Luminant

Mike Blevins
Executive Vice President
& Chief Nuclear Officer
Mike.Blevins@Luminant.com

Luminant Power
P O Box 1002
6322 North FM 56
Glen Rose, TX 76043

T 254 897 5209
C 817 559 9085
F 254 897 6652

CP-200800214
Log # TXX-08026

Ref. # 10CFR140.21(e)

February 7, 2008

U. S. Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, DC 20555

SUBJECT: COMANCHE PEAK STEAM ELECTRIC STATION
DOCKET NOS. 50-445 AND 50-446
GUARANTEES OF PAYMENT OF DEFERRED PREMIUMS

Dear Sir or Madam:

Pursuant to 10CFR140.21(e), Luminant Generation Company LLC (Luminant Power) hereby submits SEC Form 10-Q for Texas Competitive Electric Holdings Company LLC for the period ending September 30, 2007 (enclosed), to demonstrate the Company's ability to pay deferred premiums under the Secondary Financial Program. The cash flow for the quarterly period ending September 30, 2007 is found on page 3 of the report.

This communication contains no licensing basis commitments regarding Comanche Peak Units 1 and 2.

Should you have any questions, please contact Mr. J. D. Seawright at (254) 897-0140.

Sincerely,

Luminant Generation Company LLC

Mike Blevins

By: Fred W. Madden
Fred W. Madden
Director, Oversight & Regulatory Affairs

Enclosure - SEC Form 10-Q

c - E. E. Collins, Region IV
B. K. Singal, NRR
Resident Inspectors, Comanche Peak

M004
NRR

Texas Competitive Electric Holdings Company LLC

(formerly TXU Energy Company LLC)

A Delaware Limited Liability Company (State of Organization)	75-2967817 (I.R.S. Employer Identification No.)
1601 Bryan Street, Dallas, TX 75201-3411 (Address of Principal Executive Offices)(Zip Code)	(214) 812-4600 (Registrant's Telephone Number)

Quarterly Report in Form 10-Q Format

For the Quarterly Period Ended September 30, 2007

Texas Competitive Electric Holdings Company LLC is not required to file reports with the Securities and Exchange Commission (SEC) and therefore has not filed this report with the SEC.

As of November 16, 2007, all outstanding common membership interests in Texas Competitive Electric Holdings Company LLC were held by Energy Future Competitive Holdings Company.

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GLOSSARY

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

1999 Restructuring Legislation	legislation that restructured the electric utility industry in Texas to provide for retail competition
2006 Form 10-K	TCEH's Annual Report on Form 10-K for the year ended December 31, 2006
Adjusted EBITDA	Adjusted EBITDA means EBITDA adjusted to exclude non-cash items, unusual items and other adjustments allowable under certain debt arrangements for purposes of covenant compliance under those debt arrangements. EBITDA means net income adjusted to exclude the effects of income taxes, interest expense and depreciation and amortization. Adjusted EBITDA and EBITDA are not recognized terms under GAAP and, thus, are non-GAAP financial measures. TCEH is providing Adjusted EBITDA in this document solely because of the important role that Adjusted EBITDA plays in respect of the certain covenants contained in the debt arrangements. TCEH does not intend for Adjusted EBITDA (or EBITDA) to be an alternative to net income as a measure of operating performance or an alternative to cash flows from operating activities as a measure of liquidity or an alternative to any other measure of financial performance presented in accordance with GAAP. Additionally, TCEH does not intend for Adjusted EBITDA (or EBITDA) to be used as a measure of free cash flow available for management's discretionary use, as the measure excludes certain cash requirements such as interest payments, tax payments and other debt service requirements. Because not all companies use identical calculations, TCEH's presentation of Adjusted EBITDA (and EBITDA) may not be comparable to similarly titled measures of other companies.
Capgemini	Capgemini Energy LP, a subsidiary of Cap Gemini North America Inc. that provides business process support services to TCEH
EFC Holdings	Refers to Energy Future Competitive Holdings Company (formerly TXU US Holdings Company), a subsidiary of EFH Corp. and the parent of TCEH, and/or its consolidated subsidiaries, depending on context. This document occasionally makes references to EFC Holdings when describing actions, rights or obligations of its subsidiaries. These references reflect the fact that the subsidiaries are consolidated with EFC Holdings for financial reporting purposes. However, these references should not be interpreted to imply that EFC Holdings is actually undertaking the action or has the rights or obligations of the relevant subsidiary company or that the subsidiary company is undertaking an action or has the rights or obligations of EFC Holdings or of any other affiliate.

