

# Presentation to the NRC

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August 21, 2007

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Kohlberg Kravis Roberts & Co. ("KKR") and TPG

## Introduction to KKR

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- Founded in 1976, KKR is one of the oldest and most experienced private equity firms specializing in buyouts
  - Offices in Menlo Park, New York, London, Paris, Hong Kong, and Tokyo
  - 97 investment professionals around the world
- KKR has been the largest and most active participant in the buyout industry over the past 30 years
  - Invested \$31 billion, in over 150 deals, with more than \$318 billion of transaction value
  - Current portfolio of 37 companies, approximately \$107 billion revenue, more than 565,000 employees
- The core of our franchise is acquiring industry-leading companies and working with management to grow and improve them, and, thereby create value for investors and benefits for all company stakeholders

## Introduction to TPG

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- Founded in 1992, TPG Capital (TPG) is a private investment partnership, specializing in buyouts, with more than \$30 billion of assets under management
    - Headquartered in Fort Worth, with offices in San Francisco, London, Hong Kong, New York, Minneapolis, Melbourne, Menlo Park, Mumbai, Shanghai, Singapore and Tokyo
    - 130 investment professionals worldwide
  - TPG has extensive experience with global public and private investments executed through leveraged buyouts, recapitalizations, spinouts, joint ventures and restructurings
    - Invested \$21 billion, in approximately 200 deals, with more than \$276 billion of transaction value since inception
    - Current portfolio of 58 companies, approximately \$114 billion revenue, approximately 550,000 employees
  - TPG seeks to invest in world-class franchises across a range of industries
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# KKR and TPG's Investment Philosophy

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## **Long-term investors**

- We are involved, patient investors who want our companies to take a long-term perspective and invest for future growth

## **Acquire attractive franchises**

- We invest in market-leading companies that we can grow and improve
  - Large businesses provide many opportunities for growth through capital investment and improvements in such areas as manufacturing, product sourcing, and sales and marketing

## **Partnerships for the benefit of all stakeholders**

- We partner with management and employees who put their own capital at risk
  - Address concerns of stakeholders
  - Strengthen skills and competencies at all levels of the organization

## **Develop an appropriate capital structure**

- We develop financing structures that enable companies
  - to invest in growth
  - to weather cyclical downturns

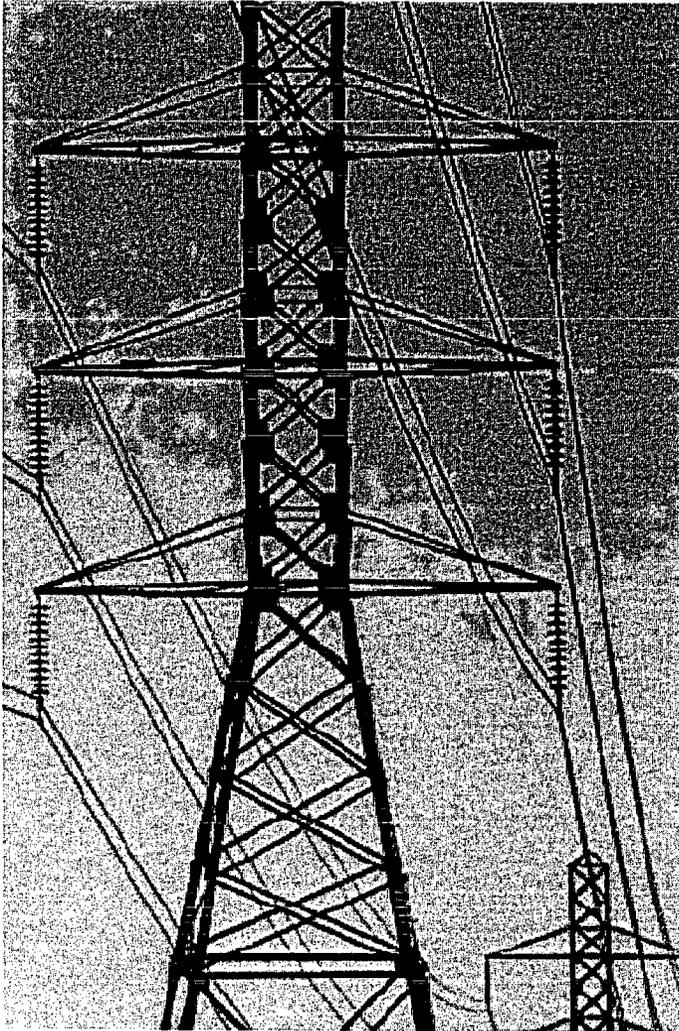
## **Create value by improving companies**

