

19. CASH FLOW HEDGE AND OTHER DERIVATIVE ASSETS AND LIABILITIES

CO9100 [CE] Cash flow hedge and other derivative assets and liabilities represent mark-to-market values of derivative contracts, the substantial majority of which have been designated as cash flow or fair value hedges under SFAS 133. Cash flow hedges consist primarily of natural gas derivative financial instruments. The change in fair value of these derivative assets and liabilities are recorded as other comprehensive income or loss to the extent the hedges are effective; the ineffective portion of the change in fair value is included in net income. (See Note 1 under "Derivative Instruments and Mark-to-Market Accounting"). Fair value hedges consist of fixed-to-variable interest rate swaps, and the change in fair value of the derivative assets and liabilities are recorded as an increase or decrease in the carrying value of the debt.

CO9110 [C] A summary of cash flow hedge and other derivative assets and liabilities follows:

	December 31,	
	2006	2005
Current and noncurrent assets:		
Commodity-related cash flow hedges	\$ 933	\$ 131
Debt-related fair value hedges	4	—
Other.....	9	9
Total.....	<u>\$ 946</u>	<u>\$ 140</u>
Current and noncurrent liabilities:		
Commodity-related cash flow hedges	\$ 23	\$ 295
Debt-related fair value hedges	89	71
Total.....	<u>\$ 112</u>	<u>\$ 366</u>

Other Cash Flow Hedge Information

CO9120 [C] TXU Corp. experienced cash flow hedge ineffectiveness related to positions held at the end of the period of \$218 million in net gains in 2006, \$38 million in net losses in 2005 and \$21 million in net losses in 2004. These amounts are pretax and are reported in revenues.

CO9130 [C] The net effect of recording unrealized mark-to-market gains and losses arising from hedge ineffectiveness (versus recording gains and losses upon settlement) includes the above amounts as well as the effect of reversing unrealized ineffectiveness gains and losses recorded in previous periods to offset realized gains and losses in the current period. Such net unrealized effect totaled \$239 million in net gains in 2006, \$27 million in net losses in 2005 and \$19 million in net losses in 2004.

CO9140 [C] As of December 31, 2006, commodity positions accounted for as cash flow hedges reduce exposure to variability of future cash flows from future revenues or purchases through 2011.

CO9150 [CE] Cash flow hedge amounts reported in accumulated other comprehensive income will be recognized in earnings as the related forecasted transactions are settled or become probable of not occurring. No amounts were reclassified into earnings in 2006, 2005 or 2004 as a result of the discontinuance of cash flow hedge accounting because a hedged forecasted transaction became probable of not occurring.

CO9160 [C] Cash flow hedge amounts reported in the Statements of Consolidated Comprehensive Income exclude net gains and losses associated with cash flow hedges entered into and settled within the periods presented. These amounts totaled \$31 million in after-tax net gains in 2006, \$53 million in after-tax net losses in 2005 and \$1 million in after-tax net gains in 2004.

(09170) [C] TXU Corp. expects that \$132 million of after-tax net gains related to cash flow hedges included in accumulated other comprehensive income will be reclassified into net income during the next twelve months as the related hedged transactions are settled and affect net income. Of this amount, \$139 million in gains relate to commodity hedges and \$7 million in losses relate to debt-related hedges. The following table summarizes after-tax balances currently recognized in accumulated other comprehensive income:

Accumulated Other Comprehensive Income at December 31, 2006			
Gain (Loss)			
	Commodity- related	Debt- Related	Total
Dedesignated hedges – amounts fixed.....	\$ 131	\$ (57)	\$ 74
Hedges subject to fair value adjustments.....	337	—	337
Total	<u>\$ 468</u>	<u>\$ (57)</u>	<u>\$ 411</u>

20. INVESTMENTS

TN1870 The balance of investments consists of the following:

TN1880

	December 31,	
	2006	2005
Nuclear decommissioning trust.....	\$ 447	\$ 389
Assets related to employee benefit plans.....	197	187
Land.....	36	35
Note receivable from Capgemini.....	25	25
Investment in unconsolidated affiliates.....	3	3
Miscellaneous other.....	4	4
Total investments.....	<u>\$ 712</u>	<u>\$ 643</u>

CO9240 [C] **Nuclear Decommissioning Trust** — Deposits in a trust fund for costs to decommission the Comanche Peak nuclear generation plant are carried at fair value. Decommissioning costs are being recovered from TXU Electric Delivery's customers as a delivery fee surcharge over the life of the plant and deposited in the trust fund. Net gains and losses on investments in the trust fund are offset by a corresponding adjustment to a regulatory asset/liability. A summary of investments in the fund follows:

	December 31, 2006			
	Cost (a)	Unrealized gain	Unrealized loss	Fair market value
Debt securities.....	\$ 169	\$ 5	\$ (1)	\$ 173
Equity securities.....	162	117	(5)	274
Total.....	<u>\$ 331</u>	<u>\$ 122</u>	<u>\$ (6)</u>	<u>\$ 447</u>

	December 31, 2005			
	Cost (a)	Unrealized gain	Unrealized loss	Fair market value
Debt securities.....	\$ 151	\$ 5	\$ (1)	\$ 155
Equity securities.....	156	90	(12)	234
Total.....	<u>\$ 307</u>	<u>\$ 95</u>	<u>\$ (13)</u>	<u>\$ 389</u>

(a) Includes realized gains and losses of securities sold.

CO9250 [CE] Debt securities held at December 31, 2006 mature as follows: \$54 million in one to five years, \$60 million in five to ten years and \$59 million after ten years.

CO9260 [CD] **Assets Related to Employee Benefit Plans** — The majority of these assets represent cash surrender values of life insurance policies that are purchased to fund liabilities under deferred compensation plans. TXU Corp. pays the premiums and is the beneficiary of these life insurance policies. As of December 31, 2006 and 2005, the face amount of these policies totaled \$501 million and \$521 million, and the net cash surrender values totaled \$167 million and \$151 million, respectively. Changes in cash surrender value are netted against premiums paid. Other investment assets held to satisfy deferred compensation liabilities are recorded at market value.

CO9200 [CE] **Capgemini Agreement** — In May 2004, TXU Corp. entered into a services agreement with Capgemini to outsource certain support activities. As part of the agreement, Capgemini was provided a royalty-free right, under an asset license arrangement, to use TXU Corp.'s information technology assets, consisting primarily of computer software. TXU Corp. obtained a 2.9% limited partnership interest in Capgemini in exchange for the asset license. TXU Corp. has the right to sell (the put option) its interest and the licensed software to Cap Gemini North America Inc. for \$200 million, plus its share of Capgemini's undistributed earnings, upon expiration of the services agreement or earlier upon the occurrence of certain unexpected events. Cap Gemini North America Inc. has the right to purchase these interests under the same terms and conditions. The partnership interest has been recorded at an initial value of \$2.9 million and is being accounted for on the cost method.

CO9210 [C] TXU Corp. recorded the estimated fair value of the put option of \$177 million in 2004, reported in the balance sheet in other noncurrent assets. Of this amount, \$169 million was recorded as a reduction to the carrying value of the licensed software, and the balance, which represents the fair value of the assumed cash distributions and gains while holding the partnership interest, was recorded as a noncurrent deferred credit. This accounting is in accordance with AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."

CO9220 [C] In July 2004, TXU Corp. loaned Capgemini \$25 million for working capital purposes pursuant to a promissory note that bears interest at an annual rate of 4% and matures in July 2019.

CO9230 [CE] Subject to certain terms and conditions, Cap Gemini North America, Inc. and its parent, Cap Gemini S.A., have guaranteed the performance and payment obligations of Capgemini under the services agreement, as well as payments under the put option.

21. PENSION AND OTHER POSTRETIREMENT EMPLOYEE BENEFITS

(C)9300m (C) *Adoption of SFAS 158* — In September 2006, the FASB issued SFAS 158, which was adopted by TXU Corp. effective December 31, 2006, as required. SFAS 158 requires reporting in the balance sheet of the funded status of defined benefit pension and other postretirement employee benefit (OPEB) plans. Periodic pension and OPEB costs continue to be determined in accordance with SFAS 87 and SFAS 106. Under these standards, the accrued benefit obligation recognized in the balance sheet represented the cumulative difference between the net periodic benefit costs and cash funding of the plans. SFAS 87 also required the recording of a minimum pension liability representing the excess of the accumulated benefit obligation over the fair value of the plans' assets and the accrued benefit obligation already recorded under SFAS 87. The recording of the minimum pension liability resulted in adjustments to other comprehensive income or balance sheet accounts, principally regulatory assets.

(C)9300a (C) SFAS 158 requires that both the pension and OPEB accrued benefit obligation reported in the balance sheet represent the funded status of the plans based on the projected benefit obligation, which for the pension plan takes into account future compensation increases. For TXU Corp., the initial recognition of the funded status on the financial statements is largely reflected as an increase in the accrued benefit obligation and an increase in regulatory assets. The recording of a regulatory asset, instead of a reduction in the accumulated other comprehensive income component of shareholders' equity as set forth in SFAS 158, is based on the regulatory recovery of retirement benefits under the June 2005 amendment to PURA. See discussion below under "Regulatory Recovery of Pension and Other Postretirement Employee Benefit Costs".

(C)9300b (C) The following summarizes the impact on the consolidated balance sheet of adopting SFAS 158:

	Balances Prior to Application of SFAS 158	December 31, 2006 Increase (Decrease) to Balances	Balances After Application of SFAS 158
Pension assets	\$ 16	\$ (7)	\$ 9
Noncurrent assets:			
Accumulated deferred income taxes	\$ 184	\$ 14	\$ 198
Regulatory assets	\$ 61	\$ 343	\$ 404
Current liabilities:			
Defined benefit pension and OPEB obligations	\$ —	\$ 2	\$ 2
Noncurrent liabilities:			
Defined benefit pension and OPEB obligations	\$ 708	\$ 361	\$ 1,069
Shareholders' equity:			
Accumulated other comprehensive income — net	\$ 11	\$ (13)	\$ (2)

(C)9300c (C) The amounts recorded in the fourth quarter of 2006 upon adoption of SFAS 158 were based on the measurements of TXU Corp.'s pension and OPEB plans at the December 31, 2006 year-end date, which has been TXU Corp.'s practice but is now required under SFAS 158.

(C)9360 (C) The recording of the total liability did not affect any financial covenants in credit agreements.

(09300 [C] **Pension Plan** — TXU Corp. is the plan sponsor of the TXU Retirement Plan (Retirement Plan), which provides benefits to eligible employees of consolidated subsidiaries (participating employers) based on years of service and average earnings. The Retirement Plan is a defined benefit pension plan intended to qualify under Section 401(a) of the Internal Revenue Code of 1986, as amended (Code) and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). Employees are eligible to participate in the Retirement Plan upon their completion of one year of service and the attainment of age 21. The Retirement Plan provides benefits to participants under one of two formulas: (i) a cash balance formula under which participants earn monthly contribution credits based on their compensation and a combination of their age and years of service, plus monthly interest credits, or (ii) a traditional defined benefit formula based on years of service and the average earnings of the three years of highest earnings. The cash balance interest component of the cash balance plan is variable and is determined using the yield on 30-year Treasury bonds.

