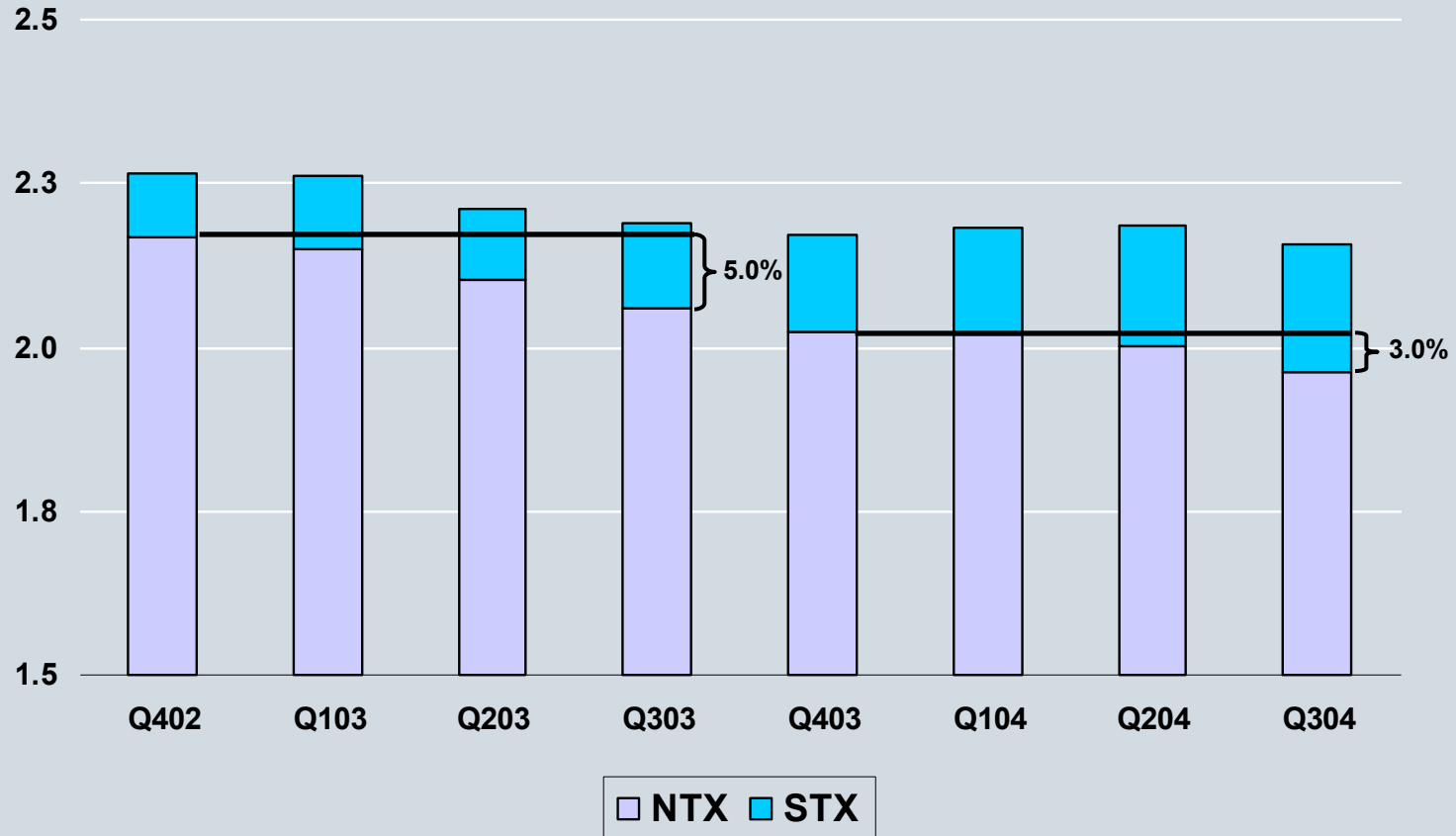
Source: TXU 10Q

¹ Market share represents share of electric meters for residential and small commercial, share of sales volumes for large commercial.

² TXU Retail load for 1st three quarters of 2004, per 10Q

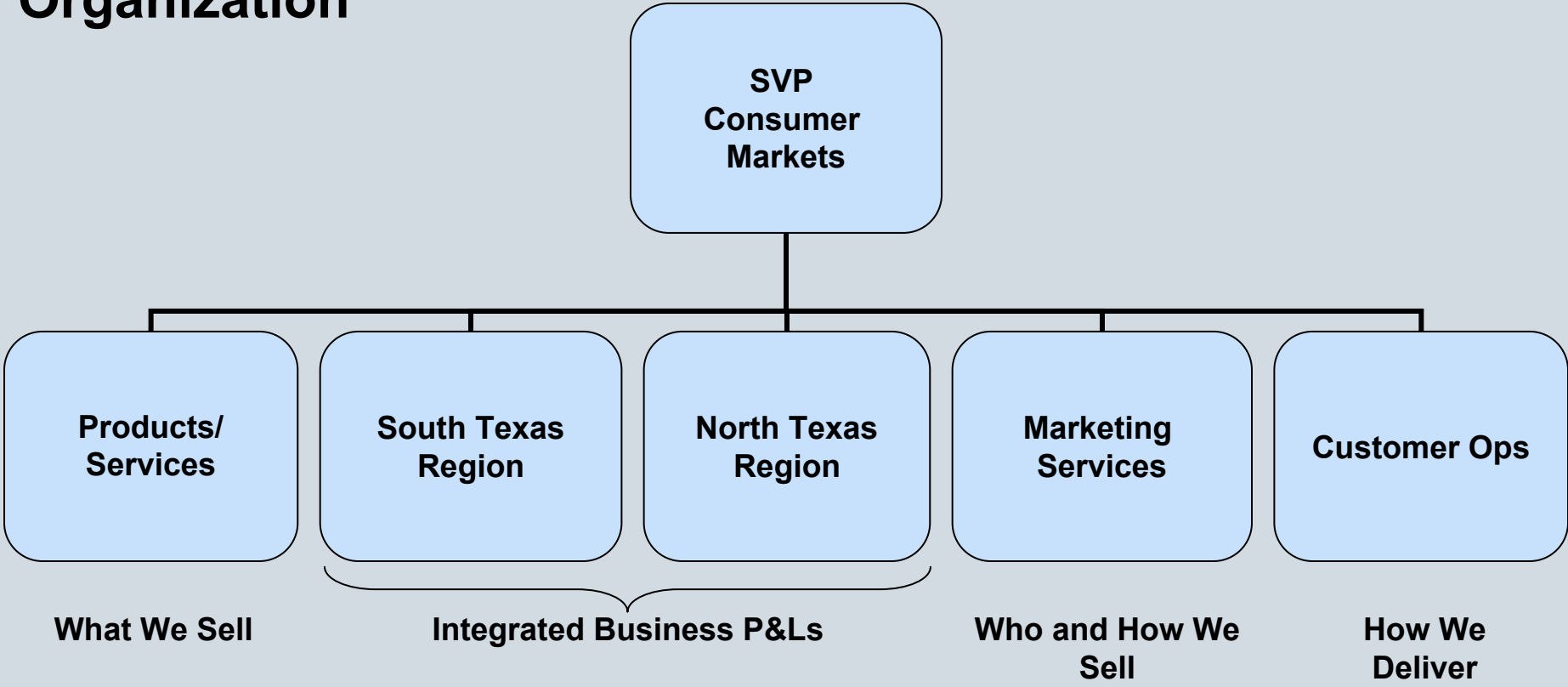
In-Territory Consumer Retention Reversed The Trends Of 03