- We use skills built up through decades of experience investing in and owning businesses
  - Industry expertise of executives
  - Consulting relationships
  - Senior Advisors

## KKR and TPG's Experience in the Power and Utilities Sector

## Why we Believe that Private Equity Investment Makes Sense Within the Sector

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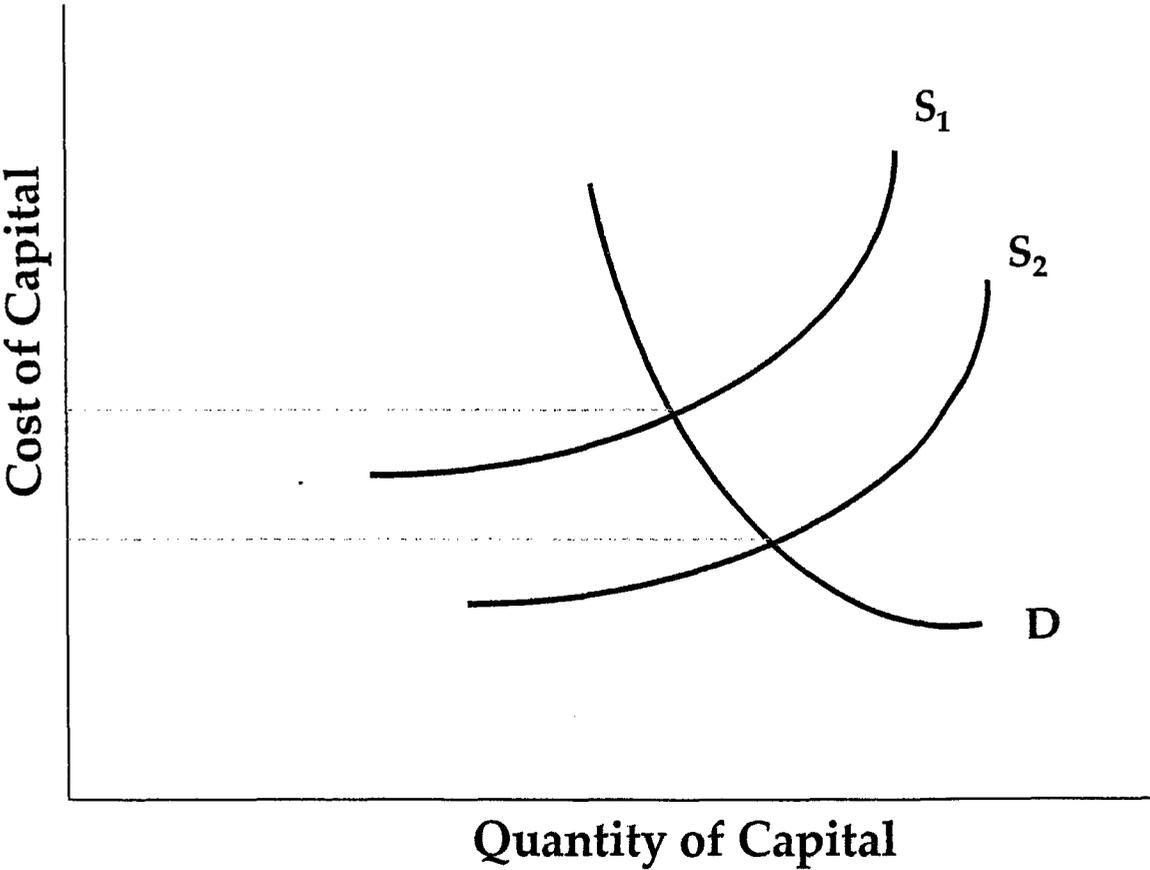