(09310 [C] All eligible employees hired after January 1, 2001 participate under the cash balance formula. Certain employees who, prior to January 1, 2002, participated under the traditional defined benefit formula, continue their participation under that formula. Under the cash balance formula, future increases in earnings will not apply to prior service costs. It is TXU Corp.'s policy to fund the plans on a current basis to the extent deductible under existing federal tax regulations.

(09320 [C] TXU Corp. also has supplemental unfunded retirement plans for management employees, the information for which is included in the data below.

(09340 [C] **Minimum Pension Liability Adjustment Prior to SFAS 158** — As discussed above, TXU Corp. recorded a minimum pension liability prior to the adoption of SFAS 158. The minimum pension liability recorded for the year ended December 31, 2005 totaled \$112 million after-tax, of which a loss of \$46 million after-tax was recorded as a charge to other comprehensive income and \$66 million, net of deferred tax liability, was recorded as a regulatory asset. The minimum pension liability recorded for the year ended December 31, 2004 totaled \$24 million after-tax and was recorded as a charge to other comprehensive income.

(19380) | Detailed Information Regarding Pension Benefits — The following information is based on December 31 measurement dates:

	Year Ended December 31,		
	2006	2005	2004
Assumptions Used to Determine Net Periodic Pension Cost:			
Discount rate	5.75%	6.00%	6.00% - 6.50%
Expected return on plan assets	8.75%	8.75%	8.50%
Rate of compensation increase	3.32%	3.31%	3.57%
Components of Net Pension Cost:			
Service cost	\$ 42	\$ 37	\$ 46
Interest cost	136	130	130
Expected return on assets	(147)	(145)	(142)
Amortization of prior service cost	3	3	4
Amortization of net loss	32	20	13
Recognized curtailment loss	—	1	7
Net periodic pension cost	<u>\$ 66</u>	<u>\$ 46</u>	<u>\$ 58</u>
Assumptions used to determine benefit obligations at December 31:			
Discount rate	5.90%	5.75%	6.00%
Rate of compensation increase	3.44%	3.32%	3.57%
Change in Pension Obligation:			
Projected benefit obligation at beginning of year	\$ 2,440	\$ 2,218	
Service cost	42	37	
Interest cost	136	130	
Plan amendments	2	—	
Actuarial (gain) loss	(47)	195	
Benefits paid	(116)	(128)	
Settlements	—	(12)	
Projected benefit obligation at end of year	<u>\$ 2,457</u>	<u>\$ 2,440</u>	
Accumulated benefit obligation at end of year	<u>\$ 2,297</u>	<u>\$ 2,277</u>	
Change in Plan Assets:			
Fair value of assets at beginning of year	\$ 1,982	\$ 1,995	
Actual return on assets	220	121	
Employer contributions	4	3	
Benefits paid	(116)	(128)	
Settlements	—	(9)	
Fair value of assets at end of year	<u>\$ 2,090</u>	<u>\$ 1,982</u>	
Funded Status:			
Projected pension benefit obligation	\$(2,457)	\$(2,440)	
Fair value of assets	<u>2,090</u>	<u>1,982</u>	
Funded status at end of year	<u>\$ (367)</u>	<u>(458)</u>	
Unrecognized prior service cost	—	8	
Unrecognized net loss	—	357	
Accrued pension cost	<u>\$ (367)</u>	<u>\$ (93)</u>	

	Year Ended	
	Year Ended December 31, 2006	2005
<i>Amounts Recognized in the Balance Sheet Consist of:</i>		
Other noncurrent assets (a)	\$ 9	\$ 8
Intangible asset	—	9
Regulatory asset	—	66
Other current liabilities	(2)	—
Other noncurrent liabilities	(374)	(304)
Accumulated other comprehensive income	—	60
Accumulated deferred income tax assets	—	68
Net amount recognized	<u>\$ (367)</u>	<u>\$ (93)</u>

<i>Amounts Recognized in Other Comprehensive Income and Accumulated Other Comprehensive Income under SFAS 158 Consist of:</i>		
Net loss	\$ 2	
Prior service cost	5	
Net amount recognized	<u>\$ 7</u>	

<i>Amounts Recognized as Regulatory Assets under SFAS 158 Consist of:</i>		
Net loss	\$ 203	
Prior service cost	3	
Net amount recognized	<u>\$ 206</u>	

(a) Amounts represent overfunded plans.

CO9390 [C] The following table provides information regarding pension plans with projected benefit obligation (PBO) and accumulated benefit obligation (ABO) in excess of the fair value of plan assets.

	Year Ended December 31,	
	2006	2005
<i>Pension Plans with PBO and ABO in Excess of Plan Assets:</i>		
Projected benefit obligation	\$ 2,452	\$ 2,435
Accumulated benefit obligation	2,291	2,271
Plan assets	2,076	1,967

CO9410 [C] *Asset Allocations* - The weighted-average asset allocations of pension plans by asset category are as follows:

Asset Type	Allocation of Plan Assets		Target Allocation Ranges	Expected Long-term Returns
	2006	2005		
US equities	46.1%	49.9%	30%-65%	9.5%
International equities	18.6%	16.0%	5%-20%	10.0%
Fixed income	31.9%	29.4%	15%-50%	6.8%
Real estate	3.4%	4.7%	0%-10%	8.2%
	<u>100.0%</u>	<u>100.0%</u>		<u>8.75%</u>

CO9420 [C] *Expected Long-Term Rate of Return on Assets Assumption* — TXU Corp. considered both historical returns and future expectations for returns of various asset classes in its determination of the expected long-term rate of return assumption. A key expectation is that current interest rates will move towards an equilibrium interest rate that produces a 6% yield on intermediate government bonds. Expected returns for other asset classes are based on incremental returns over such expected government bond yield. The expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return assumption for the portfolio.

CO9430 [C] *Investment Strategy* — The investment objective is to provide a competitive return on the assets in each plan, while at the same time preserving the value of those assets. The strategy is to invest a third of the assets in fixed income and two thirds in equity, while maintaining sufficient cash to pay benefits and expenses.

CO9440 [C] The fixed income assets are diversified by sector and security, are intermediate in duration, and maintain an average quality rating of at least "A" (as determined by a major ratings agency such as Moody's). The allocation to fixed income assets also includes an allocation to income producing real estate through private, unlevered real estate investment trusts. The equity assets are diversified by size, style and location with a conservative bias toward value securities.

CO9460 [C] *Postretirement Employee Benefits Other Than Pensions* —TXU Corp. offers health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees. For employees retiring on or after January 1, 2002, the retiree contributions required for such coverage vary based on a formula depending on the retiree's age and years of service.

(C)9461 | (C) The following information regarding postretirement employee benefits other than pensions is based on December 31 measurement dates:

	Year Ended December 31,		
	2006	2005	2004
<i>Assumptions used to determine net periodic benefit cost:</i>			
Discount rate	5.75%	6.00%	6.00% - 6.50%
Expected return on plan assets	8.67%	8.67%	8.66%
<i>Components of Net Postretirement Benefit Cost:</i>			
Service cost	\$ 13	\$ 13	\$ 15
Interest cost	60	56	60
Expected return on assets	(21)	(20)	(18)
Amortization of net transition obligation	1	1	2
Amortization of prior service cost/(credit)	(3)	(3)	(2)
Amortization of net loss	31	24	25
Recognized curtailment gain	—	—	(2)
Net postretirement benefit cost	<u>\$ 81</u>	<u>\$ 71</u>	<u>\$ 80</u>
<i>Assumptions used to determine benefit obligations at December 31:</i>			
Discount rate	5.90%	5.75%	6.00% - 6.50%
<i>Change in Postretirement Benefit Obligation:</i>			
Benefit obligation at beginning of year	\$1,065	\$ 987	
Service cost	13	13	
Interest cost	60	56	
Participant contributions	14	16	
Medicare Part D reimbursement	5	—	
Actuarial (gain)/loss	(150)	62	
Benefits paid	(59)	(69)	
Benefit obligation at end of year	<u>\$ 948</u>	<u>\$ 1,065</u>	
<i>Change in Plan Assets:</i>			
Fair value of assets at beginning of year	\$ 245	\$ 229	
Actual return on assets	23	12	
Employer contributions	23	52	
Participant contributions	14	14	
Medicare Part D reimbursement	5	—	
Benefits paid	(59)	(62)	
Fair value of assets at end of year	<u>\$ 251</u>	<u>\$ 245</u>	
<i>Funded Status:</i>			
Benefit obligation	\$ (948)	\$ (1,065)	
Fair value of assets	<u>251</u>	<u>245</u>	
Funded status at end of year	(697)	(820)	
Unrecognized net transition obligation	—	10	
Unrecognized prior service credit	—	(14)	
Unrecognized net loss	—	387	
Accrued postretirement benefit obligation	<u>\$ (697)</u>	<u>\$ (437)</u>	

Amounts Recognized in Other Comprehensive Income and Accumulated Other Comprehensive Income under SFAS 158 Consist of:

Net loss.....	\$ 15
Prior service cost credit.....	(13)
Net transition obligation	<u>1</u>
Net amount recognized	<u>\$ 3</u>

Amounts Recognized as Regulatory Assets under SFAS 158 Consist of:

Net loss.....	\$ 202
Prior service cost credit.....	(12)
Net transition obligation	<u>8</u>
Net amount recognized	<u>\$ 198</u>

CO9470 [C] The following tables provide information regarding the assumed health care cost trend rates.

	Not Medicare Eligible		Medicare Eligible	
	December 31,		December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<i>Assumed Health Care Cost Trend Rates :</i>				
Health care cost trend rate assumed for next year.....	6.5%	8%	8%	9%
Rate to which the cost trend is expected to decline (the ultimate trend rate)	5.0%	5%	5%	5%
Year that the rate reaches the ultimate trend rate	2010	2010	2012	2012
	1-Percentage Point Increase		1-Percentage Point Decrease	
<i>Sensitivity Analysis of Assumed Health Care Cost Trend Rates :</i>				
Effect on accumulated postretirement obligation.....	\$ 112		\$ (92)	
Effect on postretirement benefits cost	8		(7)	

Asset Allocations –

CO9480 [C] The weighted average asset allocations of the OPEB plan by asset category are as follows:

Asset Type	Allocation of Plan Assets December 31,	
	2006	2005
US equities	56.8%	57.3%
International equities	9.3%	7.7%
Fixed income	32.2%	32.8%
Real estate	1.7%	2.2%
	<u>100.0%</u>	<u>100.0%</u>

Plan Type	Expected Long-term Returns
401(h) accounts	8.75%
Life Insurance VEBA	8.75%
Union VEBA	8.75%
Non-Union VEBA	4.80%
Insurance Continuation Reserve ...	7.24%
	<u>8.67%</u>

CO9490 [C] Investment strategy and the basis used to determine the expected long-term return on assets for postretirement benefit plans is similar to that discussed above for the pension plans.