Quarter-end consumer count (based on number of meters) – North and South Texas
Q4 02 – Q3 04; millions



Despite increased competitive switching in the summer months, year to date In-Territory customer attrition is down 40% versus the same period of 2003

The New Structure Drives Economics Throughout Organization



Key Points

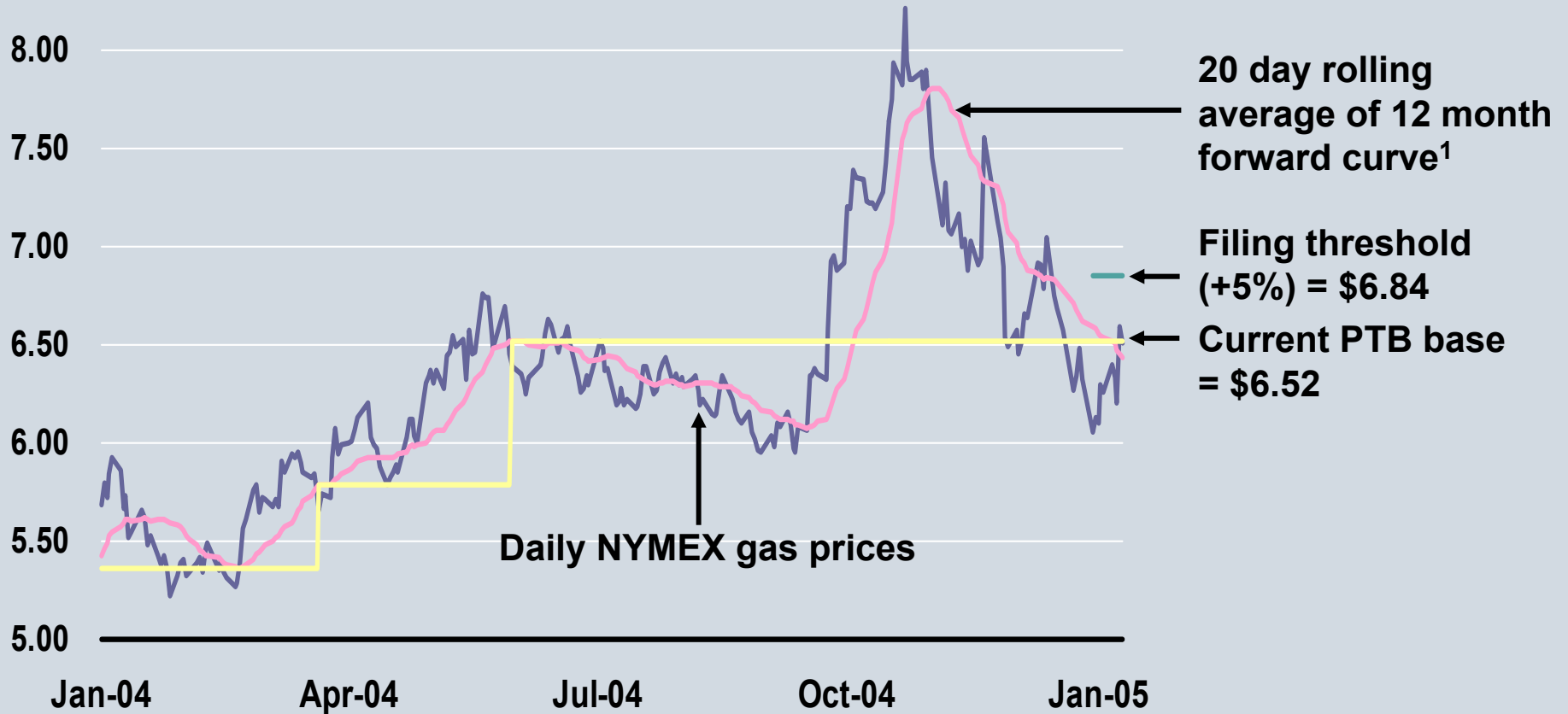
- Consumer organization primary focus on P&L, Marketing and Customer Experience
- Products and Services organization to innovate as well as manage existing portfolio (product mgmt)
- Region Teams specifically focused on decision-making, financial performance, and integration
- Marketing Services drives positioning, targeting, and channel management activities
- Customer Operations focused on customer experience and relationship with CapGemini Energy

Consumer Markets Initiatives

	Initiatives	Commentary
People	Complete team build out	Capabilities to address retention, win-back, acquisition and cost to serve/customer experience objectives
In-territory Retention	Deliver on aggressive customer retention plan	Protect customer profitability and mitigate loss rates, utilize PTB flexibility as needed
Deliver on competitive benefits	Design and launch product offerings beyond price to beat	Loyalty offerings, pre-paid meters, outage notification expansion, whole-house surge protection service
CGE alliance	Refine output based performance metrics	Introduce gain-sharing, improve customer experience, customer satisfaction, 1st call resolution
Out-of-territory profitability	Improve P&L focus and deliver positive EPS	Improve customer targeting, optimize available list, coordinate channels
COGS	Drive accountability for supply costs into the business and deliver lower bad debt costs	Deliver P&L alignment through more focus on biggest cost driver – cost of energy (applies also to Business Mkts)