- ✓ Focus on long-term fundamentals as opposed to short-term earnings, drives prudent decisions that often achieve both economic and customer related objectives
- ✓ Experience dealing with multiple stakeholders and ability to balance shareholder interests with external stakeholder interests
- ✓ Patient, long-term capital that is supportive of making significant capital investments that public markets may not support
- ✓ Long-term orientation matches well with useful life of assets in sector

Observation: Private Equity has Reduced the Cost of Capital in the Sector

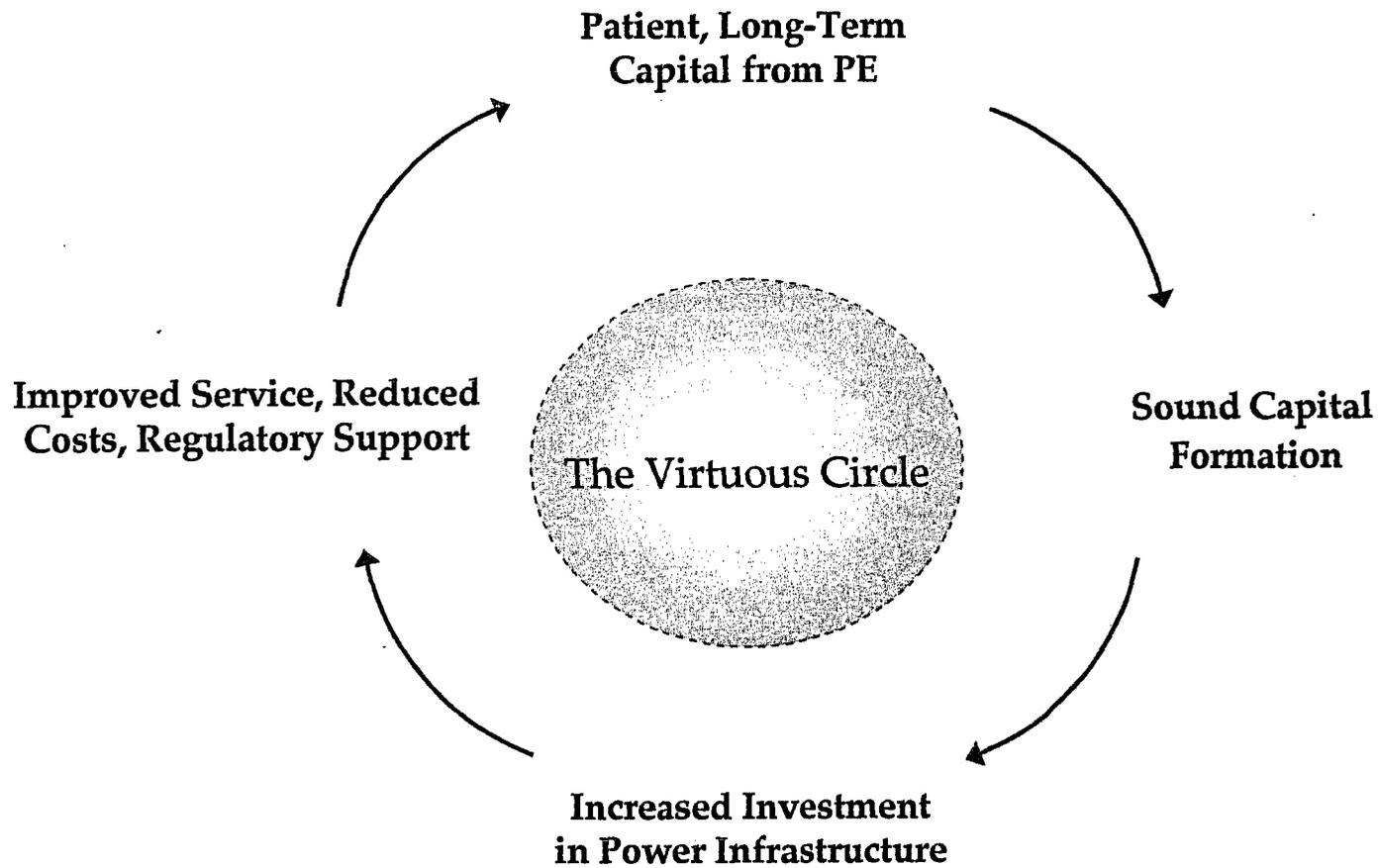
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- Supply and demand: the addition of private equity capital in the sector shifts the supply curve, lowering the cost of capital and, therefore, lowering rates for customers and driving investment in new projects that may not otherwise be developed