CO9495 [C] **Regulatory Recovery of Pension and OPEB Costs** — In June 2005, an amendment to PURA relating to pension and OPEB costs was enacted by the Legislature of the State of Texas. This amendment provides for the recovery by TXU Electric Delivery of pension and OPEB costs for all applicable former employees of the regulated predecessor integrated electric utility, which in addition to its own employees consists largely of active and retired personnel engaged in TXU Energy Company's activities, related to service of those additional personnel prior to the deregulation and disaggregation of TXU Corp.'s business effective January 1, 2002. The amendment additionally authorizes TXU Electric Delivery to establish a regulatory asset or liability for the difference between the amounts of pension and OPEB costs approved in current billing rates and the actual amounts that would otherwise have been recorded as charges or credits to earnings. Accordingly, in the second quarter of 2005, TXU Electric Delivery began deferring (principally as a regulatory asset or property) additional pension and OPEB costs for the effect of the amendment, which was retroactively effective January 1, 2005. Amounts deferred are ultimately subject to regulatory approval. Amounts recorded as a regulatory asset in 2006 totaled \$34 million.

CO9500 [C] Information regarding net pension and other postretirement employee benefit costs recognized as expense follows:

	Year Ended December 31,		
	2006	2005	2004
Pension costs under SFAS 87	\$ 66	\$ 46	\$ 58
OPEB costs under SFAS 106	81	71	80
Total benefit costs	147	117	138
Less amounts deferred principally as a regulatory asset or property	(84)	(58)	(27)
Net amounts recognized as expense	<u>\$ 63</u>	<u>\$ 59</u>	<u>\$ 111</u>

CO9370 [C] **Assumed Discount Rate** — The discount rates reflected in net pension and other postretirement employee benefit costs are 5.75% and 6.0% in 2006 and 2005, respectively. During 2004, the discount rate assumption for the pension and other postretirement employee benefit plans was revised as a result of remeasurements required by the Capgemini and TXU Gas transactions and changing interest rates. For the first half of 2004, the discount rate was 6.25%. The rate used for the third quarter was 6.5%, and the rate used in the fourth quarter was 6.0%. In selecting the assumed discount rate, TXU Corp. considered fixed income security yields for an Aa rated portfolio of bonds as reported by Moody's.

CO9400 [C] **Amortization in 2007** — The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic pension cost in 2007 total \$18 million and \$2 million, respectively. The estimated net loss, prior service credit and net transition obligation for the OPEB plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2007 total \$14 million, a \$3 million credit and \$1 million, respectively.

CO9450 [C] **Contributions in 2007** — Estimated funding in 2007 of the pension plan and OPEB plan total \$126 million and \$27 million, respectively.

CO9510 [C] **Future Benefit Payments**— Estimated future benefit payments to beneficiaries are as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012-16</u>
Pension benefits	\$ 109	\$ 115	\$ 121	\$ 128	\$ 136	\$ 834
OPEBs	\$ 54	\$ 57	\$ 60	\$ 62	\$ 65	\$ 364
Medicare Part D subsidies received.....	\$ (6)	\$ (7)	\$ (8)	\$ (8)	\$ (9)	\$ (55)

CO9330 [C] **Thrift Plan** — Employees of TXU Corp. and its consolidated subsidiaries may participate in a qualified savings plan, the Thrift Plan. This plan is a participant-directed defined contribution plan intended to qualify under Section 401(a) of the Code, and is subject to the provisions of ERISA. The Thrift Plan includes an employee stock ownership component. Under the terms of the Thrift Plan, as amended effective in 2002, employees who do not earn more than the IRS threshold compensation limit used to determine highly compensated employees may contribute, through pre-tax salary deferrals and/or after-tax payroll deductions, the lesser of 75% of their regular salary or wages or the maximum amount permitted under law. Employees who earn more than such threshold may contribute from 1% to 16% of their regular salary or wages. Employer matching contributions are also made in an amount equal to 100% of the first 6% of employee contributions for employees who are covered under the cash balance formula of the Retirement Plan, and 75% of the first 6% of employee contributions for employees who are covered under the traditional defined benefit formula of the Retirement Plan. Prior to January 1, 2006, employer matching contributions were invested in TXU Corp. common stock. Effective January 1, 2006, employees may reallocate or transfer all or part of their accumulated or future employer matching contributions to any of the plan's other investment options. See Note 17 for additional information related to the Thrift Plan.

22. STOCK-BASED COMPENSATION PLANS

CO9600 [C] Under its shareholder-approved long-term incentive plans, TXU Corp. has provided discretionary awards to qualified management employees payable in its common stock. As presented below, the awards generally vest over a three-year period and the number of shares ultimately earned is based on the performance of TXU Corp.'s stock over the vesting period. Awards were issued in 2005 and 2006 under the current Omnibus Incentive Compensation Plan (OICP), which was approved by shareholders in May 2005. The OICP replaced the Long-Term Incentive Plan (LTIP) under which the last awards vest in 2007.

	OICP	LTIP
Vesting period	Three years	Two or three years
Potential share pay-out as a percent of initial number of awards granted	0% to 175% (a)	0% to 200%
Basis for pay-out percentage - actual TXU Corp. three-year share return compared to:	<ul style="list-style-type: none"> 50% of award - threshold TXU Corp. share returns 50% of award - share returns of companies comprising the S&P 500 Electric Utilities Index for 2005 awards and the S&P 500 Electric Utilities Index and S&P 500 Multi-Utilities Index for 2006 awards (a) 	Share returns of companies comprising the S&P 500 Electric Utilities Index
Award type	Performance units payable in TXU Corp. stock upon vesting	Restricted stock and performance units payable in TXU Corp. stock upon vesting

- (a) For a small number of employees under employment agreements, potential share pay-out as a percent of initial number of awards granted is 0% to 200%, and the number of OICP shares distributed is based 100% on TXU Corp.'s total share return over the vesting period compared to the total returns of companies comprising the Standard & Poor's 500 Electric Utilities Index.

CO9602 [C] In addition, TXU Corp. has established restrictions that limit certain employees' opportunities to liquidate vested LTIP and OICP awards. For both restricted stock and performance unit awards, dividends over the vesting periods are converted to equivalent shares of TXU Corp. common stock to be distributed upon vesting.

CO2255 [C] The determination of the fair value of stock-based compensation awards at grant date is based on a Monte Carlo simulation. The more significant assumptions used in this valuation process are as follows:

- Expected volatility of the stock price of TXU Corp. and peer group companies - expected volatility is determined based on historical stock price volatilities using daily stock price returns for the three years prior to the grant date.
- The dividend rate for TXU Corp. and peer group companies based on the observed dividend payments over the twelve months prior to grant date.
- Risk-free rate (three-year U.S. Treasury securities) during the three year vesting period.
- Discount for liquidation restrictions - this factor estimates the discount for lack of marketability of vested awards due to the anticipated time for the approval and issuance of the awards, the black-out period immediately after the grant and additional holding requirements imposed on senior executives. This discount is determined based on an estimation of the cost of a protective put at the award date and is calculated using the Black-Scholes option pricing model using expected volatility assumptions based on historical and implied volatility as discussed above and a risk-free rate of return over the option period.

Assumptions	2006	2005	2004
Expected volatility	29%	25%-30%	25%-30%
Expected annual dividend	\$1.65	\$1.125	
Risk-free rate	4.83%	5.75%	
Discount for post vesting restriction	6.4% - 11.1%	6.5%-12.5%	20% - 25%

CO9630 [C] The following table presents information about these stock-based compensation plans:

	LTIP and OICP Awards	TXU Gas Stock Option Plan
Number of awards:		
Balance — December 31, 2003.....	<u>5,761,666</u>	<u>47,348</u>
Granted in 2004	3,940,530	—
Forfeited/expired.....	(3,420,300)	(8,610)
Vested/exercised.....	<u>(7,334)</u>	<u>(33,466)</u>
Balance — December 31, 2004.....	<u>6,274,562</u>	<u>5,272</u>
Granted in 2005	1,231,392	—
Forfeited/expired.....	(687,940)	(1,520)
Vested/exercised.....	<u>(1,532,032)</u>	<u>(2,232)</u>
Balance — December 31, 2005.....	<u>5,285,982</u>	<u>1,520</u>
Granted in 2006	1,052,452	—
Forfeited/expired.....	(523,946)	(1,520)
Vested/exercised.....	<u>(1,564,148)</u>	<u>—</u>
Balance — December 31, 2006.....	<u>4,250,340</u>	<u>—</u>
To vest/exercisable in — 2007.....	2,159,509	—
To vest/exercisable in — 2008.....	1,084,568	—
To vest/exercisable in — 2009.....	1,006,263	—
Weighted average fair value — 2006		
Outstanding — Beginning of year.....	\$ 19.26	
Granted.....	\$ 42.35	
Forfeited.....	\$ 17.63	
Vested.....	\$ 26.05	
Outstanding — End of year.....	\$ 23.60	
Weighted average fair value of awards granted in		
2004.....	\$ 3.49	
2005.....	\$ 20.68	
2006.....	\$ 42.35	

CO9640 [C] The above table reflects the weighted average fair value of the awards on the grant date. Principally because the 2004 awards were converted to cash-settled awards during part of 2004 as discussed below, the weighted average fair value of the 2004 awards outstanding at December 31, 2004 was \$12.89.

CO9650 [C] TXU Corp. adopted SFAS 123R in 2004. This accounting rule eliminates the alternative of applying the intrinsic value measurement provisions of APB 25 to stock compensation awards and requires the measurement of the cost of such awards over the vesting period based on the grant-date fair value of the award. TXU Corp. adopted SFAS 123R using the modified retrospective method, which allows for application to only prior interim periods in the year of initial adoption and resulted in the recognition of a credit of \$15 million (\$10 million after-tax) cumulative effect of a change in accounting principle. For a portion of the 2004 period, the restricted stock awards were payable in cash, but the restricted stock awards were modified in December of 2004 to be payable in TXU Corp. common stock.

CO9660 [C] Reported expense related to the awards totaled \$27 million, \$32 million and \$56 million (\$18 million, \$21 million and \$36 million after-tax) in 2006, 2005 and 2004, respectively. As of December 31, 2006, unrecognized expense related to nonvested OICP and LTIP awards totaled \$42 million, which is expected to be recognized over a weighted average period of two years.

CO9660a [C] The fair value of awards that vested in 2006, 2005 and 2004 totaled \$210 million, \$120 million and less than \$1 million, respectively, based on the vesting date share prices. The aggregate fair value of outstanding awards expected to vest totaled \$321 million based on the share price at December 31, 2006.