Current Gas Prices Are Consistent With Our PTB, Following Q4 Spike

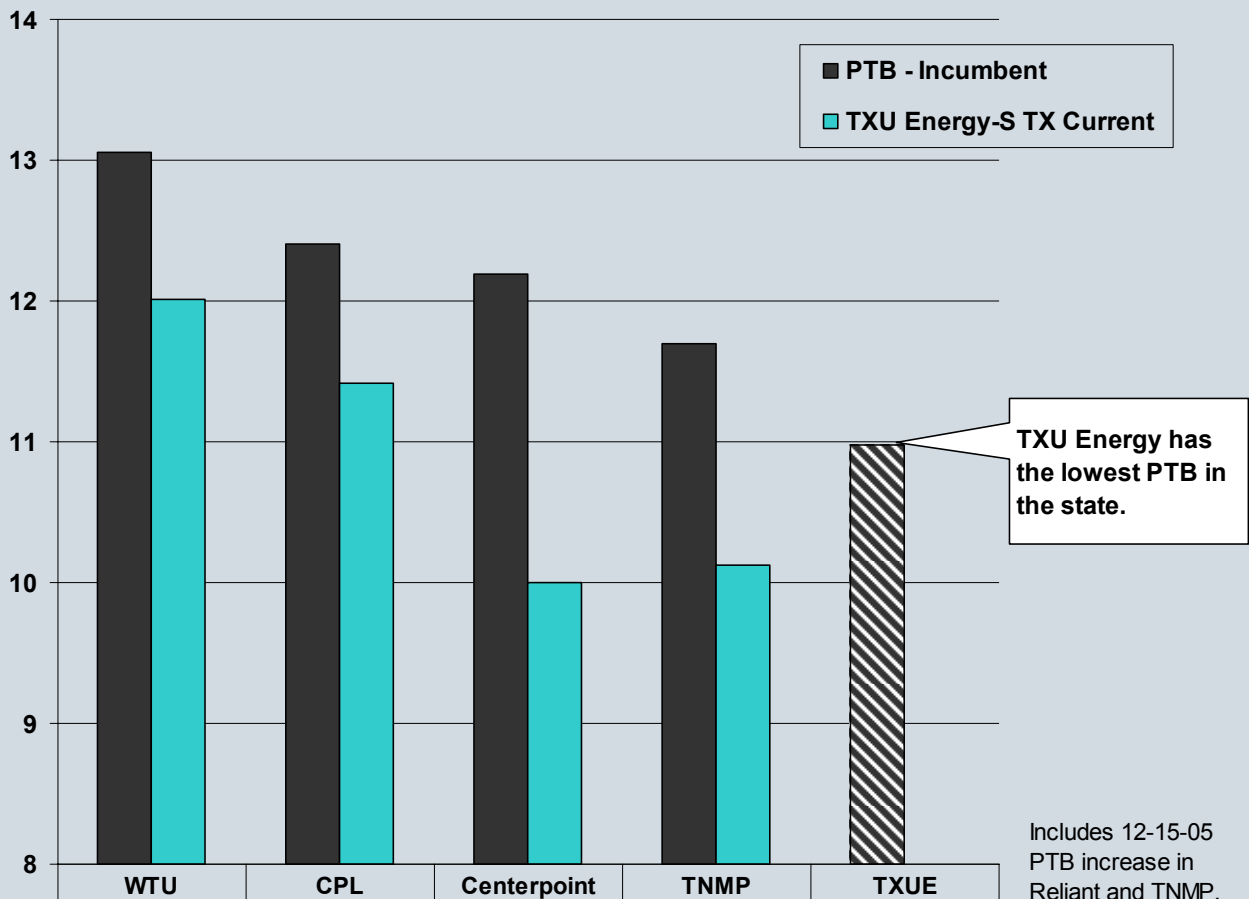
Historical Gas Prices vs. Forward Curve
04-05; \$/MMBtu



¹ Assumes all future prices are equal to forward curve as of January 14, 2005

TXU Energy's Headroom Remains The Lowest In Texas

Current; cents/KWh



TXU Energy has the lowest PTB in the state.

Includes 12-15-05 PTB increase in Reliant and TNMP.

Based on 1,000KWh

	WTU	CPL	Centerpoint	TNMP	TXUE
■ PTB - Incumbent	13.06	12.41	12.19	11.70	10.98
■ TXU Energy-S TX Current	12.01	11.42	10.00	10.12	

