

Electric Restructuring in Texas: A Success Story



TXU
Energy

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ERCOT Market Design Has Enabled Competition to Flourish

Wholesale Market

- Wholesale market design facilitates Retail market development
 - Open access to transmission
 - Simple and liquid bilateral market
 - Uniform transmission rates
 - Fewer settlement points for pricing load
- Expedited permitting and interconnection

26 GW of new generation

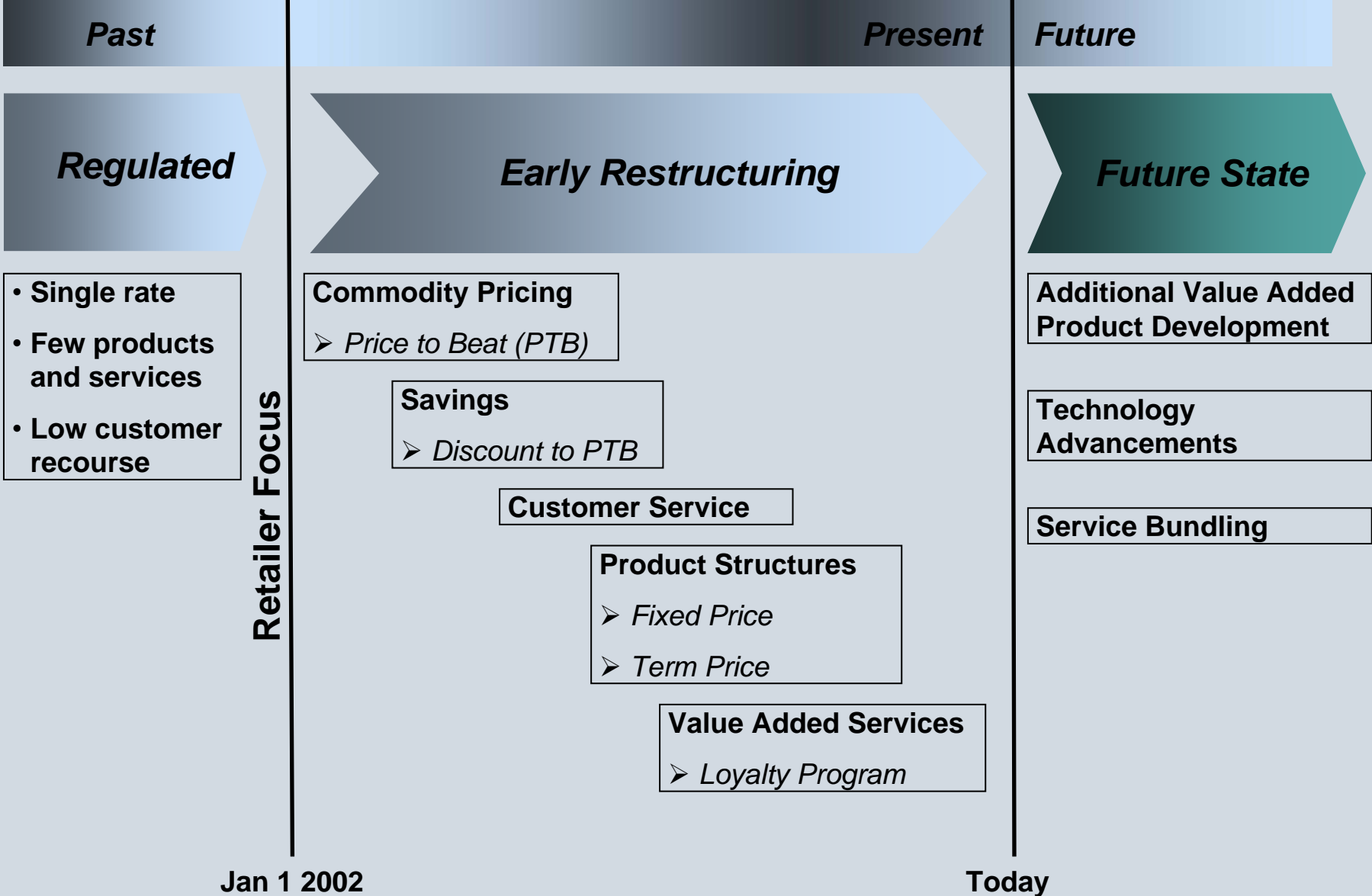
Retail Market

- Competitive wholesale market
- Retail market prices can timely respond to wholesale cost changes
- Equal access to wires capability; wires company not serving retail function
- All customer classes competitive
- Ability to create meaningful supplier and customer relationships
- Low barriers to entry

50+ active REPs

Development of predictable, consistent market rules and appropriate oversight by the PUC of Texas have enabled Texas competition

The Competitive ERCOT Electricity Market has Followed a Predictable Evolutionary Path



The Price-to-Beat Mechanism is a Key Element of the ERCOT Competitive Retail Market...

ILLUSTRATIVE

% of Revenues

100%

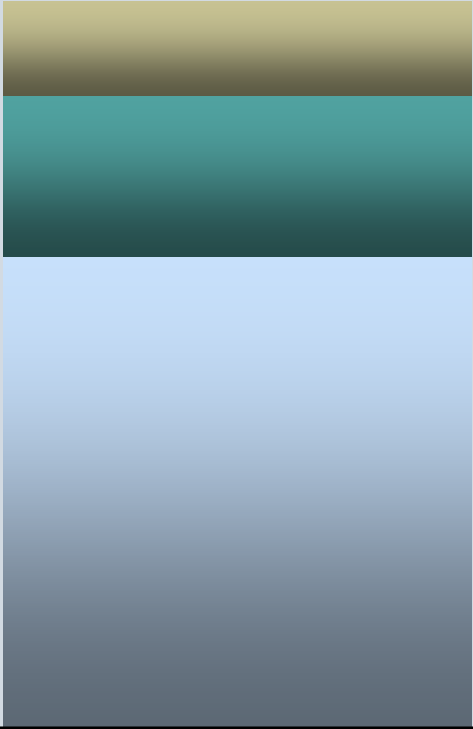
Price-to-Beat (PTB)