CO9610 [C] The maximum number of shares of stock for which OICP awards may be granted under the plan is 18,000,000, of which 16,551,413 shares remain authorized and available for future issuance. The maximum number of shares of common stock for which LTIP awards may be granted under the plan is 20,000,000, of which 2,595,761 shares remain authorized and available.

CO9620 [C] Effective with the merger of ENSERCH Corporation (subsequently TXU Gas) and TXU Corp., in 1997 outstanding options for ENSERCH Corporation common stock were exchanged for 1,065,826 options for TXU Corp. common stock (TXU Gas Stock Option Plan). The weighted average exercise price for outstanding options at the beginning of 2006 was \$11.95 and the weighted average exercise price for forfeited/expired options was \$11.95. All options were granted on or before August 5, 1997 and expired on or before February 16, 2006. No further options may be granted under this plan.

23. FAIR VALUE OF NONDERIVATIVE FINANCIAL INSTRUMENTS

CO9700 [C] The carrying amounts and related estimated fair values of significant nonderivative financial instruments were as follows:

	December 31, 2006		December 31, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
On balance sheet assets (liabilities):				
Long-term debt (including current maturities) (a) (b)	\$ (11,018)	\$ (11,308)	\$ (12,479)	\$ (12,891)
LESOP note receivable (see Note 17)	\$ 210	\$ 242	\$ 220	\$ 259
Off balance sheet assets (liabilities):				
Financial guarantees	\$ —	\$ (6)	\$ —	\$ (8)

(a) Excludes capital leases.

(b) 2005 amounts include stock purchase contracts related to equity-linked debt.

CO9710 [C] See Note 19 for discussion of accounting for financial instruments that are derivatives.

CO9720 [C] The fair values of on-balance sheet instruments are estimated at the lesser of either the call price or the market value as determined by quoted market prices, where available, or, where not available, at the present value of future cash flows discounted at rates consistent with comparable maturities with similar credit risk.

CO9730 [CE] The fair value of each financial guarantee is based on the difference between the credit spread of the entity responsible for the underlying obligation and a financial counterparty applied, on a net present value basis, to the notional amount of the guarantee.

CO9740 [CE] The carrying amounts for financial assets classified as current assets and the carrying amounts for financial liabilities classified as current liabilities approximate fair value due to the short maturity of such instruments. The fair values of other financial instruments, including the Caggemini put option, for which carrying amounts and fair values have not been presented are not materially different than their related carrying amounts.

24. SEGMENT INFORMATION

TN1890 TXU Corp.'s operations are aligned into two reportable business segments: TXU Energy Holdings and TXU Electric Delivery. The segments are managed separately because they are strategic business units that offer different products or services and involve different risks.

TN1900 TXU Energy Holdings segment is engaged in competitive market activities consisting of electricity generation, retail electricity sales to residential and business customers, wholesale energy sales and purchases as well as commodity risk management and trading activities, all largely in Texas. These activities are conducted principally by subsidiaries of TXU Energy Company. The results of this segment also include the activities of TXU DevCo and its subsidiaries, which are engaged in the development of new lignite/coal-fueled generation facilities, and the activities of a lease trust holding certain combustion turbines.

TN1910 TXU Electric Delivery segment is engaged in regulated electricity transmission and distribution operations in Texas. The segment includes the activities of TXU Electric Delivery's wholly owned bankruptcy-remote financing subsidiary.

TN1920 Corporate and Other represents the remaining nonsegment operations consisting primarily of discontinued operations, general corporate expenses, interest on debt at the TXU Corp. level and activities involving mineral interest holdings.

TN1930 The accounting policies of the business segments are the same as those described in the summary of significant accounting policies. TXU Corp. evaluates performance based on income from continuing operations. TXU Corp. accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

	TXU Energy <u>Holdings</u>	TXU Electric <u>Delivery</u>	Corp. and <u>Other</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating Revenues					
2006.....	\$9,549	\$2,449	\$49	\$(1,191)	\$10,856
2005.....	9,552	2,394	30	(1,314)	10,662
2004.....	8,402	2,226	31	(1,443)	9,216
Regulated Revenues – Included in Operating Revenues					
2006.....	—	2,449	—	(1,139)	1,310
2005.....	—	2,394	—	(1,278)	1,116
2004.....	—	2,226	—	(1,420)	806
Affiliated Revenues – Included in Operating Revenues					
2006.....	8	1,139	44	(1,191)	—
2005.....	9	1,278	27	(1,314)	—
2004.....	2	1,420	21	(1,443)	—
Depreciation and Amortization					
2006.....	334	476	20	—	830
2005.....	313	446	17	—	776
2004.....	350	389	21	—	760
Equity in Earnings (Losses) of Unconsolidated Subsidiaries					
2006.....	(10)	(4)	(19)	19	(14)
2005.....	(7)	(3)	(1)	11	—
2004.....	(5)	(2)	1	7	1
Interest Income					
2006.....	202	58	91	(305)	46
2005.....	70	59	99	(180)	48
2004.....	31	56	77	(136)	28
Interest Expense and Related Charges					
2006.....	388	286	461	(305)	830
2005.....	393	269	320	(180)	802
2004.....	353	280	198	(136)	695
Income Tax Expense (Benefit)					
2006.....	1,239	170	(146)	—	1,263
2005.....	687	174	(229)	—	632
2004.....	162	116	(236)	—	42
Income from Continuing Operations Before Extraordinary Items and Cumulative Effect of Changes in Accounting Principles					
2006.....	2,363	344	(242)	—	2,465
2005.....	1,429	351	(5)	—	1,775
2004.....	408	255	(582)	—	81
Investment in Equity Investees					
2006.....	—	—	1	—	1
2005.....	—	—	—	—	—
Total Assets (a)					
2006.....	18,995	10,709	1,676	(5,458)	25,922
2005.....	17,885	9,911	1,717	(3,974)	25,539

	<u>TXU Energy</u> <u>Holdings</u>	<u>TXU Electric</u> <u>Delivery</u>	<u>Corp. and</u> <u>Other</u>	<u>Eliminations</u>	<u>Consolidated</u>
Capital Expenditures					
2006.....	1,330	840	10	—	2,180
2005.....	309	733	5	—	1,047
2004.....	281	600	31	—	912

(a) Assets by segment exclude investments in affiliates.

25. SUPPLEMENTARY FINANCIAL INFORMATION

TN1940 Regulated Versus Unregulated Operations —

	Year Ended December 31,		
	2006	2005	2004
Operating revenues			
Regulated	\$ 2,449	\$ 2,394	\$ 2,226
Unregulated	9,598	9,582	8,434
Intercompany sales eliminations - regulated	(1,139)	(1,278)	(1,420)
Intercompany sales eliminations - unregulated	(52)	(36)	(24)
Total operating revenues	<u>10,856</u>	<u>10,662</u>	<u>9,216</u>
Costs and operating expenses			
Fuel, purchased power and delivery fees - unregulated (a)	2,784	4,261	3,755
Operating costs - regulated	770	758	730
Operating costs - unregulated	603	667	699
Depreciation and amortization - regulated	476	446	389
Depreciation and amortization - unregulated	354	330	371
Selling, general and administrative expenses - regulated	172	198	219
Selling, general and administrative expenses - unregulated	647	583	872
Franchise and revenue-based taxes - regulated	262	247	248
Franchise and revenue-based taxes - unregulated	128	117	119
Other income	(121)	(151)	(148)
Other deductions	269	45	1,172
Interest income	(46)	(48)	(28)
Interest expense and other charges	830	802	695
Total costs and expenses	<u>7,128</u>	<u>8,255</u>	<u>9,093</u>
Income from continuing operations before income taxes, extraordinary gain (loss) and cumulative effect of changes in accounting principles	<u>\$ 3,728</u>	<u>\$ 2,407</u>	<u>\$ 123</u>

(a) Includes unregulated cost of fuel consumed of \$927 million in 2006, \$968 million in 2005 and \$971 million in 2004. The balance represents energy purchased for resale and delivery fees net of intercompany eliminations.

TN1950 The operations of the TXU Energy Holdings segment are included above as unregulated, as the Texas market is open to competition. However, retail pricing to residential customers in the historical service territory was subject to certain price controls until December 31, 2006.

TN1960 Interest Expense and Related Charges —

	Year Ended December 31,		
	2006	2005	2004
Interest	\$ 861	\$ 798	\$ 637
Distributions on exchangeable preferred membership interests of			
TXU Energy Company (a)	—	—	22
Interest on long-term debt held by subsidiary trust	—	—	19
Preferred stock dividends of subsidiaries	—	3	2
Amortization of debt discounts, premiums and issuance cost	16	18	27
Capitalized interest including debt portion of allowance for borrowed funds			
used during construction	(47)	(17)	(12)
Total interest expense and related charges	<u>\$ 830</u>	<u>\$ 802</u>	<u>\$ 695</u>

(a) In April 2004, TXU Corp. purchased from unaffiliated holders TXU Energy Company's preferred membership interests.

TN1970 Restricted Cash —

	Balance Sheet Classification			
	At December 31, 2006		At December 31, 2005	
	Current Assets	Noncurrent Assets	Current Assets	Noncurrent Assets
Pollution control revenue bond funds held by trustee (See Note 15)	\$ —	\$ 241	\$ —	\$ —
Amounts related to securitization (transition) bonds	55	17	46	13
All other	3	—	8	3
Total restricted cash	<u>\$ 58</u>	<u>\$ 258</u>	<u>\$ 54</u>	<u>\$ 16</u>

TN1980 Inventories by Major Category —

	December 31,	
	2006	2005
Materials and supplies	\$ 189	\$ 163
Fuel stock	94	81
Natural gas in storage	75	99
Environmental energy credits and emission allowances	25	21
Total inventories	<u>\$ 383</u>	<u>\$ 364</u>

TN1990 Property, Plant and Equipment —

	December 31,	
	2006	2005
TXU Energy Holdings:		
Generation	\$15,926	\$15,887
Nuclear fuel (net of accumulated amortization of \$1,123 and \$1,058)	159	115
Other assets	402	389
TXU Electric Delivery:		
Transmission	3,179	2,829
Distribution	7,788	7,384
Other assets	415	401
Corporate and Other	466	465
Total	28,335	27,470
Less accumulated depreciation	<u>11,319</u>	<u>10,804</u>
Net of accumulated depreciation	17,016	16,666
Construction work in progress:		
TXU Energy Holdings (includes \$1,070 related to DevCo)	1,607	401
TXU Electric Delivery	123	106
Corporate and Other	10	19
Total construction work in progress	<u>1,740</u>	<u>526</u>
Property, plant and equipment — net	<u>\$18,756</u>	<u>\$17,192</u>

TN2010 Assets related to capitalized leases included above totaled \$96 million at December 31, 2006 and \$100 million at December 31, 2005, net of accumulated depreciation.