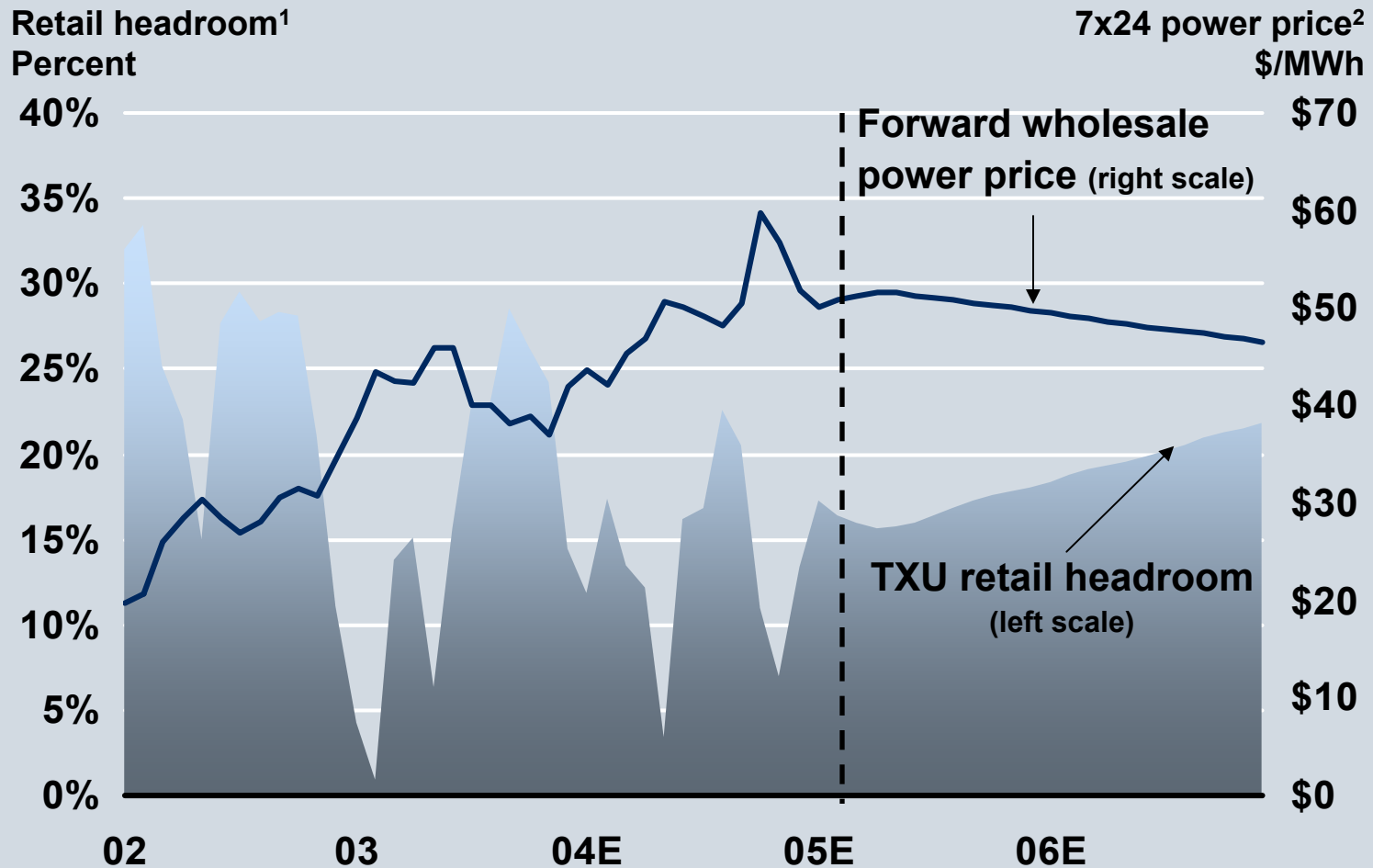
Estimated Headroom, %¹ 17-27% 20-24% 16-25% 10-24% 12-16%

Estimated Residential Market Size, TWh/yr ~ 3 ~ 10 ~ 26 ~ 4 ~ 40

¹ Source: TXU Energy estimates

Low And Volatile Headroom Creates Marketing Challenges For Attacking Retailers

Margin history and outlook
02-06; Mixed measures



¹ Headroom = (PTB – power cost – wires charges) / PTB; 02-04 based on actual headroom; 05+ based on rolling average of forward looking 12 months as of January 17th, 2005; assumes 7800 BTU/KWh heat rate

² 02-04 based on actual power prices; 05+ based rolling average of 12 month forward curve

We Are Measuring Our Service Performance Through A More Robust Scorecard

	03 Scorecard	05 Scorecard
Access	ASA, seconds	IVR transit time, seconds Service level, X% within Y seconds ASA, seconds
Interaction	Satisfaction with CCA, % Satisfaction with IVR, %	Customer satisfaction with CCA, % Customer satisfaction with IVR, % Web customer satisfaction, %
Problem Resolution	Customer-reported FCR, %	Customer-reported FCR, % CCA QA First Call Resolution, % Repeat call within 24 hours, %
Transaction	None	Satisfaction with bill accuracy, % Web transaction rate, % Delivery “late rate”, %
Overall	Overall satisfaction with recent call, %	Overall satisfaction with TXUE, % Satisfaction with value-price offer, % Customer loyalty to TXU, %

CapGemini Energy relationship is focused on alignment with performance expectations and improvements

Customer Service Continues To Show Improvement ...

Average Speed of Answer
03 - 04; seconds

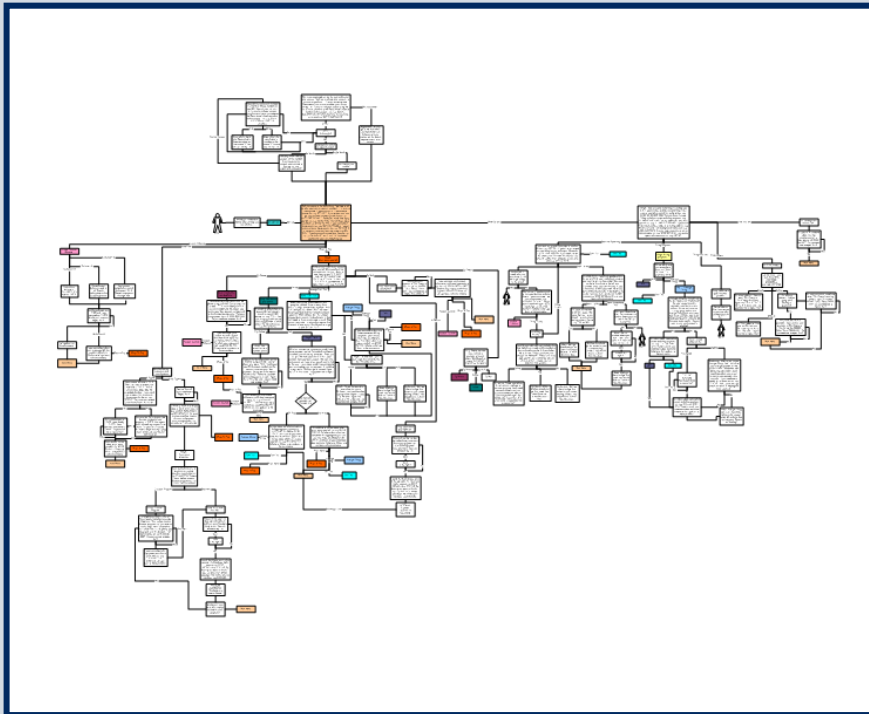


¹ Excludes June 1 and June 2, the peak period for the storm that affected more than 1.3 million customers