Incumbent Headroom

Transmission & Delivery Costs

Power Costs

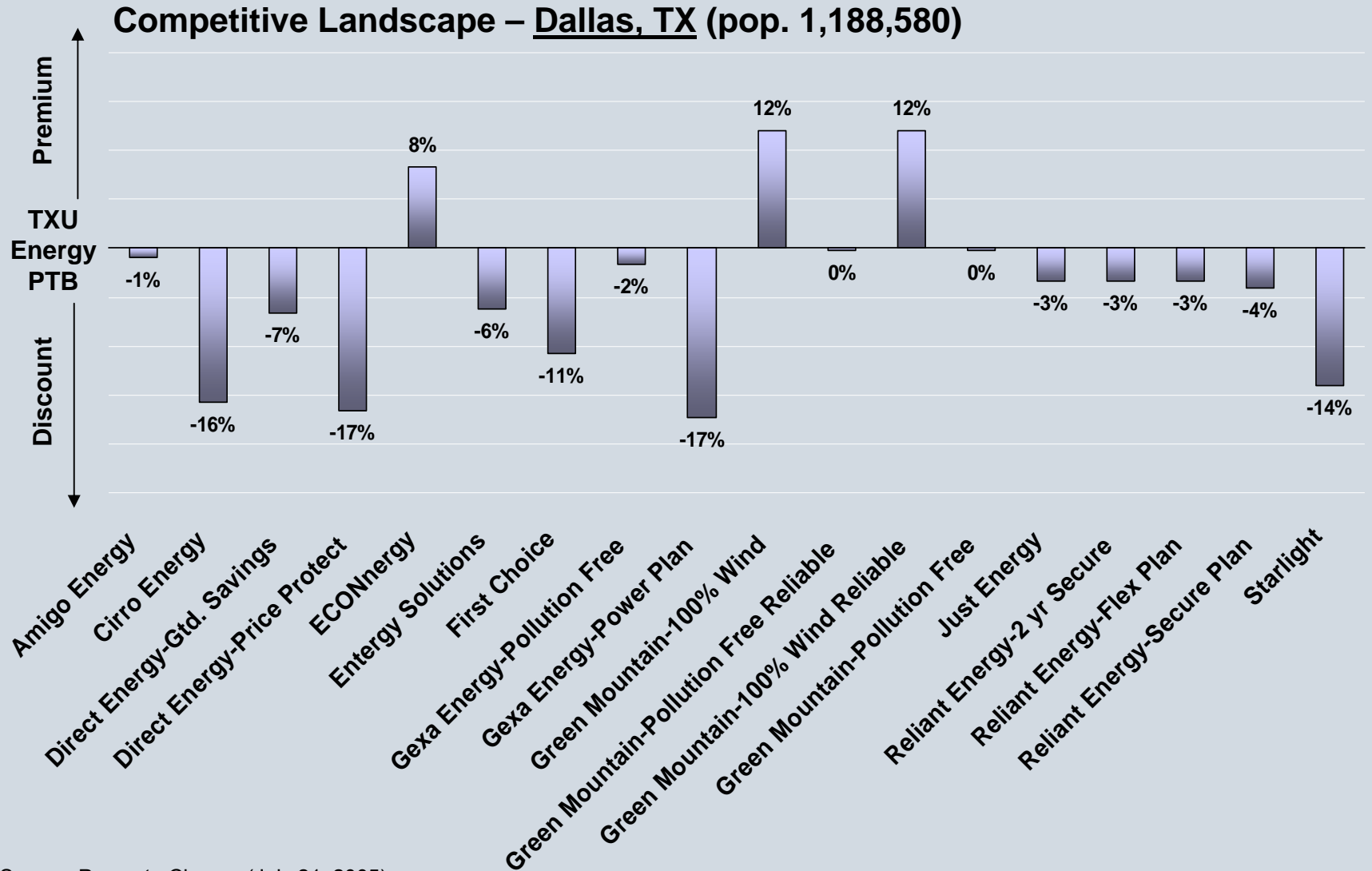
0%



In ERCOT, incumbent headroom must cover:

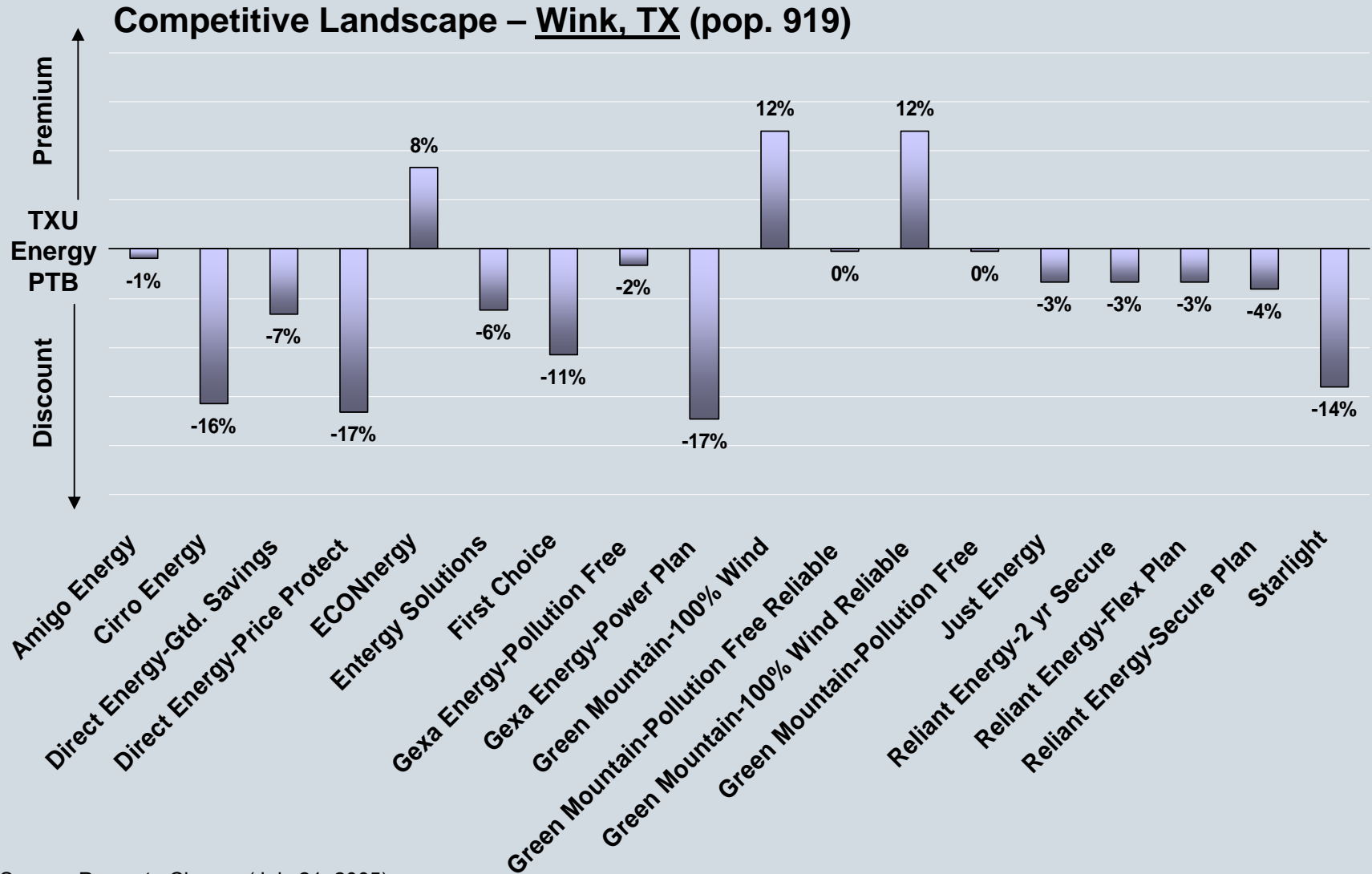
- *Customer discounts*
- *Customer Care*
- *Billing*
- *Marketing*
- *Bad Debt*
- *Overhead*
- *Interest*
- *Depreciation*
- *Taxes*

...Such That All Customers Have Benefited ...



Source: Power to Choose (July 21, 2005)