TN2011 Consolidated depreciation expense as a percent of average depreciable property approximated 2.3% for 2006, 2005 and 2004. TXU Energy Company's depreciation expense as a percent of average depreciable property approximated 2.0% for 2006, 1.9% for 2005 and 2.0% for 2004. TXU Electric Delivery's depreciation expense as a percent of average depreciable property approximated 2.8% for 2006, 2005 and 2004.

CO9900 [C] **Asset Retirement Obligations** — These liabilities primarily relate to nuclear generation plant decommissioning, land reclamation related to lignite mining, removal of lignite/coal-fueled plant ash treatment facilities and generation plant asbestos removal and disposal costs. There is no earnings impact with respect to the recognition of the asset retirement costs for nuclear decommissioning, as all costs are recoverable through the regulatory process as part of TXU Electric Delivery's rate setting.

CO9910 [C] The following table summarizes the changes to the asset retirement liability, reported in other noncurrent liabilities and deferred credits in the consolidated balance sheet, during the year ended December 31, 2006:

Asset retirement liability at December 31, 2005	\$ 558
Additions:	
Accretion	36
Incremental mining reclamation costs	21
Reductions:	
Net change in mining land reclamation estimated liability	(4)
Mining reclamation payments	(26)
Asset retirement liability at December 31, 2006	<u>\$ 585</u>

Intangible Assets — Intangible assets other than goodwill are comprised of the following:

TN2020

	As of December 31, 2006			As of December 31, 2005		
	Gross	Accumulated	Net	Gross	Accumulated	Net
	Carrying Amount	Amortization		Carrying Amount	Amortization	
Intangible assets subject to amortization included in property, plant and equipment:						
Capitalized software placed in service	\$ 423	\$ 339	\$ 84	\$ 386	\$ 314	\$ 72
Land easements	180	65	115	178	63	115
Mineral rights and other	31	25	6	31	24	7
Total	<u>\$ 634</u>	<u>\$ 429</u>	<u>\$ 205</u>	<u>\$ 595</u>	<u>\$ 401</u>	<u>\$ 194</u>

TN2030 Aggregate TXU Corp. amortization expense for intangible assets for the years ended December 31, 2006, 2005 and 2004 totaled \$38 million, \$23 million and \$46 million, respectively. At December 31, 2006, the weighted average remaining useful lives of capitalized software, land easements and mineral rights and other assets were 6 years, 69 years and 40 years, respectively. The estimated aggregate amortization expense for each of the five succeeding fiscal years from December 31, 2006 is as follows:

TN2040

Year

2007	\$ 29
2008	27
2009	21
2010	11
2011	7

TN2050 Goodwill (net of accumulated amortization) as of December 31, 2006 and 2005 totaled \$542 million with \$517 million at TXU Energy Company and \$25 million at TXU Electric Delivery.

TN2060 TXU Corp. evaluates goodwill for impairment at least annually (as of October 1) in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). The impairment tests performed are based on discounted cash flow analyses. No goodwill impairment has been recognized for consolidated reporting units reflected in results from continuing operations.

TN2070 Regulatory Assets and Liabilities —

	December 31,	
	2006	2005
Regulatory Assets		
Generation-related regulatory assets securitized by transition bonds	\$ 1,316	\$ 1,461
Securities reacquisition costs	112	119
Recoverable deferred income taxes — net	90	107
Storm-related service recovery costs	138	110
Employee retirement costs	461	89
Nuclear decommissioning cost under-recovery	—	8
Employee severance costs	44	33
Total regulatory assets	<u>2,161</u>	<u>1,927</u>
Regulatory Liabilities		
Investment tax credit and protected excess deferred taxes	63	71
Over-collection of securitization (transition) bond revenues	34	28
Nuclear decommissioning cost over-recovery	17	—
Other regulatory liabilities	19	2
Total regulatory liabilities	<u>133</u>	<u>101</u>
Net regulatory assets	<u>\$ 2,028</u>	<u>\$ 1,826</u>

TN2080 Regulatory assets totaling \$121 million have been reviewed and approved by the Commission and are earning a return. The unamortized amounts of these regulatory assets reflected in the above table totaled \$100 million and \$105 million at December 31, 2006 and 2005, respectively. The assets that have been approved by the Commission and are not earning a return total \$1.3 billion at December 31, 2006 and \$1.5 billion at December 31, 2005 and have a remaining recovery period of 10 to 44 years, including the regulatory assets securitized by transition bonds that have a remaining recovery period of 10 years.

Severance Liability Related to Strategic Initiatives—

	TXU Energy Holdings	TXU Electric Delivery	Corp. & Other	Total
Liability for severance costs as of January 1, 2005	\$ 42	\$ 12	\$ 1	\$ 55
Additions to liability	4	—	1	5
Payments charged against liability	(22)	(8)	(2)	(32)
Other adjustments to the liability	(6)	—	—	(6)
Liability for severance costs as of December 31, 2005	<u>18</u>	<u>4</u>	<u>—</u>	<u>22</u>
Additions to liability (a)	8	8	—	16
Payments charged against liability	(24)	(10)	—	(34)
Other adjustments to the liability	(1)	(1)	—	(2)
Liability for severance costs as of December 31, 2006	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 2</u>

- (a) TXU Energy Company and TXU Electric Delivery additions to liability are both related to services agreements entered into with certain providers. TXU Electric Delivery amount was recorded with an offset to a regulatory asset.
(b) The table above excludes severance capitalized as a regulatory asset or included in discontinued operations.

TN3000 Supplemental Cash Flow Information —

	Year Ended December 31,		
	2006	2005	2004
Cash payments (receipts) related to continuing operations:			
Interest (net of amounts capitalized).....	\$ 823	\$ 774	\$ 695
Income taxes.....	\$ 220	\$ 89	\$ 15
Cash payments (receipts) related to discontinued operations:			
Interest (net of amounts capitalized).....	\$ —	\$ —	\$ 106
Income taxes.....	\$ —	\$ 30	\$ 69
Noncash investing and financing activities:			
Noncash construction expenditures (a).....	\$ 228	\$ 61	\$ 76
Generation plant rail spur capital lease.....	\$ —	\$ 95	\$ —
Consolidation of lease trust:			
Increase in assets	\$ —	\$ 35	\$ —
Increase in debt.....	\$ —	\$ 96	\$ —

(a) Represents end-of-year accruals.

TN3010 See Note 5 for the effects of adopting FIN 47 which were noncash in nature.

TN3020 Quarterly Information (unaudited) — Results of operations by quarter are summarized below.

TN3030 In the opinion of TXU Corp., all other adjustments (consisting of normal recurring accruals) necessary for a fair statement of such amounts have been made. Quarterly results are not necessarily indicative of a full year's operations because of seasonal and other factors.

TN3040

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
2006:				
Operating revenues.....	\$ 2,304	\$ 2,667	\$ 3,510	\$ 2,375
Net income from continuing operations available for common stock	516	497	984	469
Income from discontinued operations, net of tax effect	60	—	20	6
Net income available for common stock	<u>\$ 576</u>	<u>\$ 497</u>	<u>\$ 1,004</u>	<u>\$ 475</u>
Per share of common stock - Basic:				
Net income from continuing operations available for common stock	\$ 1.11	\$ 1.08	\$ 2.15	\$ 1.03
Discontinued operations, net of tax effect	0.13	—	0.04	0.01
Net income available for common stock	<u>\$ 1.24</u>	<u>\$ 1.08</u>	<u>\$ 2.19</u>	<u>\$ 1.04</u>
Per share of common stock - Diluted:				
Net income from continuing operations available for common stock	\$ 1.09	\$ 1.07	\$ 2.11	\$ 1.02
Discontinued operations, net of tax effect	0.13	—	0.04	0.01
Net income available for common stock	<u>\$ 1.22</u>	<u>\$ 1.07</u>	<u>\$ 2.15</u>	<u>\$ 1.03</u>

TN3050

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
2005:				
Operating revenues.....	\$ 2,058	\$ 2,535	\$ 3,314	\$ 2,755
Income from continuing operations before extraordinary loss and cumulative effect of change in accounting principle.....	405	383	571	414
Preference stock dividends.....	<u>5</u>	<u>4</u>	<u>—</u>	<u>—</u>
Net income available to common stock from continuing operations.....	400	379	571	414
Income (loss) from discontinued operations, net of tax effect.....	16	(4)	(6)	—
Extraordinary loss, net of tax effect.....	—	—	—	(50)
Cumulative effect of change in accounting principle, net of tax effect.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8)</u>
Net income available for common stock.....	<u>\$ 416</u>	<u>\$ 375</u>	<u>\$ 565</u>	<u>\$ 356</u>
Per share of common stock - Basic:				
Net income available to common stock from continuing operations.....	\$ 0.85	\$ 0.80	\$ 1.19	\$ 0.87
Income (loss) from discontinued operations, net of tax effect.....	0.03	(0.01)	(0.01)	—
Extraordinary loss, net of tax effect.....	—	—	—	(0.10)
Cumulative effect of change in accounting principle, net of tax effect.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>(0.02)</u>
Net income available for common stock.....	<u>\$ 0.88</u>	<u>\$ 0.79</u>	<u>\$ 1.18</u>	<u>\$ 0.75</u>
Per share of common stock - Diluted:				
Net income (loss) available to common stock from continuing operations.....	\$ (0.13)	\$ 0.71	\$ 1.17	\$ 0.86
Income (loss) from discontinued operations, net of tax effect.....	0.03	(0.01)	(0.01)	—
Extraordinary loss, net of tax effect.....	—	—	—	(0.10)
Cumulative effect of change in accounting principle, net of tax effect.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>(0.02)</u>
Net income (loss) available for common stock.....	<u>\$ (0.10)</u>	<u>\$ 0.70</u>	<u>\$ 1.16</u>	<u>\$ 0.74</u>

TN3060 In the fourth quarter of 2005, TXU Corp. recorded an extraordinary loss of \$50 million (net of tax benefit of \$28 million) related to the consolidation of a lease trust in December 2005. TXU Corp. also recorded an \$8 million (net of tax benefit of \$4 million) cumulative effect of a change in accounting principle related to the adoption of FIN 47. The 2005 diluted per share results reflected the unfavorable impact associated with the accelerated share repurchase program, which was settled in May 2005. See Notes 4, 5 and 17.