EFH Corp.	Refers to Energy Future Holdings Corp. (formerly TXU Corp.), a holding company, and/or its consolidated subsidiaries, depending on context. This document occasionally makes references to EFH Corp. when describing actions, rights or obligations of its subsidiaries. These references reflect the fact that the subsidiaries are consolidated with EFH Corp. for financial reporting purposes. However, these references should not be interpreted to imply that EFH Corp. is actually undertaking the action or has the rights or obligations of the relevant subsidiary company or that the subsidiary company is undertaking an action or has the rights or obligations of EFH Corp. or of any other affiliate.
EPA	US Environmental Protection Agency
EPC	engineering, procurement and construction
ERCOT	Electric Reliability Council of Texas, the Independent System Operator and the regional coordinator of various electricity systems within Texas
FASB	Financial Accounting Standards Board, the designated organization in the private sector for establishing standards for financial accounting and reporting
FERC	US Federal Energy Regulatory Commission
FIN	Financial Accounting Standards Board Interpretation
FIN 45	FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others – An Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34"
FIN 48	FIN No. 48, "Accounting for Uncertainty in Income Taxes"
Fitch	Fitch Ratings, Ltd. (a credit rating agency)
FSP	FASB Staff Position
GAAP	generally accepted accounting principles
GWh	gigawatt-hours
historical service territory	the territory, largely in north Texas, being served by EFH Corp.'s regulated electric utility subsidiary at the time of entering retail competition on January 1, 2002
IRS	US Internal Revenue Service
kWh	kilowatt-hours
LIBOR	London Interbank Offered Rate. An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market.
Luminant Construction	Refers to subsidiaries (formerly referred to as TXU DevCo) of TCEH established for the purpose of developing and constructing new generation facilities. In connection with the Merger, certain of these subsidiaries that were subsidiaries of EFH Corp. became subsidiaries of TCEH, and certain assets of EFH Corp. subsidiaries were transferred to subsidiaries of TCEH.
Luminant Energy	Luminant Energy Company LLC (formerly TXU Portfolio Management Company LP), a subsidiary of TCEH that engages in certain wholesale markets activities

Luminant Entities	Refers to wholly-owned subsidiaries of TCEH engaged in competitive market activities consisting of electricity generation, development and construction of new generation facilities, wholesale energy sales and purchases as well as commodity risk management and trading activities, all largely in Texas.
Luminant Power	Refers to subsidiaries of TCEH engaged in electricity generation activities.
market heat rate	Heat rate is a measure of the efficiency of converting a fuel source to electricity. The market heat rate is based on the price offer of the marginal supplier in Texas (generally natural gas plants) in generating electricity and is calculated by dividing the wholesale market price of electricity by the market price of natural gas.
Merger	The transaction referred to in "Merger Agreement" immediately below that was completed on October 10, 2007.
Merger Agreement	Agreement and Plan of Merger, dated February 25, 2007, under which Texas Holdings agreed to acquire EFH Corp.
Merger Sub	Texas Energy Future Merger Sub Corp, a Texas corporation and a wholly-owned subsidiary of Texas Holdings that was merged into EFH Corp. on October 10, 2007
MMBtu	million British thermal units
Moody's	Moody's Investors Services, Inc. (a credit rating agency)
MW	megawatts
MWh	megawatt-hours
NRC	US Nuclear Regulatory Commission
Oncor	refers to Oncor Electric Delivery Company LLC (formerly TXU Electric Delivery Company), a wholly-owned subsidiary of Oncor Holdings, and/or its consolidated bankruptcy-remote financing subsidiary, Oncor Electric Delivery Transition Bond Company LLC, depending on context
Oncor Holdings	Refers to Oncor Electric Delivery Holdings Company LLC, a wholly-owned subsidiary of Energy Future Intermediate Holding Company LLC, which is a wholly-owned subsidiary of EFH Corp.
price-to-beat rate	residential and small business customer electricity rates established by the PUCT that (i) were required to be charged in a REP's historical service territories until the earlier of January 1, 2005 or the date when 40% of the electricity consumed by such customer classes was supplied by competing REPs, adjusted periodically for changes in fuel costs, and (ii) were required to be made available to those customers until January 1, 2007
PUCT	Public Utility Commission of Texas
PURA	Texas Public Utility Regulatory Act
REP	retail electric provider
RRC	Railroad Commission of Texas, which has oversight of lignite mining activity
S&P	Standard & Poor's Ratings Services, a division of the McGraw Hill Companies Inc. (a credit rating agency)
SEC	US Securities and Exchange Commission