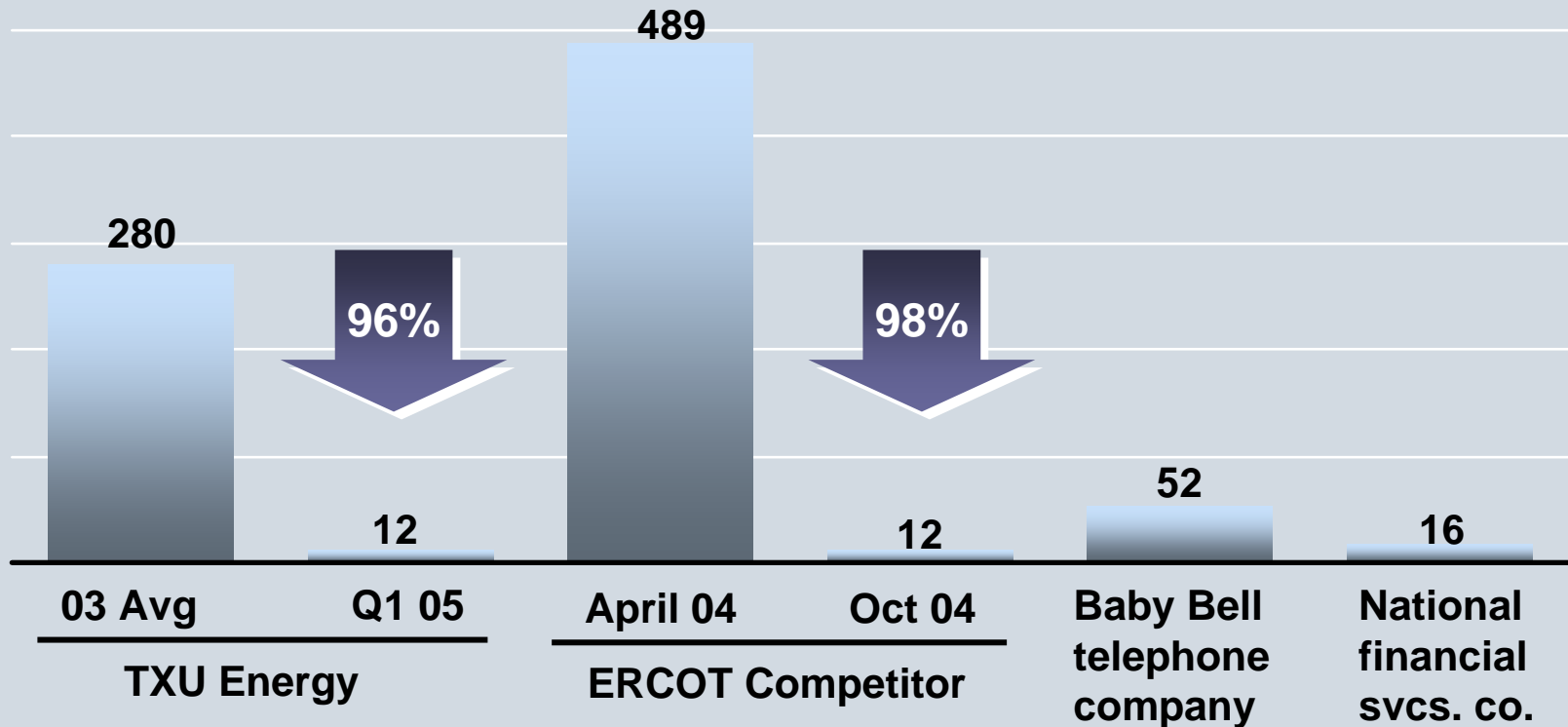
...Including Customers in Small Communities



Source: Power to Choose (July 21, 2005)