# Observation: Private Equity Contributes to Sound Capital Formation

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## KKR and TPG's Interest and Experience in the Power and Utilities Sector

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- KKR and TPG have a long history of interest in the power and utilities Sector, driven by the excellent fit between power sector's capital needs and private equity's long-term investment approach
  - For years, KKR and TPG have been active in regulated businesses, most recently with KKR's investment in DPL and KKR's purchase of the transmission assets of DTE Energy (today, *ITCTransmission*) as well as KKR and TPG's announced purchase of TXU Corp.
    - Found a unique opportunity to address key stakeholder needs by investing large amounts of capital in regulated utility systems
    - Long-term orientation/investment time horizon and focus on large capital investment requirements matched well with the needs of regulated businesses
  - In addition, KKR and TPG have been equally active in certain competitive parts of the sector, such as wholesale generation, with their purchase of Texas Genco, which owned a 44% interest in the South Texas Project nuclear-fueled generation facility, and announced purchase of TXU Corp.
    - Opportunities to improve the quality of competitive business' cash flow and reduce overall business risk by selling forward future production or using the financial market to hedge underlying commodity risk
    - Long term orientation/investment time horizon facilitates capital investment decisions that management teams find difficult to pursue in a public market context
  - Given the critical nature of the good/service provided (e.g., power), KKR and TPG have made open and active stakeholder relations a critical part of their approach to investments within the sector
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## Case Study of KKR's Investment in ITC Transmission

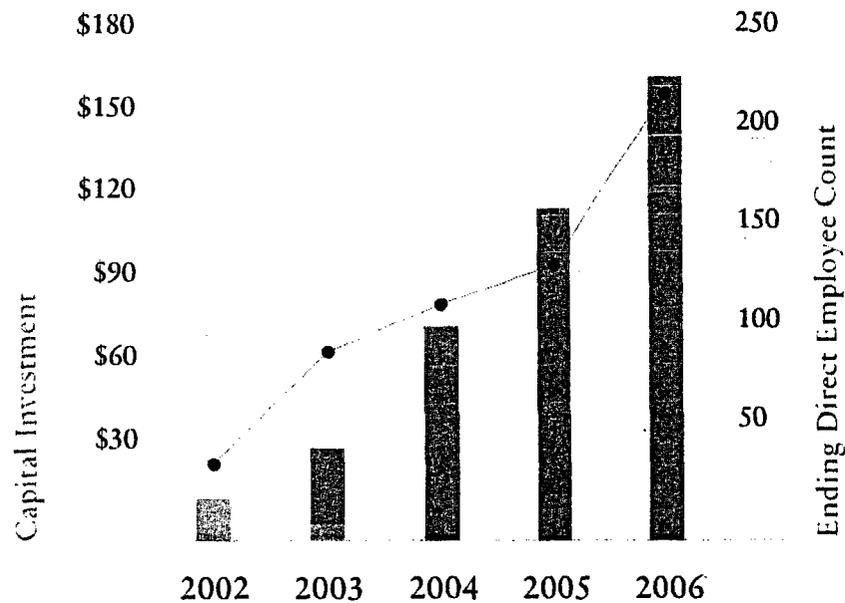
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- KKR and partner, Trimaran Capital, signed definitive documents to acquire International Transmission Company ("ITC" or the "Company") from Detroit Edison on December 3, 2002
    - The state of Michigan was also an investor alongside KKR and Trimaran
  - KKR and Trimaran filed for transaction approval with the FERC on December 31, 2002
    - Received FERC approval within 60 days
  - Transaction closed on February 28, 2003
  - At the time of the acquisition, ITC consisted of transmission assets (lines, poles, and transformers), 38 direct employees, and a number of contracts with Detroit Edison and DTE Energy
    - However, within one year of KKR's investment in ITC, the Company implemented an independent control center and put in place the systems and resources to function as a self-sufficient entity
  - Under KKR ownership, the Company delivered on its commitment to invest in and enhance the transmission grid in southeast Michigan
    - When KKR acquired ITC, the Company had a capital budget of \$10 million per annum; since the acquisition, ITC has invested over \$400 million to rebuild and upgrade the system
    - ITC has a strong capital structure that facilitates its ability to make prudent, ongoing investments in the future
  - In October 2006, with the close support of KKR, ITC expanded its service territory by acquiring its neighboring system, Michigan Electric Transmission Company, for approximately \$865 million
  - Today, ITC has over 230 direct employees and has become the eighth largest electric transmission company in the country based on electric transmission sales
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## Case Study of KKR's Investment in ITC Transmission (Cont'd.)