"KNOWLEDGE" PERSONS:

1. C. John Wilder, Chairman, President and CEO
2. David Campbell, Executive Vice President and CFO
3. David Poole, Executive Vice President and GC
4. Jim Burke, Chairman and CEO – Retail
5. Mike Greene, Chairman and CEO – Power
6. Tom Baker, Chairman and CEO – Electric Delivery
7. Mike Childers, CEO – Generation Development
8. Chuck Enze, CEO – Generation Construction
9. Mike McCall, Chairman and CEO – Wholesale
10. Riz Chand, Senior Vice President/Human Resources
11. Gina Thomas, Vice President and General Tax Counsel
12. Paul Zweicker, Director of Environmental Services (solely with respect to environmental matters in Sections 5.1(g), 5.1(i) and 5.1(k))
13. Jonathan Siegler, Vice President, Strategy and Mergers & Acquisition

Section 5.1(h)
Employee Benefits

Section 5.1(h)(i)(A)

Qualified Plans

1. TXU Retirement Plan, as amended and restated effective January 1, 2006
 - Texas Utilities Company System Retirement Plan Master Trust Agreement, effective August 1, 1983
2. TXU Thrift Plan, as amended and restated effective January 1, 2006
 - Master Defined Contribution Trust Agreement by and between Texas Utilities Company and Mellon Bank, N.A., effective February 1, 1992

Health and Welfare Plans

1. TXU Health Care & Life Insurance Plan, dated January 1, 2007
 - Welfare Trust Agreement (Non-Union Medical/Dental), dated June 1, 1994
 - Welfare Trust Agreement (Union Medical/Dental), dated June 1, 1994
2. TXU Welfare Plan, dated January 1, 2007
 - Welfare Trust Agreement (Life Insurance for Retirees Only), dated June 1, 1994
3. Section 125 Plan, dated January 1, 2007

Non-qualified Plans

1. TXU Deferred Compensation Plan for Outside Directors, as amended and restated effective November 17, 2006
 - Trust Agreement for the TXU Deferred Compensation Plan for Outside Directors, dated September 4, 2002
2. TXU Deferred Compensation Plan for Directors of Subsidiaries, as amended and restated effective November 17, 2006
 - Trust Agreement for the TXU Deferred Compensation Plan for Directors of Subsidiaries, dated September 4, 2002
3. TXU Deferred and Incentive Compensation Plan, dated January 1, 2005 (Frozen)
 - TXU Deferred and Incentive Compensation Plan Trust Agreement, dated September 4, 2002
4. TXU Salary Deferral Program, as amended effective January 1, 2006
 - TXU Salary Deferral Program Trust Agreement, dated September 4, 2002

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5. Enserch Deferred Compensation Plan, as amended February 18, 1997 (Frozen)
 - Enserch Corporation Deferred Compensation Trust, as amended November 22, 1996
6. TXU Long-Term Incentive Compensation Plan, as amended and restated effective May 20, 2005 (no awards issued after 2005)
7. TXU 2005 Omnibus Incentive Plan, as amended and restated effective February 16, 2006 (only performance units issued to date with value equal to one share of common stock par value)
8. Enserch 1991 Stock Incentive Plan (Frozen) (no outstanding awards)
9. TXU Split-Dollar Life Insurance Plan, as amended and restated effective May 20, 2005 (Frozen)
 - TXU Split-Dollar Life Insurance Program Trust Agreement, dated July 15, 2002
10. TXU Supplemental Retirement Plan, dated January 1, 1995
 - Trust Agreement, dated May 3, 1993
11. TXU Second Supplemental Retirement Plan, as amended and restated January 1, 2005
 - TXU Utilities Company Second Supplemental Retirement Plan, dated August 11, 1998
12. Enserch Restoration Retirement Plan, as amended January 1, 1996
 - Enserch Corporation Retirement Income Restoration Trust, as amended January 1, 1996
13. TXU Executive Financial Advisement Program
14. Executive Physical Examination Program
15. Enserch Special COLA Benefit Plan (Non-qualified pension plan)

Employment Agreements

1. Burke, James	10/11/04
2. Campbell, David	05/14/04
3. Hillstrand, Kris William	02/14/05
4. Joshi, Safal K.	05/01/04
5. Moore, William A.	05/01/04
6. Poole, David	05/01/04
7. Rucker, Kim K.W.	08/04/04

8. Nye, Erle A. (Former TXU Chairman and CEO) (Addendum to E.A.)	06/01/05
9. Siegler, Jonathan	08/02/04
10. Simmons, Jeffry L.	04/16/01
11. Szlauderbach, Stanley J.	10/22/01
12. Thomas, Gina Carnino	11/01/04
13. Tulloh, Brian T.	05/06/02
14. Wilder, John C. (Amendment to E.A.)	06/00/05
15. Special Incentive and Bonus Retention Agreement with Gina Carnino Thomas	04/18/06

Material Offer Letters

1. Chand, Riz	04/15/05
2. Childers, Michael P.	07/06/05
3. Enze, Charles R.	05/11/06
4. Ewing, Gerritt L., Jr.	10/03/06
5. Fusco, Bill	08/18/06
6. Harris, Ray	08/23/06
7. Kerschbaum, Todd	03/15/06
8. Leonard, Scott E.	04/05/05
9. Luyties, William H.	07/27/06
10. Shapard, Robert S.	10/11/05
11. Skubisz, Joseph	09/06/06
12. Wiggs, Brett	05/16/06
13. Asthana, Manu (Retention Agreement)	06/09/00

Other Offer Letters

1. Brunette, Lynwood
2. Bryant, Daniel S.
3. Burns, Marc
4. Clevenger, Don
5. Dailey, Patrick A.
6. Fisher, Howard V.
7. Graham, Richard Scott

8. Lovelace, David Boyd
9. Moldovan, Kris
10. Raxter, Barbara
11. Riddick, Annita M.
12. Richardson, Jared S.
13. Sigler, David Arnold
14. Singleton, Lisa
15. Stewart, John
16. Uverzagt, Andrew L.
17. Winston, Lisa
18. Wright, Andrew

Change in Control Policies

1. TXU Corp. Change in Control Policy for Non-Leadership Team LTIP Participants, effective May 20, 2005
2. TXU Corp. Executive Change in Control Policy, effective May 20, 2005

Severance Policies

1. TXU Corp. 2005 Executive Severance Plan and Summary Plan Description, effective May 20, 2005
2. TXU Severance Plan and Summary Plan Description, effective January 31, 2005

Severance Agreements or Arrangements

1. Kirk R. Oliver, dated March 24, 2006
2. H. Dan Farrell, dated July 3, 2006
3. Eric H. Peterson, dated April 2, 2006
4. Joe R. Thompson, dated May 31, 2006

Annual Incentive Plans

1. TXU Broad-Based Annual Incentive Plan, effective 2006
2. TXU Executive Annual Incentive Plan, effective February 16, 2006

3. TXU Performance Enhancement Plan, effective 2006
4. TXU Energy Sales Incentive Plan, effective January 1, 2006
5. TXU Wholesale Incentive Plan, effective January 1, 2006

Miscellaneous Programs/Policies

1. AYCO Survivor Support Program
2. Salary Continuation Program (six months of salary continuation)
3. Survivor Death Benefit (one month's pay)
4. Appliance Purchase Program
5. Energy Conservation Program
6. Transportation Program (Dallas Area Rapid Transit, Carpooling)
7. Workers' Compensation Insurance
8. Service Award Program
9. Education and Tuition Assistance Program
10. Relocation Program
11. See Schedule 5.1(h)(iv) Item 1

Designated Officers

1. Tom Baker
2. Jim Burke
3. David Campbell
4. Riz Chand
5. Mike Childers
6. Chuck Enze
7. Mike Greene
8. Mike McCall
9. David Poole
10. Jonathan Siegler
11. John Wilder

(Stan Szlauderbach, an "officer" of TXU Corp. for purposes of Rule 16a-1(f) under the Exchange Act, shall not be considered a "Designated Officer" for purposes of the Agreement)

Section 5.1(h)(iv)

1. Communication letter to ENSERCH employees has been provided regarding post-retirement medical benefits. Based on the communication letter, there are approximately 700 ENSERCH retirees still alive who retired on or before 12/31/90. They are required to contribute zero dollars toward their retiree medical. Also, there are approximately 500 surviving spouses of ENSERCH retirees who retired both on or before 12/31/90 including the surviving spouses of retirees who retired on or before 12/31/90. The surviving spouses are paying for a portion of their cost with about an 82% company subsidy.
2. See Item 4 of Schedule 5.1(g) of this Disclosure Letter.

Section 5.1(h)(v)

TXU Corp. Change in Control Policy for Non-Leadership Team LTIP Participants
TXU Corp. Executive Change in Control Policy
Employment Agreement with John Wilder
Employment Agreement with James Burke
Employment Agreement with David Campbell
Employment Agreement with David Poole
Employment Agreement with Jonathan Siegler
Employment Agreement with Kris William Hillstrand
Employment Agreement with Safal K. Joshi
Employment Agreement with William A. Moore
Employment Agreement with Kim K. W. Rucker
Employment Agreement with Erle A. Nye
Employment Agreement with Gina Carnino Thomas
Employment Agreement with Jeffry L. Simmons
Employment Agreement with Stanley J. Szlauderbach
Employment Agreement with Brian T. Tulloh
Special Incentive and Bonus Retention Agreement with Gina Carnino Thomas
Offer Letter with Riz Chand
Offer Letter with Scott E. Leonard
Offer Letter with Robert S. Shapard
TXU Long-Term Incentive Compensation Plan (no awards issued after 2005)
TXU 2005 Omnibus Incentive Plan
TXU Deferred Compensation Plan for Directors of Subsidiaries (and the associated trust)
TXU Deferred Compensation Plan for Outside Directors (and the associated trust)
TXU Deferred and Incentive Compensation Plan (and the associated trust)
TXU Split Dollar Life Insurance Program (and the associated trust)
TXU Salary Deferral Program (and the associated trust)
TXU Supplemental Retirement Plan (and the associated trust)
TXU Second Supplemental Retirement Plan (and the associated trust)
Enserch Restoration Retirement Plan (and the associated trust)
Enserch Deferred Compensation Plan (and the associated trust)
Enserch 1991 Stock Incentive Plan

Section 5.1(i)
Compliance with Laws

See Sections 5.1(g) and 5.1(k) of this Disclosure Letter.

1. In October 2006, TXU Energy Retail Company was notified that the Commission had begun an investigation of certain renewal practices as applied to term contracts for small and medium business customers. The Commission staff requested that TXU Energy discontinue those practices. TXU Energy is engaging in ongoing discussions with Commission staff regarding the applicable rules and is cooperating with the Commission's investigation.
2. In early November 2006, TXU Portfolio Management Company notified the ERCOT Independent Market Monitor and ERCOT's compliance staff that a false resource plan was submitted to ERCOT on October 31, 2006. In January 2007, the Commission staff notified TXU Portfolio Management that it was investigating whether TXU Portfolio Management violated ERCOT protocols or applicable law by submitting a false resource plan. TXU Portfolio Management is cooperating with the Commission's investigation.
3. The Company did not withdraw its retail gas certificate in Pennsylvania in a timely manner in 2005. The Company has discussed the matter with Pennsylvania regulatory staff and is making efforts to correct this oversight.
4. The Company learned in 2005 that it had failed to make certain filings with the U.S. Customs regarding imports of natural gas to the U.S. from Canada. The Company responded by contacting U.S. Customs and contracting with a broker to make the required filings as the Company's agent. In early 2007, the Company learned that the broker had failed to make the required filings. The Company is actively engaged in correcting this problem.
5. See Item 5 of Section 5.1(f)(i) of this Disclosure Letter.