Competition has Driven Service Level Improvements ...

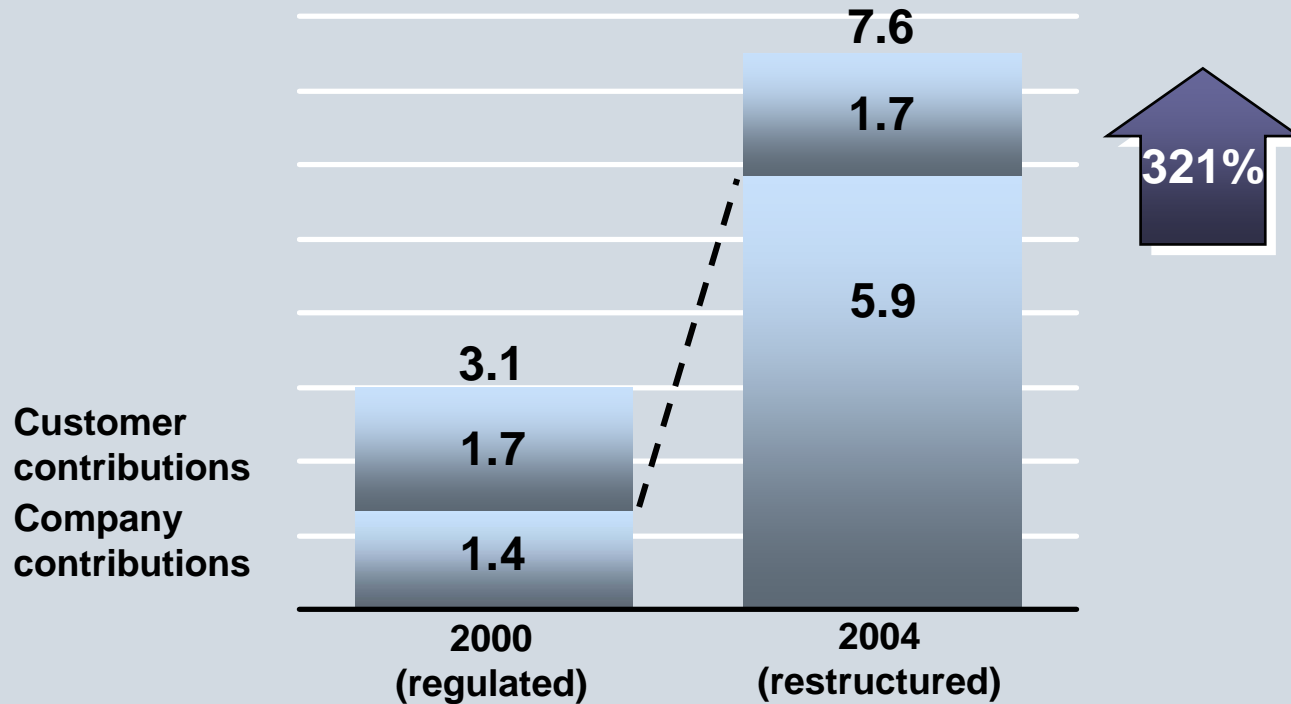
Average speed of answer
2003-2005; Seconds