### Tracing ITC's Growth: 2002 to 2006

(In millions, except employee data)



- Capital Investment: Pre KKR
- Capital Investment: Post KKR
- Ending Direct Employee Count

### Selected Comments of Recognition:

- "International Transmission Company is the first truly stand-alone, independent transmission company in the United States of America, and has accomplished this remarkable goal within its first year of existence. Let it serve as an example as we strive to provide reliable, affordable energy to customers across the country." *Pat Wood III, FERC Chairman, 2001 to 2005, April 2004*
- "We are proud of ITC's commitment to enhancing electric reliability throughout Michigan and the Midwest... The 2003 blackout demonstrated just how important it is that we have a safe, reliable, and efficient transmission system to deliver electricity. It is gratifying to see this great Michigan-based company investing in our electric transmission infrastructure to ensure that electricity will be delivered in that way to millions of Michigan citizens as well as customers in other Midwest states." *Jennifer M. Granholm, Governor of Michigan, January 2007*

KKR and TPG's Plan for TXU

## Transaction Overview: KKR and TPG's Announced Purchase of TXU

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- On February 25, 2007, KKR and TPG, two of the nation's leading private equity firms, executed a definitive merger agreement under which an investor group led by the two firms will acquire TXU Corp. ("TXU") in a transaction valued at approximately \$45 billion
  - Under the terms of the merger agreement, TXU shareholders will be offered \$69.25 per share cash at closing
  
- TXU is a Dallas-based energy company that manages a portfolio of competitive and regulated energy businesses in Texas. TXU conducts its operations through three principal business units:
  - Luminant Energy (formerly TXU Power) has over 18,100 MW of generation in Texas, including 2,300 MW of nuclear and 5,800 MW of coal-fired generation capacity
  - TXU Energy is the largest retail electricity provider in Texas, with over 2.1 million customers
  - Oncor Electric Delivery (formerly TXU Electric Delivery), a stable, regulated business, operates the largest distribution and transmission system in Texas, with more than 100,000 miles of distribution and 14,300 miles of transmission lines
  
- TXU, KKR and TPG expect to close the transaction in the fourth quarter of 2007, subject to receipt of shareholder approval and required regulatory approvals, as well as satisfaction of other customary closing conditions

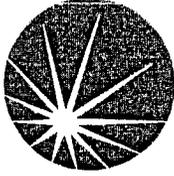
# Transaction's Value Proposition

Transaction to provide value to variety of internal and external stakeholders

<p><b>Customer</b></p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Residential price reduction of 15.0%</li> <li><input type="checkbox"/> Price protection through December 2008</li> <li><input type="checkbox"/> \$400 million investment in demand side management (50% of which is recoverable through Oncor rates)</li> </ul>
<p><b>Competitive Market</b></p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Continue offering multiple competitive service offerings</li> <li><input type="checkbox"/> Continue evaluating expansion of the Comanche Peak nuclear power station</li> <li><input type="checkbox"/> Functional separation with three distinct business units to foster innovation</li> </ul>
<p><b>Environment</b></p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Strengthen commitment to environmental stewardship</li> <li><input type="checkbox"/> Reduce coal new-build program from eleven units to three units</li> <li><input type="checkbox"/> Double wind purchases to at least 1.5 GWs</li> </ul>
<p><b>Business</b></p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> World class skills and capabilities matched with long-term, patient capital</li> <li><input type="checkbox"/> Renewed focus on enterprise risk management</li> <li><input type="checkbox"/> Access to experienced advisors</li> <li><input type="checkbox"/> Board of directors of TXU Corp. to include prominent and independent community, business and environmentally focused members</li> </ul>