Section 5.1(k)
Environmental Matters

1. TXU is one of many responsible parties for some share of the cleanup of a vendor's (San Angelo Electric Service Company, San Angelo, Texas) contaminated transformer repair site as the vendor has gone bankrupt. Share of responsibility is being determined by the amount of oil sent to the vendor for processing. A SESCO Site Working Group (SSWG) was formed in August 2004, of which TXU is a part.
2. TXU is a defendant in actions involving exposure to asbestos identified in Section 5.1(g) of this Disclosure Letter.
3. In 2005, the US Environmental Protection Agency (EPA) issued a final rule to further reduce SO₂ and NO_x emissions from power plants. The SO₂ and NO_x reductions required under the Clean Air Interstate Rule (CAIR) are based on a cap and trade approach (market-based) in which a cap is put on the total quantity of emissions allowed in 28 eastern states (including Texas), emitters are required to have allowances for each ton emitted, and emitters are allowed to trade emissions under the cap. The CAIR reductions are proposed to be phased in between 2009 and 2015.
4. In 2005, the EPA published a final rule requiring reductions of mercury emissions from coal-fueled power plants. The Clean Air Mercury Rule (CAMR) is based on a cap and trade approach on a nationwide basis. The mercury reductions are proposed to be phased in between 2010 and 2018.
5. The federal Clean Air Act also requires each state to monitor air quality for compliance with federal health standards. The standards for ozone are not being achieved in several areas of Texas. The TCEQ proposed new State Implementation Plan rules in December 2006 to deal with 8-hour ozone standards. These rules, if adopted, would require further NO_x emission reductions from certain TXU Corp. facilities in the Dallas-Fort Worth area.
6. The Railroad Commission of Texas ("RCOT"), on January 25, 2006 informed TXU by letter of pollution violations discovered during routine inspections of the Fort Chadbourne Gas Plant in Runnels County. The letter states that RCOT has yet to determine the responsible party, and requested TXU's assistance in determining the responsible party, which TXU believes is not themselves.
7. See Item 1 of Section 5.1(g) of this Disclosure Letter.

Section 5.1(l)

Taxes

1. Extensions of statutes of limitations have been extended for pending audits and appeals, state, federal, and foreign, as per the attached Schedule A.
2. Tax sharing agreements are in effect per the attached Schedule B.
3. The Company and its subsidiaries have engaged in reportable transactions which are reflected on duly filed Forms 8886 included with the true and correct copies of federal tax returns described in Section 5.1(l)(i) of the Merger Agreement.
4. Closing agreements in effect, private letter rulings obtained with continuing effect and private letter requests currently pending are listed on the attached Schedule C.
5. *TXU Corp. 1997-2002 Audit* — The IRS is currently examining TXU's federal income tax returns for 1997-2002. A tax basis step-up of assets that occurred at ENSERCH Corporation prior to its 1997 acquisition by TXU resulted in a TXU audit issue as a result of the 2000 sale of the assets. The issue was resolved with the IRS in the first quarter of 2006, and a reserve of \$62 million was released (see Note 3). In addition to proposed adjustments with respect to the worthlessness of TXU's investment in TXU Europe (discussed separately below), the IRS has issued notices of proposed adjustment with respect to several other items.
6. *TXU Gas (formerly ENSERCH Corporation) Audits* — The IRS audits of the 1993 and 1994-1997 ENSERCH tax returns were closed in 2005. The IRS filed a notice of deficiency disallowing both losses from various intercompany asset sales transactions and NOL carryback deductions on transactions for which the tax treatment was agreed at IRS Appeals. Although TXU does not believe that the notice of deficiency is supportable under existing facts and law, TXU paid this tax and additional interest totaling \$30 million in 2005 in order to avoid extending the statute of limitations with respect to unrelated transactions. During 2006, TXU filed a refund claim to challenge the notice of deficiency with respect to the entire \$30 million amount. The IRS and TXU have extended the time to file suit for refund so the government may review the claim.
7. *TXU Europe* — On its US federal income tax return for calendar year 2002, TXU claimed an ordinary loss deduction related to the worthlessness of TXU's investment in TXU Europe, the tax benefit of which is estimated to be \$983 million (assuming the deduction is sustained on audit). Due to a number of uncertainties regarding the proper tax treatment of the worthlessness loss, no portion of the tax benefit related to TXU's 2002 write-off of its investment in TXU Europe was recognized in income prior to the second quarter of 2004.
6. In June 2004, the IRS issued a preliminary notice of proposed adjustment (subsequently amended in September 2004) proposing to disallow the 2002

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worthlessness deduction and treat the worthlessness as a capital loss (deductible only against capital gains). In addition, in 2004 TXU revised the estimates of capital losses and ordinary deductions expected from the worthlessness deduction utilization. Accordingly, in 2004 TXU recorded a tax benefit of \$755 million (\$680 million classified as discontinued operations) related to the TXU Europe worthlessness deduction, which reflects expected utilization of the capital loss deduction against capital gains realized in 2004 and prior periods. The benefit recognized also included \$220 million for deductions related to the write-off of the investment in TXU Europe expected to be sustained as ordinary as a result of the preliminary notice.

Schedule of Tax Exception to Representation
Schedule A- Extensions of statutes of limitations for open tax audits

Federal, State, Foreign	Taxpayer	Type Tax	Period	Status/Statute Extension
Federal	TXU Corp.	Income	1997-2002	Audit
UK	TXUIH		2004	Audit
TX	TXU Business Services	Direct Pay Sales/Use Tax	01/02-06/04	Currently in 30 Day Review Period
TX	TXU Business Services	Direct Pay Sales/Use Tax	10/93-12/96	In Hearing/appeals process
TX	TXU Business Services	Direct Pay Use Tax- Managed Audit	1/97- 7/98	In Hearing/Appeals process Periods 8/98-1/00 lapsed as auditor didn't request statute extension.
NY	Enserch Energy Services (New York) Inc.	Sales/Use Tax	09/98-08/99	In appeals.
NY	TXU Energy Retail LP	Sales/Use Tax	03/02-05/03	In appeals.
NY	TXU Energy Trading	Sales/Use Tax	09/99-02/02	In appeals.
TX	TXU Communications	Sales Tax	09/00-06/04	In progress.
TX	TXU Electric (US Holdings)	Direct Pay Sales/Use Tax	1/95-7/98	In Hearing/appeals process
TX	TXU Electric Company	Direct Pay Sales/Use Tax	1/89-12/91	In Hearing/appeals process
TX	TXU Electric Company	Direct Pay Sales/Use Tax	1/92-12/94	In Hearing/appeals process
TX	TXU Electric Delivery Company LP	Direct Pay Sales/Use Tax	01/02-06/05	4/20/2007
TX	U Energy Company LI	Sales Tax	01/02-12/05	1/20/2008
TX	TXU Fuel Company	Direct Pay Sales/Use Tax	01/02-06/04	10/20/2007
TX	TXU Gas Company	Sales/Use Tax	1/92-12/95	In Hearing/appeals process
TX	TXU Gas Company	Gross Receipts Tax	07/01-09/04	4/20/2007
TX	TXU Generation Company LP	Direct Pay Sales/Use Tax	01/02-06/05	4/20/2007
TX	TXU Big Brown Company LP	Direct Pay Sales/Use Tax	01/02-06/05	4/20/2007

Schedule of Tax Exception to Representation
Schedule A- Extensions of statutes of limitations for open tax audits

Federal, State, Foreign	Taxpayer	Type Tax	Period	Status/Statute Extension
TX	TXU DeCordova Company LP	Direct Pay Sales/Use Tax	01/02-06/05	4/20/2007
TX	TXU Mining Company	Direct Pay Sales/Use Tax	1/96-7/98	In Hearing/appeals process
TX	TXU Mining Company	Direct Pay Sales/Use Tax	8/98-12/01	In Hearing/appeals process
TX	TXU Mining Company LP	Direct Pay Sales/Use Tax	01/02-12/05	11/20/2007
TX	TXU Big Brown Mining Company LP	Direct Pay Sales/Use Tax	01/02-12/05	11/20/2007
TX	TXU Fuel Company	Income/Franchise	12/00-12/02	In hearing/appeals process
TX	TXU Elec. Delivery	Income/Franchise	12/02-12/03	In hearing/appeals process
TX	TXU Investment Compa	Income/Franchise	12/01-12/03	5/15/2007
TX	TXU Corp.	Income/Franchise	12/02-12/04	5/15/2007
LA	TXU US Holdings Compe	Income/Franchise	12/02-12/04	Audit of refund claim in progress
LA	TXU Energy Holdings	Income/Franchise	12/02-12/04	Audit of refund claim in progress

Schedule B - Tax Sharing Agreements

Date	Taxpayer	Topic
January 15, 2004	Pinnacle One Partners	Stock Purchase Agreement whereby Pinnacle One Partners must divest of its shares of TXU Communications to Homebase Acquisition Texas Corp

Schedule C - State and Federal Closing Agreements and PLRs

Date	Type	Taxpayer	Topic
June 12, 1982	Ruling Request	TU Electric	Taxability of software program, training & data collection
October 5, 1982	Closing Agreement	Texas Utilities Company and Subsidiary Companies	Calculation of lignite depletion deduction beginning tax year 1987
July 5, 1994	Ruling Request	TU Electric	Sales tax consequences of sale of building, office furniture and parking garage for lump-sum price
October 5, 1994	Ruling Request	TXU Communications	Clarification & taxability of billing and collection services provided by local exchange carrier telephone companies to interexchange carriers
January 24, 1995	Ruling Request	TU Electric	Tax liability of business trust operation as foreign limited liability corporation & preferred securities
September 1995	Ruling Request	TU Electric	Does sales tax exemption provided in Tax Code Sec. 151.3111 apply to services performed on equipment that qualified for the mfg. Sales tax exemption at time of purchase, but that subsequently had been incorporated into the reality
October 3, 1996	Ruling Request	TU Electric	Taxability of electricity used in vacant house, multifamily housing complex, vacant model apartment, and condominium
June 1997	Ruling Request	TU Electric	Are resale certificates given by electricity brokers valid unless under various fact scenarios?
May 1998	Ruling Request	TXU Corp and Subsidiaries	Is payment of any franchise tax required due at the time of extension for the 1998 franchise tax return, if the previous year's return showed no tax due
September 1998	Ruling Request	TU Electric	Taxability of electronic payment of utility bills for location inside and outside of Texas
December 1998	Ruling Request	TU Electric	Does sales tax exemption apply to purchase of various equipment used to produce chilled water for sale
October 20, 1999	PLR	Transition Bond Company	Treatment of regulated utility transition costs
November 3, 1999	Ruling Request	TU Electric	Sales tax reporting responsibility to report any portion of penalty for late payment to the state
January 11, 2000	Ruling Request	TXU Corp.	Taxability of proposed transition property securitization transaction undertaken pursuant to Senate Bill 7
March 22, 2000	Ruling Request	TXU Electric Delivery	Taxability of installation or construction of security lights and inputting of data into data bases
July 31, 2000	Ruling Request	TXU Generation Company, LP	Certification of Rule 3.295 concerning natural gas and electricity used to power equipment qualifying for the manufacturing exemption
September 12, 2000	Ruling Request	TXU Mining	Taxability of pipeline right-of-way work
February 20, 2001	Ruling Request	TXU Mining	Taxability of work performed in conjunction with a pipeline spill
July 31, 2001	Ruling Request	TXU Generation Company, LP	Taxability of transmission and distribution services when billed by TDU to REP