... Enabled By a Streamlined IVR

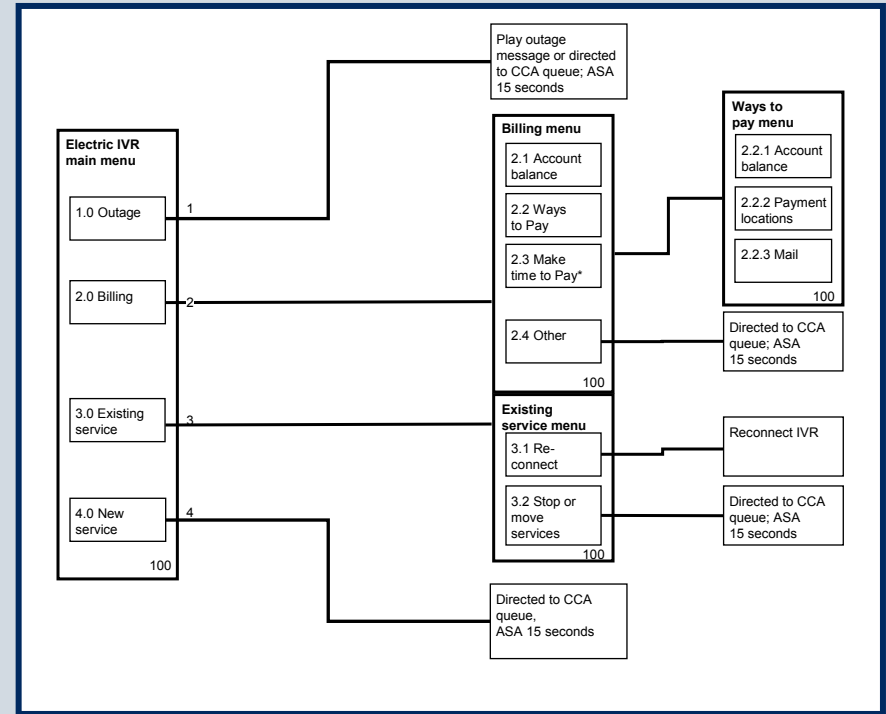
From:

A complex design



To:

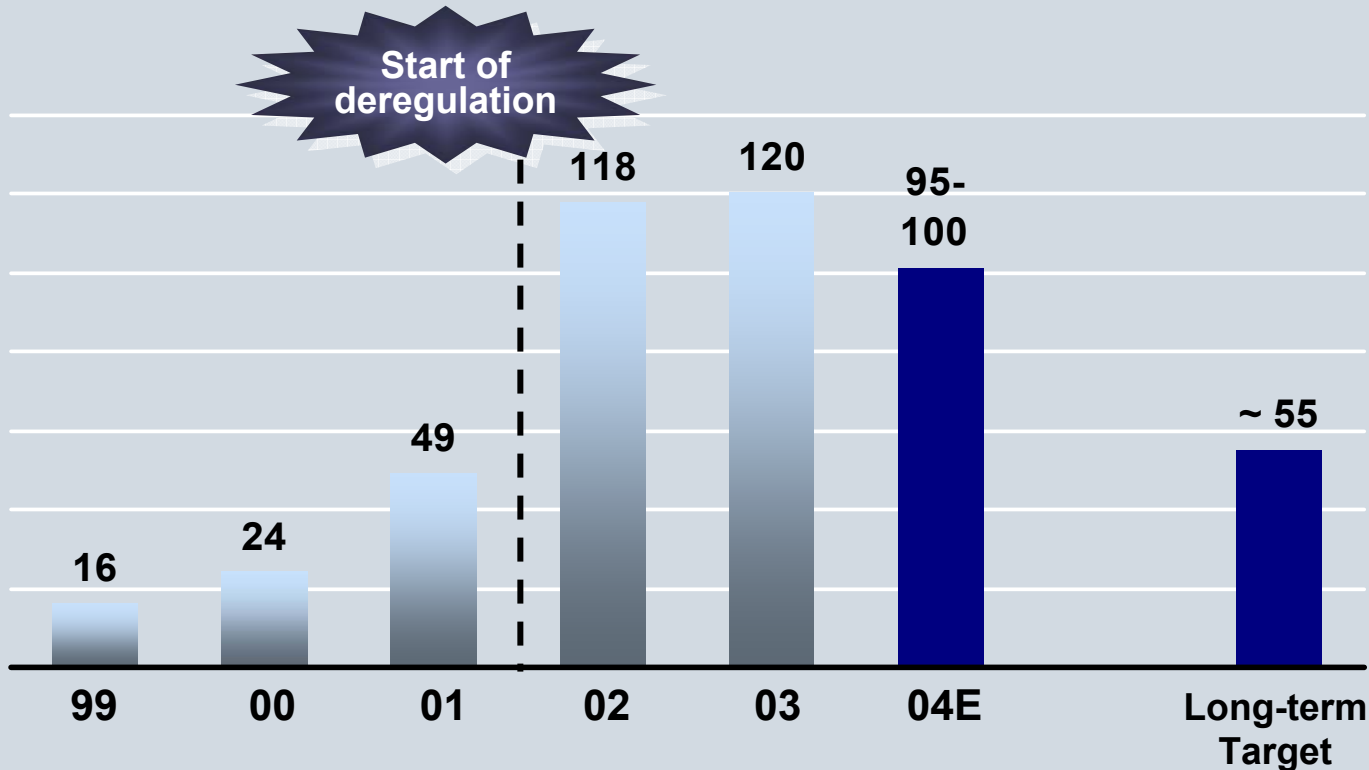
A streamlined design



- *Simplicity and user friendly interfaces have enhanced the IVR*
- *IVR transit times have improved by 32% since January 04*

Bad Debt Initiatives Are Expected To Drive Out Transitional Inefficiencies

TXU retail bad debt expense
99-04E; \$ millions



Key drivers of increase in bad debt expense:

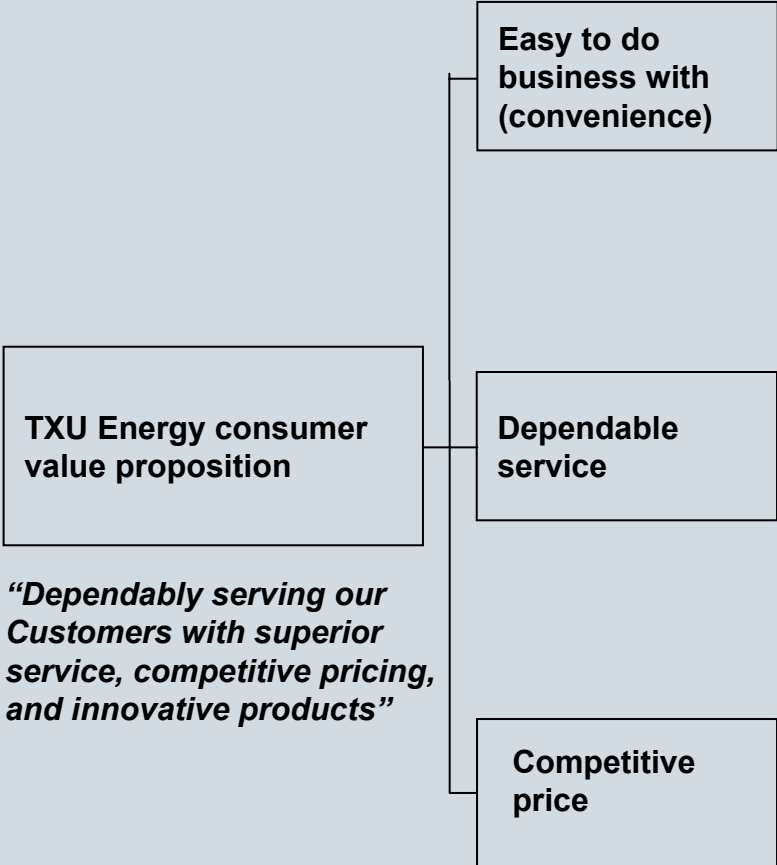
- Ability of customers to change power providers to avoid loss of service
- Insufficient disconnect options

Initiatives to reduce bad debt:

- Tighter disconnect rules
- More stringent application of credit policies (e.g., deposits)
- Aggressive prosecution of fraud
- Working with stakeholders to develop new tools to manage bad debt (e.g., payment history database)

Brand Positioning Delivers On Core TXU Energy Value Proposition Across Texas

Examples of how we deliver the value proposition



- Enhanced self-service tools (e.g. web provisioning with My Account) that allows customers more direct control over their transactions
- Best-in-industry performance on key access measures (i.e., 15 second ASA achieved, reduced IVR navigation by 32%)

- More timely/useful outage restoration information (Option 1)
- Whole House Surge Protection that protects all household electronics from surges on three wires (cable, phone, power)
- Further expansion of Authorized Dealer Network

- Rewards+ loyalty program for TXU customers
- Lowest PTB in Texas and In-territory rate is among lowest rates TXU offers throughout the state
- Pricing incentives for Retention and Win-back of valuable customers, with term commitments

TXU Energy Rewards+ Program Overview

Leverages AREP's ability to offer "discounts" off PTB through loyalty program

Consumer Benefit

Only TXU Energy Customers can get savings at thousands of hotels and resorts, magazines, restaurants, and DVDs.

Up to 45% discounts by using TXU Energy Reward Dollars

Customers earn rewards points monthly

Pilot in STX in 2004 for Residential and Commercial

TXU Details

State-wide category exclusivity

Online program, with main TXU cost driven by communication costs

Able to be leveraged for incentives for on-time payment, ebill, tenure, recurring payment, win-back

Pilot target will be random sample of current customers

The screenshot shows the TXU Energy website interface. At the top left is the TXU Energy logo. To the right are navigation links: Marketplace | My Account | Hotel Search | Contact Us | Help | Logout. Below the logo is a blue sidebar with a menu of categories: Marketplace, Hotel, Airline Tickets, Cruises, Condominiums, Value Added Benefits, Other Products, Software, My Shopping Cart, and The Bone Collector(1). Below the menu is a section titled "Your Questions..." with two bullet points: "How does the program work?" and "Need to speak to an Agent?". The main content area features a "Marketplace Search" heading, a personalized welcome message "Welcome Michael Swart," and a promotional message: "TXU Energy TravelRewards can be used immediately towards all of the products listed below. If you have any questions please contact us or call us at 1-866-25-REWARDS." To the right of this message is a box showing "Your Account Balance \$350.00" with a "[view details]" link. Below the welcome message is a "Enjoy!" section with a grid of product categories: Hotel Search, Airline Tickets, Cruises, Condominiums, Magazines, Software, DVD Movies, and Other Products. At the bottom of the grid is a "Value Added Benefits" section with an image of a restaurant interior.

Business Markets Overview



TXU
Energy

January 2005

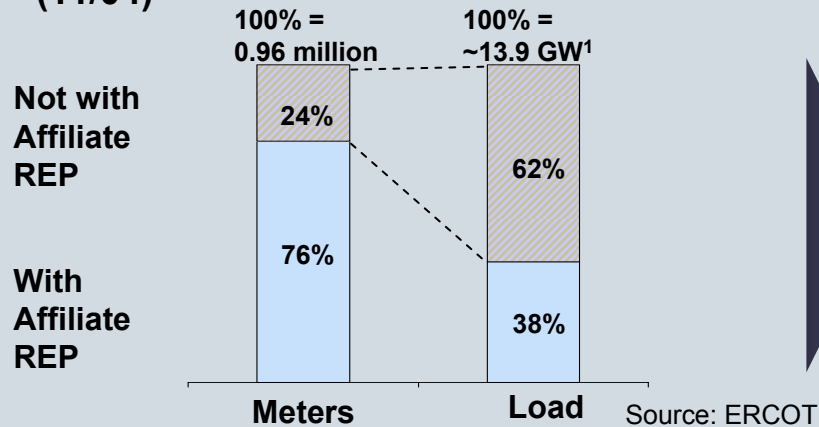
Business Markets Overview

Planned Topics

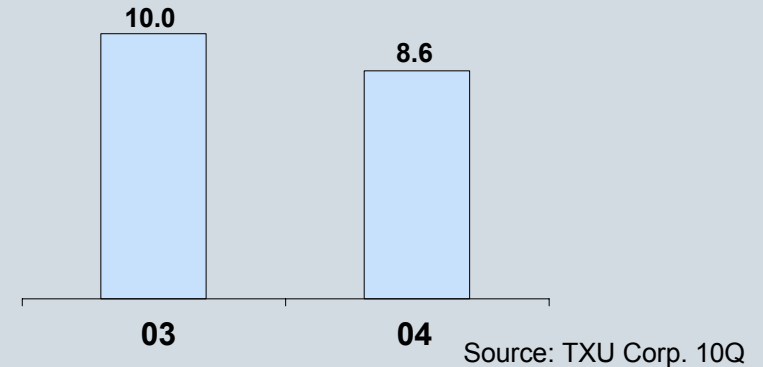
- **Market Context**
- **Organizational Approach**
- **Key Initiatives**