## Business Objective: Functionally Separate TXU's Business Units

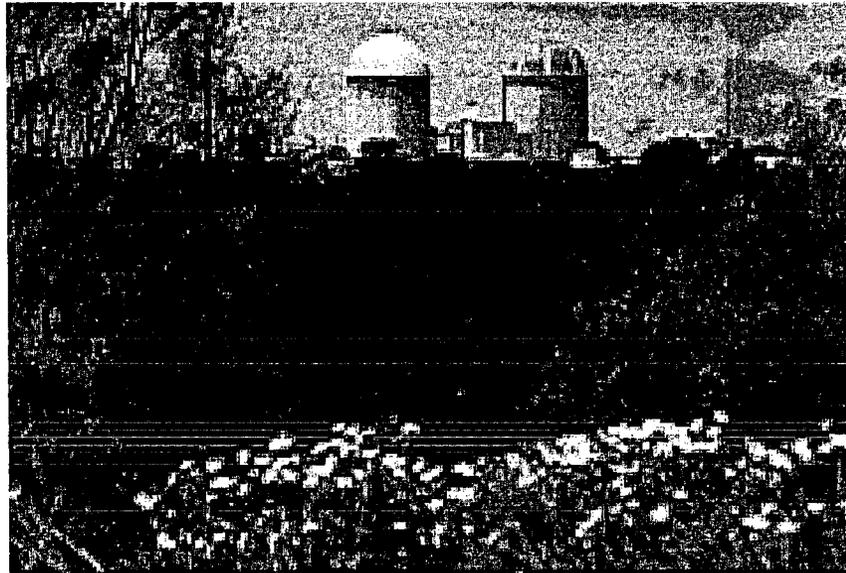
- Create a superior business model for the competitive electric power sector

New brand	 <b>Luminant</b>	 <b>TXU</b> Energy	
Former brand	<input type="checkbox"/> TXU Power/ Wholesale/ Construction/ Development	<input type="checkbox"/> TXU Energy	<input type="checkbox"/> TXU Electric Delivery
Mission	<input type="checkbox"/> Meet customers' power needs through operation, origination and construction of the most efficient and environmentally friendly supply technologies  <input type="checkbox"/> Manage customers' risks through wholesale products	<input type="checkbox"/> Become a national leader in competitive retail electricity by achieving industry leading customer service and creating an innovative set of new products and services to meet customers' needs and use electricity more efficiently	<input type="checkbox"/> Become the most economical and reliable transmission and distribution service company in the US through a commitment to redefine top decile reliability and cost performance

## Business Objective: Maintain Superior Operating Performance of Existing Assets

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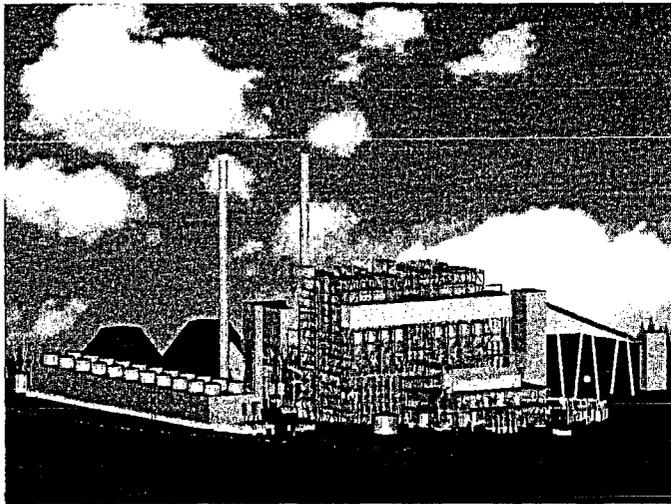
- Specifically, with respect to Luminant Power's nuclear generating facility, Comanche Peak:
  - ✓ Continue to emphasize safety as the highest priority across all levels of the organization
  - ✓ Maintain existing nuclear management team to preserve continuity of operations and leverage existing experience
  - ✓ Continue to make planned investments in maintenance and upgrades to maintain reliability and achieve superior operating performance
  - ✓ No sponsor involvement in day-to-day operations of the facility