While TXU Energy responded to customers by improving call center operations, a major competitor soon followed – exactly what you would expect in a competitive market

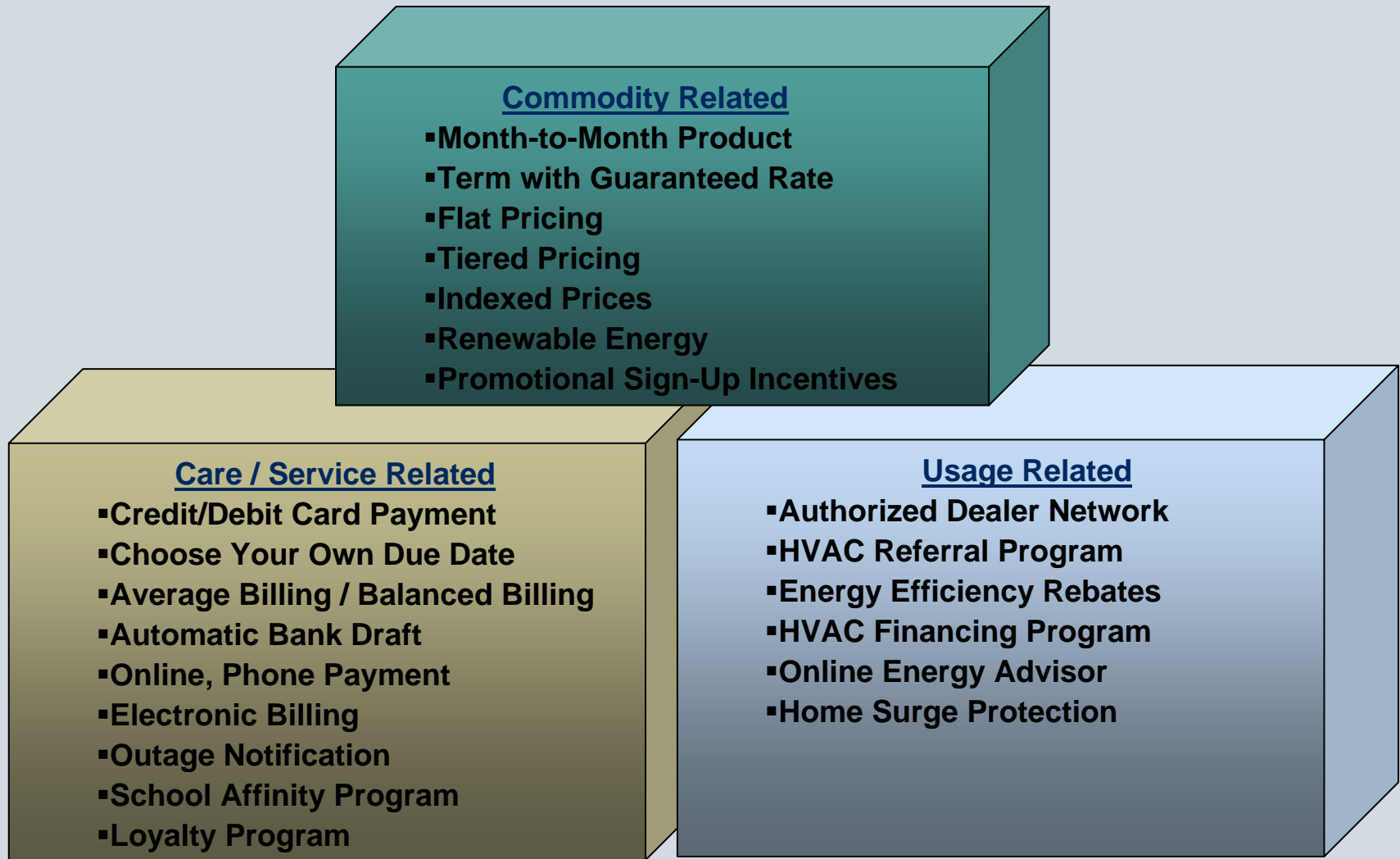
... Increased Low Income Customer Assistance ...