Schedule C - State and Federal Closing Agreements and PLRs

Date	Type	Taxpayer	Topic
November 2001	Ruling Request	TXU Electric Delivery	Taxability of construction services performed by distribution/transmission companies. "New Hole - New Pole" rule
January 23, 2002	Ruling Request	TXU Electric Delivery	Tax credits due to restructuring or unbundling of electricity industry
April 3, 2002	Ruling Request	TXU Corp	Audit requirements for employee travel card program
April 12, 2002	Ruling Request	TXU Generation Company, LP	Sales Tax issues regarding New Pollution Control Process in connection with anticipated installation of certain pollution control equipment
May 8, 2002	Ruling Request	TXU Corp.	Confirmation of procedures for issuing direct payment exemption certificates to affiliate company and accruing or collecting and remitting taxes on inventory that affiliate company intends to employ
May 21, 2002	PLR	Transition Bond Company	Treatment of regulated utility transition costs
July 19, 2002	Ruling Request	TXU Generation Company, LP	Taxability of pollution-control equipment and its installation at fossil-fuel electric generating facilities
July 22, 2002	Ruling Request	TXU Electric Co.	Taxability of charges for system benefit fund fees, competition transition charges, municipal franchise fees, transition charges, and nuclear decommissioning fees
October 3, 2002	Ruling Request	TXU Corp.	Re: Utility Studies and good faith acceptance of exemption certificates
December 2002	Ruling Request	TXU Business Services	Intercompany Services Exemption
January 12, 2004	Ruling Request	TU Electric	Taxability of 3rd party notification service that advises customers of electrical power outages at their premises.
January 23, 2004	Ruling Request	TU Electric	Taxability of third-party administered, employer-sponsored Defined Contributions, Defined Benefits, and Health and Group Benefits plans
May 2004	Ruling Request	TXU Energy Retail	Taxability on the sale of surge protection service
July 26, 2004	Ruling Request	TU Electric	Clarification of predominant use study / exemption certificate requirement
October 14, 2004	Ruling Request	TXU Electric Delivery	Whether purchase, upgrade & maintenance of computer hardware and software used as "electronic control room equipment" qualify for manufacturing exemption
November 2004	Ruling Request	TXU Generation Company, LP	Taxability of security services at a nuclear power plant
March 30, 2005	PLR	TXU Corp. and Subsidiaries	Section 9100 Relief granted for election under former Reg. Section 1.337(d)-2T(c) for tax year ended December 31, 2002
December 22, 2005	PLR	TXU Corp.	Project Jewel
January 2006	Ruling Request	TXU Electric Delivery	Gross Receipts tax and PUC assessment on contributions in aid of capital

Schedule C - State and Federal Closing Agreements and PLRs

Date	Type	Taxpayer	Topic
May 30, 2006	Ruling Request	TXU Generation Company, LP	Taxability of health/safety equipment and machinery acquired for use in a nuclear power plant / Steam Production Equipment
June 15, 2006	Ruling Request	TXU Corp.	Project Jewel Supplemental Rulings
September 29, 2006	PLR	TXU Generation Company, LP	Non-disqualification protective ruling granted regarding the qualified nuclear decommissioning funds.
December 2006	Ruling Request	TXU Generation Company, LP	Taxability of materials purchased and labor performed at nuclear power plant
December 14, 2006	Closing Agreement	TXU Gas Company, LP	Refund approved in IRS FIN 48 expedited review program
January 2007	Ruling Request	TXU Mining	Taxability of dredging services performed during reclamation
January 5, 2007	PLR	TXU Corp.	Submission pending under Voluntary Compliance Program pursuant to Rev. Proc. 2006-27.
January 10, 2007	Closing Agreement	TXU Corp and Subsidiary	Refund approved in IRS FIN 48 expedited review program
January 10, 2007	Closing Agreement	TXU Corp and Subsidiary	Refund approved in IRS FIN 48 expedited review program
January 10, 2007	Closing Agreement	TXU Energy Company, LLC	Refund approved in IRS FIN 48 expedited review program

Section 5.1(m)
Labor Matters

(i) and (ii)

The Company has labor agreements in place with 4 separate Locals of the IBEW:

7. Local 2337:

- Lignite Plants (currently negotiating a new labor agreement):
 - Big Brown – 71 employees
 - Monticello – 117 employees
 - Martin Lake – 183 employees
- Mining – Ratified a new labor agreement 12/21/2006:
 - Big Brown – 197 employees
 - Monticello – 187 employees
 - Martin Lake – 452 employees
 - Thermo – 89 employees; (Ratified new labor agreement 12/21/2006)
- Gas Plants – 83 employees:
 - Tradinghouse (Ratified new labor agreement 1/18/2007)
 - Lake Creek (Ratified new labor agreement 1/18/2007)
 - Stryker Creek (Ratified new labor agreements 1/18/2007)
 - DeCordova (Ratified new labor agreements 1/18/2007)
 - Valley (Ratified new labor agreement 1/18/2007)
 - Trinidad (Ratified new labor agreement 1/18/2007)
 - Collin (“Mothballed”) (Ratified new labor agreement 1/18/2007)
 - River Crest (Retired) (Ratified new labor agreement 1/18/2007)

8. Local 2078 – Sandow Plant – 42 employees; currently negotiating a new labor agreement.

9. Local 69:

- Dallas Distribution – 156 employees; currently negotiating an annual wage and benefits re-opener
- Metro/Non-metro Distribution (Certified 12/19/2006 pursuant NLRB 16-RC-10746) - 483 employees; currently negotiating an initial labor agreement

10. Local 20 – Comanche Peak:

- Operations, Maintenance, Warehouse - 182 employees; currently negotiating a new labor agreement
- Chemistry & Radiation Protection Techs – 51 employees; currently negotiating a new labor agreement

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1. Local 69 is attempting to get Technicians in TXU ED to sign recognition cards.
2. Annex A sets forth Reductions in Force and closings.
3. Local 2337, Mining is processing two grievances to arbitration regarding the Medical Plan changes implemented by the Company on January 1, 2005, pursuant to the Medical Plan's reservation of rights provisions. One grievance is alleging a reduction of benefits and the second grievance is specifically grieving the Company's decision to implement a \$50/month Spousal Surcharge.

ANNEX A

REDUCTION IN FORCE PROGRAMS - 2004

ORGANIZATION	TYPE OF SEVERANCE	NUMBER OF EMPLOYEES
Power		
Comanche Peak	Reduction in force - all self-nomination	30
Mining	Reduction in force (includes Winfield North)	105
Gas Plant Operations	Reduction in force (includes Collin & Eagle Mtn)	37
Fossil Gen - Other	RIF Exempt - self nomination	32
	Separation to CGE	12
	Sub-total	216
Business Services		
	Separation to CGE	1036
	Separation to Hewlett	136
	Separation to Silver Star	60
	Reduction in force	139
	Sub-total	1371
Wholesale		
	Separation to CGE	8
	Reduction in force	17
	Sub-total	25
Retail		
	Separation to CGE	1066
	Reduction in force	114
	Sub-total	1180
Electric Delivery		
	Separation to CGE	284
	Reduction in force - Utility Solutions	7
	Reduction in force	32
	Sub-total	323
Gas Pipeline	Separation to Atmos / Energy Transfer	41
Gas Distribution		
	Separation to Atmos	1297
	Reduction in force	1
	Sub-total	1298
TOTAL		4443

REDUCTION IN FORCE PROGRAMS - 2005

ORGANIZATION	TYPE OF SEVERANCE	NUMBER OF EMPLOYEES
Business Services		
	Separation to CGE	1*
	Separation to Silver Star	2*
	Reduction in force	30
	Sub-total	30
Wholesale	Reduction in force	9
Retail		
	Separation to CGE	1*
	Reduction in force	48
	Sub-total	49
Electric Delivery		
	Separation to Atmos (Meter Reading)	132
	Reduction in force	7
	Sub-total	139
TOTAL		236

* Return from Military Leave

REDUCTION IN FORCE PROGRAMS - 2006

ORGANIZATION	TYPE OF SEVERANCE	NUMBER OF EMPLOYEES
Power		
Comanche Peak		
	Separation to vendor	100
	Retired - special	80
	Reduction in force (no severance)	1
	Sub-total	241
Gas Plant Operations	Reduction in force	47
Sub-total		288
Electric Delivery		
	Reduction in force -- FOX-3	91
	Automated Meter Reading	10
Sub-total		101
Accounting	Reduction in force	3
Wholesale	Reduction in force	2
TOTAL		394

Section 5.1(p)
Regulatory Matters

(i)

TXU Electric Delivery Company:

1. Tariff for Transmission Service To, From and Over Certain HVDC Interconnections ("TFO Tariff"), FERC Electric Tariff, Ninth Revised Volume No. 1, which was accepted for filing by letter order dated July 23, 2004 in Docket No. ER04-957-000.
2. Tariff for Transmission Service For Tex-La Electric Cooperative of Texas, FERC Electric Tariff, Fourth Revised Volume No. 2, which was accepted for filing by letter order dated July 23, 2004, in Docket No. ER04-957-000 ("Tex-La Tariff").
3. TXU Electric Delivery Company's ERCOT Standard Generation Interconnection Agreement Kiowa Power Partners, LLC, FERC Electric Tariff, First Revised Volume No. 3, which was accepted for filing by letter order dated July 23, 2004, in Docket No. ER04-957-000 ("Kiowa Tariff").
4. TXU Electric Delivery Company's ownership interest of 100 megawatts in the east HVDC Interconnection.
5. Contracts pursuant to which TXU Electric Delivery Company provides transmission service under the TFO Tariff and the Tex-La Tariff.
6. The books and records associated with transactions involving the foregoing assets.

TXU Portfolio Management Company LP ("TXU Wholesale"):

1. Sixth Revised Rate Schedule FERC No. 1 (superseding Fifth Revised Rate Schedule FERC No. 1), which was accepted for filing by letter order dated November 15, 2006 in FERC Docket Nos. ER06-1515-000, ER06-1515-001, and ER03-506-003, issued originally in Docket No. ER99-3333-005. ("Market-Based Rate Schedule").
2. Associated wholesale power contracts.
3. Books and records with respect to transactions under such contracts.