## Business Objective: Invest to Help Meet ERCOT Market Reliability Needs

- Leverage two existing project sites in building additional capacity to satisfy ERCOT market demand and meet future reliability needs

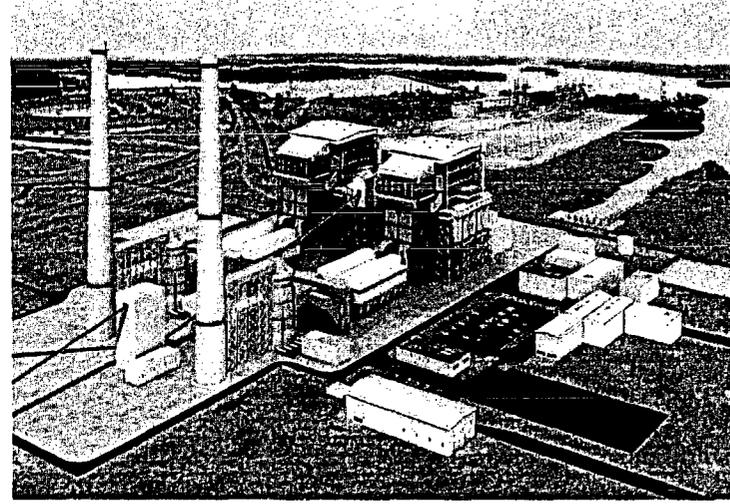
Sandow Unit 5



Key statistic

Net capacity (MW)	581
Primary fuel	TX Lignite
Air permit status	Complete
Resumed construction date	June 06
Commercial operation date	Mar 09