Energy Assistance Program
2000-2004; \$ millions



Market participants have more than tripled their financial commitment to low income customer assistance since restructuring

...And Led to The Proliferation of Customer-Focused Products and Services...



Residential customers in competitive markets can choose from a broad array of product options, usually with numerous configurations, designed to meet their individual needs

...Including a Unique Offer for TXU Energy Customers

The screenshot shows the TXU Energy website's Rewards+ program page. At the top left is the TXU Energy logo. To the right are navigation links: Marketplace | My Account | Hotel Search | Contact Us | Help | Logout. A left sidebar contains 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 'Your Questions...' section 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 text stating that TXU Energy TravelRewards can be used immediately towards all listed products. A 'Your Account Balance' box shows \$350.00 with a 'view details' link. Below this is a grid of product categories: Hotel Search, Airline Tickets, Cruises, Condominiums, Magazines, Software, DVD Movies, and Other Products. At the bottom is a 'Value Added Benefits' section with an image of a restaurant.

TXU Energy Rewards+™ Program

- All enrolled 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+™ dollars monthly

Competition Has Driven Continued Innovation in Other Industries As Well, But it Takes Time

**New products/technology
post restructuring**

**Timeframe-years
after restructuring**

Telecom

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

5-15

Airlines

- Frequent flier programs
- Ticketless travel
- Online reservation (Sabre)
- Regional jets with turbofan technology
- Air limos
- Regional vs. national/international route strategies

5-15

Competition Continues to be Vigorous and Creative...