Market Context

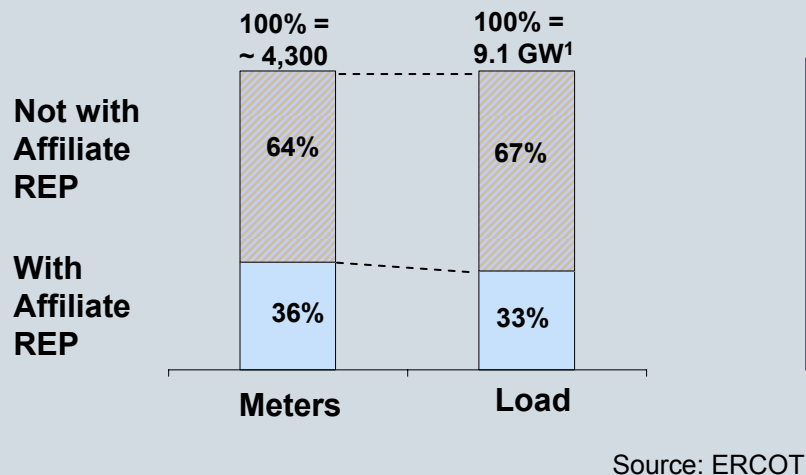
ERCOT-wide SMB switching (11/04)



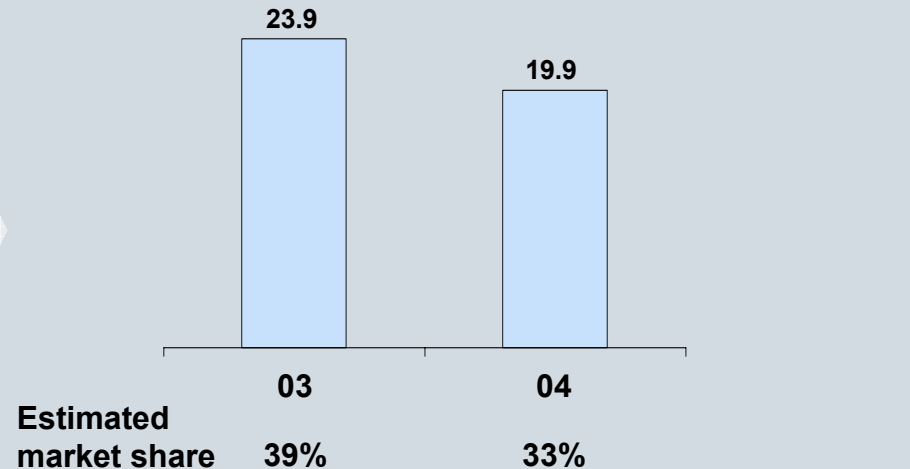
TXU delivered volumes to SMB (TWh, YTD through Q3)



ERCOT-wide LCI switching (11/04)





TXU delivered volumes to LCI (TWh, YTD through Q3)

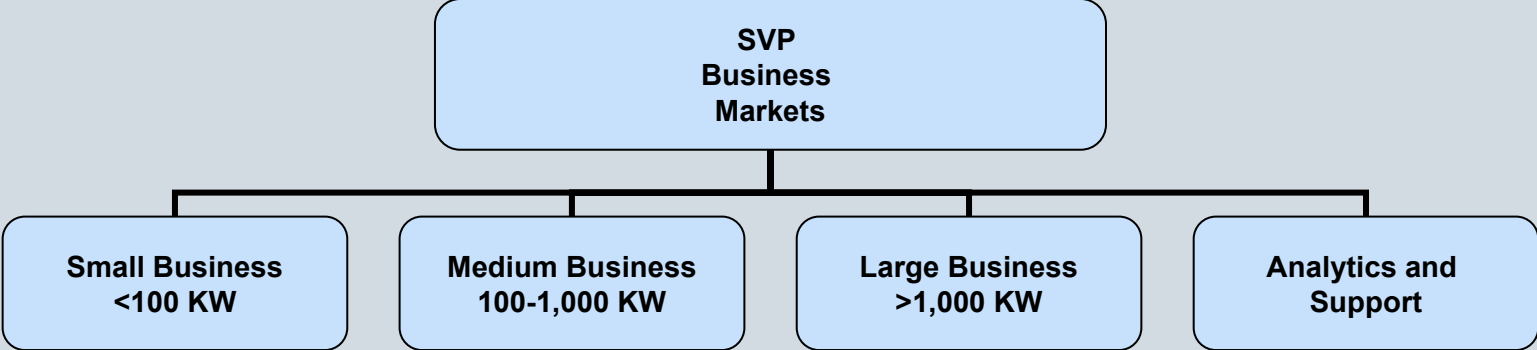


¹ Based on demand level at time of 8/7/03 ERCOT peak

North Texas Remains Intensely Competitive

Key Competitor	Market focus (# of customers)	Activities
	Res, SMB, LCI (~1,800 K)	<ul style="list-style-type: none"> • Aggressive mass advertising (e.g., Olympics) • Competing on service ... investing in ASA • Aggressive business sales force in market
	Res, SMB, LCI (~900 K)	<ul style="list-style-type: none"> • Moderate TV spend, with heavy use of brokers • Focusing on SMB and government aggregation • Developing cross-sell strategy
	Res, SMB (~100 K)	<ul style="list-style-type: none"> • Started in Multi-Family, but majority of business is small and medium business. Pursuing single-family. • 'Mid teens' price discounting
	Res, SMB, some LCI (~55 K)	<ul style="list-style-type: none"> • Moving up market into SMB and some LCI with PTB discount product (~PTB-10%) • Focused on "pollution free" and "green" products • Also beginning to offer conventional products
	Res, SMB (~25 K)	<ul style="list-style-type: none"> • Developing community links (e.g., Richardson, Plano) • 'High teens' price discounting • Expanding direct sales force
	SMB, LCI (<20 K)	<ul style="list-style-type: none"> • Aggressive pricing • Promoting 'risky' MCPE pricing products
	LCI (<10K)	<ul style="list-style-type: none"> • Aggressive pricing on select LCI customers • Limited sales force coverage