Oak Grove Steam Electric Station

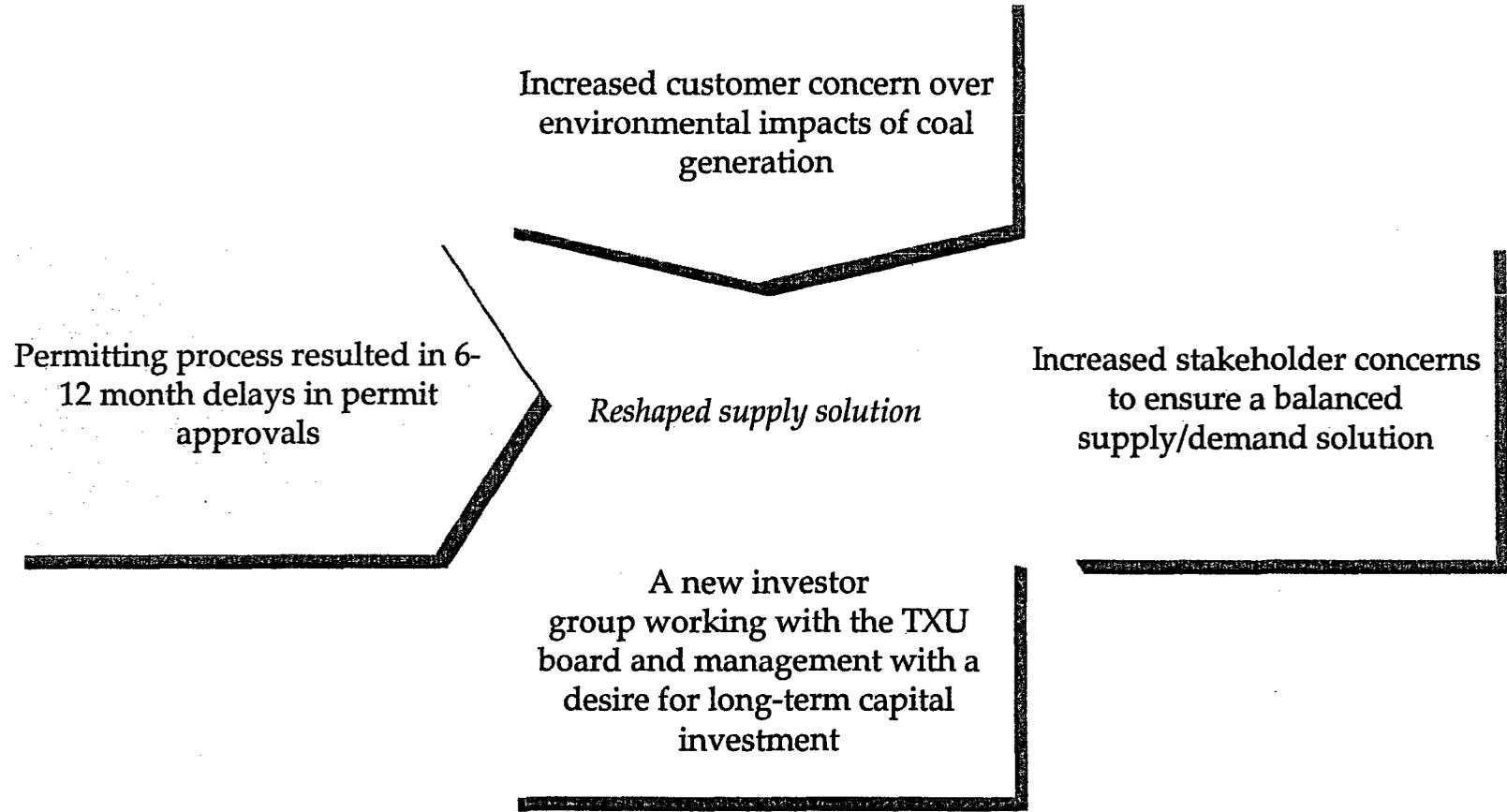


Key statistic

Net capacity (MW)	1,634
Primary fuel	TX Lignite
Air permit status	Complete
Resumed construction date	June 07
Commercial operation date	Jun 09/Dec 09

# Business Objective: Reshape TXU's Long-Term Supply Solution

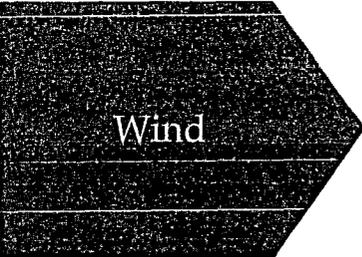
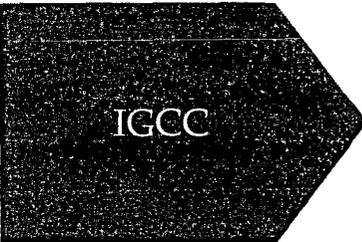
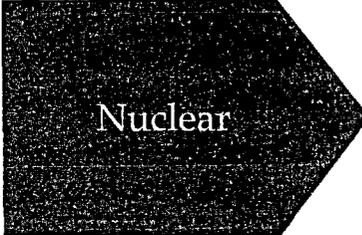
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The New TXU

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## Business Objective: Reshape TXU's Long-Term Supply Solution (Cont'd.)

Technology	Objective	Status
	<ul style="list-style-type: none"> <li>▪ Increase wind purchases and generation capacity from 580 MWs to over 1,500 MWs</li> <li>▪ Become the largest purchaser of wind in the U.S.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Announced a joint-venture development agreement with Shell WindEnergy Inc. for a 3,000 MW wind project in the Texas Panhandle</li> <li>▪ Developing a low cost sourcing model to drive costs down</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Commercialize the first economic merchant IGCC facility in the U.S.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Will issue RFP's to major vendors to provide economic solution with performance guarantees</li> <li>▪ Exploring capture and sequestration options</li> <li>▪ Leveraging SCPC learnings to help drive costs down</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Continue evaluating the expansion of the Comanche Peak nuclear generation facility</li> </ul>	<ul style="list-style-type: none"> <li>▪ Issued letter to NRC defining choice of the Mitsubishi APWR technology for potential Comanche Peak expansion</li> <li>▪ Intend to file for construction and operating license (COL)</li> </ul>