Reliant charges

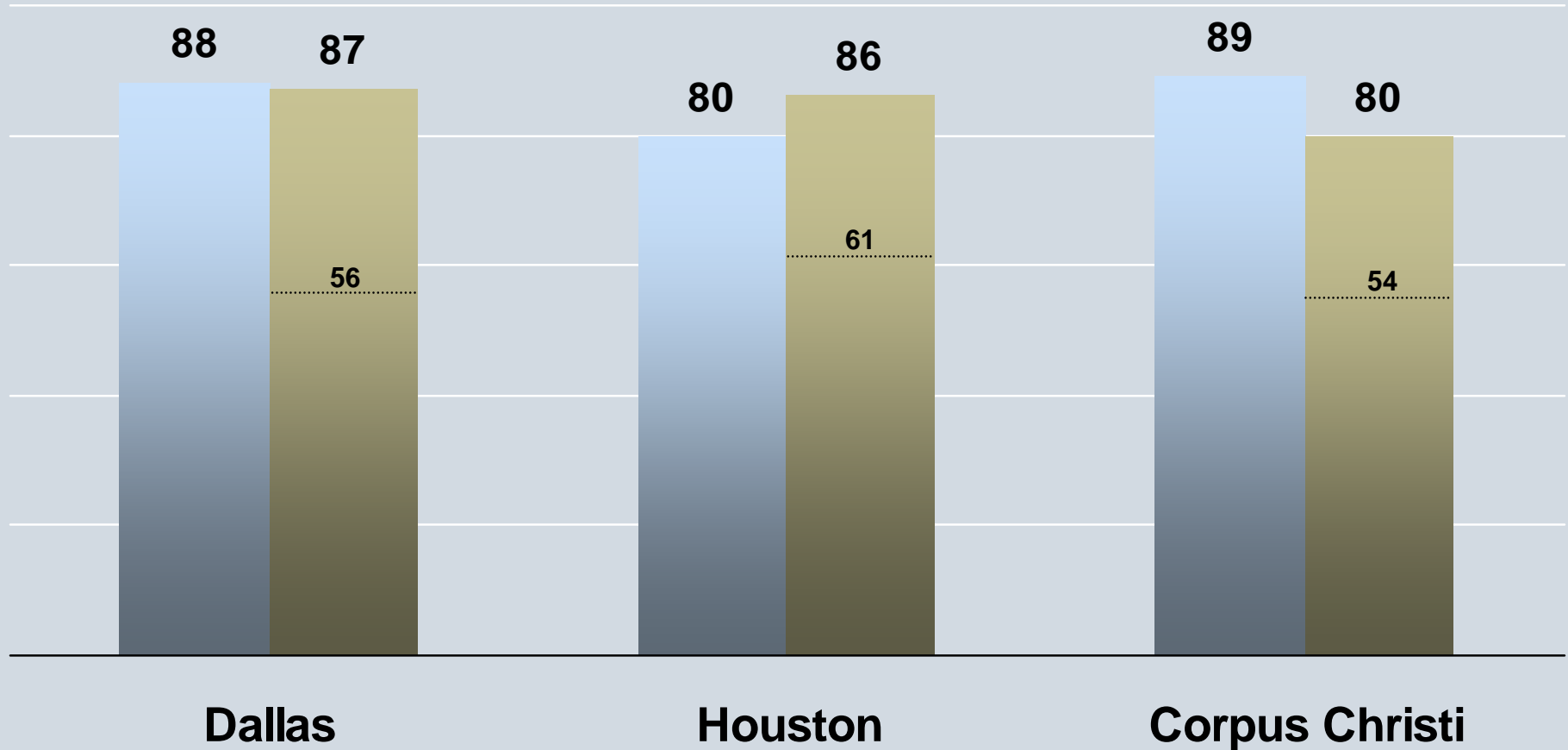
Houston customers a rate
over 13% higher
than they offer new customers
in Dallas.*



...Leading to Very Strong Customer Awareness and Support

Q2 2005; Percent

 Awareness of competition¹
 Support for competition²



1 Awareness defined as percentage of customers who are aware of their ability to choose a provider
2 Support of competition defined as percentage of customers who moderately support or strongly support Texas electric competition. Numbers above dashed line represent "strongly support" competition.
Source: TXU, random digit dial among all households in these markets

Texas Restructuring Has Been Successful To Date

- ✓ **Effective regulatory oversight and rule development**
- ✓ **Enabling wholesale market**
- ✓ **Competitive retail prices**
- ✓ **Abundant competitive offerings**
- ✓ **Product and service proliferation – early stages**
- ✓ **Competitive service levels**
- ✓ **Customer-driven marketing and innovation**
- ✓ **Strong customer support**

“The only market with plentiful competition for residential customers is in Texas”

***The Wall Street Journal
March 1, 2005***