TXU Has Revamped Its Business Markets Organization And Approach



Market Environment

Moderately Competitive

Highly Competitive

Highly Competitive

TXU Customer Focus

Market Sub-segments

Individual Customers

Individual Customers

Product Offerings

Standardized Products

Mostly Standardized Products

Customized Products

Sales Model

Multiple Channels

Mostly Direct Sales

Direct Sales

Business Priority

Optimize Execution

Engage Customers

Rationalize Business

Key Points

- The Business Markets organization is structured around customer segments
- Business performance is measured and managed within each segment
- Linkages are established to leverage Consumer Markets capabilities

Business Markets Initiatives

	Initiatives	Commentary
People	Complete team build out	Re-organization well under way
Restructure Operating platform	Reduce cost structure significantly	Even with Capgemini outsourcing we must continue to reduce costs to stay competitive (fuel, directs and indirects)
Value Proposition	Refine and launch products and services that support our value proposition	Business markets is our most competitive segment with significant value at risk
Restructure sales	Rollout of direct sales/telesales force targeting both retention and acquisition	Improved training and messaging, overhaul sales channels, strengthen performance management
Business Processes	Increase accountability to customer profitability and customer service	Overhaul inbound customer service center, meet customer needs quickly, enforce business rules
OOT Acquisition	Capture profitable opportunities out-of-territory	Execute using a more cost competitive acquisition model

TXU New Business Model Is Focused On Enhancing The Customer Experience ...

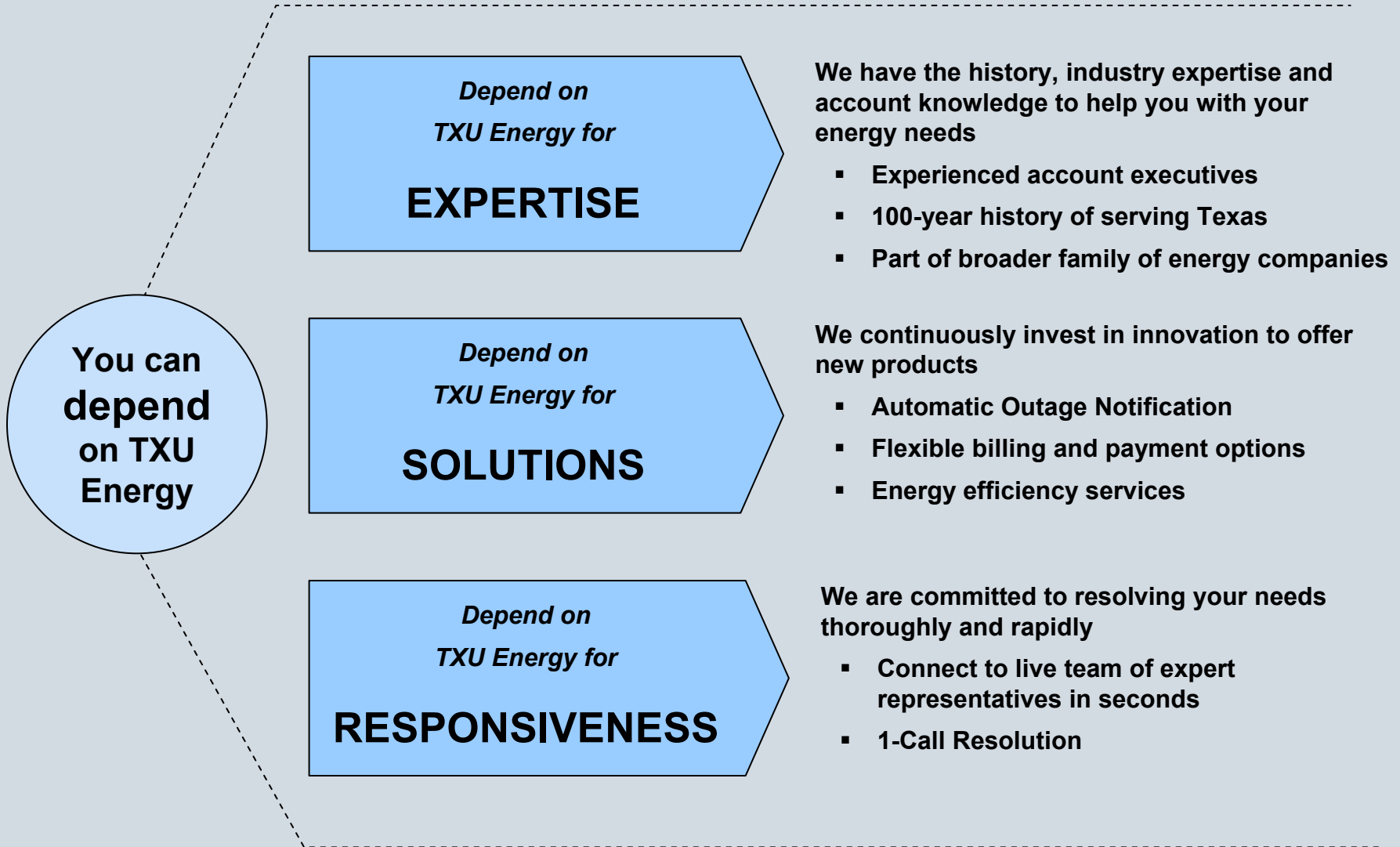
Business Sales Improvements

- Sales force geographical realignment
- Enhanced and expanded sales force coverage
- New and expanded local sales offices
- Increased face-to-face sales time, with dedicated sales support
- Simplified and improved contracting process

Customer Service Improvements

- Dedicated Account Service Representatives for large business customers
- Service improvement initiatives
- Focused training
- Improved Call Center targets, with positive results to-date:
 - Customers bypass IVR
 - 91% ASA improvement
 - 10% increase in satisfaction with customer rep
 - >50% decrease in number of dissatisfied callers
 - 16% improvement in first call resolution

... With An Improved Business Markets Value Proposition



Conclusion

Key Focus Areas For TXU Energy

- **Retain in-territory customers**
- **Capture profitable LCI, out-of-territory customers**
- **Reduce bad debt**
- **Lower cost of supply and ancillary services**
- **Lower business costs (operating systems and efficient business processes)**
- **Improve performance management**
- **Participate in public policy issues (e.g., PTB)**
- **Develop growth opportunities**