SFAS	Statement of Financial Accounting Standards issued by the FASB
SFAS 34	SFAS No. 34, "Capitalization of Interest Cost"
SFAS 109	SFAS No. 109, "Accounting for Income Taxes"
SFAS 133	SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended and interpreted
SFAS 140	SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement 125"
SG&A	selling, general and administrative
short-cut method	Refers to the short-cut method under SFAS 133 that allows entities to assume no hedge ineffectiveness in a hedging relationship of interest rate risk if certain conditions are met.
Sponsor Group	Collectively, the investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P., TPG Capital, L.P. and Goldman Sachs & Co.
TCEH	Refers to Texas Competitive Electric Holdings Company LLC (formerly TXU Energy Company LLC), a direct subsidiary of EFC Holdings and an indirect subsidiary of EFH Corp., and/or its consolidated subsidiaries, depending on context, engaged in electricity generation, wholesale and retail energy markets and development and construction activities. This document occasionally makes references to TCEH when describing actions, rights or obligations of its subsidiaries. These references reflect the fact that the subsidiaries are consolidated with TCEH for financial reporting purposes. However, these references should not be interpreted to imply that TCEH is actually undertaking the action or has the rights or obligations of the relevant subsidiary company or that the subsidiary company is undertaking an action or has the rights or obligations of TCEH or of any other affiliate.
TCEH Finance	Refers to TCEH Finance, Inc., a wholly-owned subsidiary of TCEH, formed for the sole purpose of serving as co-issuer with TCEH of certain debt securities.
TCEQ	Texas Commission on Environmental Quality
Texas Holdings	Refers to Texas Energy Future Holdings Limited Partnership, a Delaware limited partnership controlled by the Sponsor Group that is the parent of EFH Corp.
TXU Energy	Refers to TXU Energy Retail Company LLC (formerly TXU Energy Retail Company LP), a subsidiary of TCEH engaged in the retail sale of power to residential and business customers.
TXU Generation Development	Refers to TXU Generation Development Company LLC, a direct, wholly-owned subsidiary of EFH Corp. established for the purpose of developing new generation facilities. This subsidiary did not become a subsidiary of TCEH in connection with the Merger.
US	United States of America

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEXAS COMPETITIVE ELECTRIC HOLDINGS COMPANY LLC
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(millions of dollars)			
Operating revenues	$ 2,889	$ 3,091	$ 6,300	$ 7,569
Costs and expenses:				
Fuel, purchased power costs and delivery fees	1,182	1,342	3,082	3,075
Operating costs	140	142	459	447
Depreciation and amortization	84	82	244	251
Selling, general and administrative expenses	150	137	435	383
Franchise and revenue-based taxes	25	31	78	84
Other income (Note 4)	(6)	(9)	(15)	(11)
Other deductions (Note 4)	(67)	4	(53)	198
Interest income	(97)	(61)	(259)	(137)
Interest expense and related charges (Note 12)	115	108	305	310
Total costs and expenses	1,526	1,776	4,276	4,600
Income before income taxes	1,363	1,315	2,024	2,969
Income tax expense	461	431	642	1,022
Net income	$ 902	$ 884	$ 1,382	$ 1,947

See Notes to Financial Statements.

TEXAS COMPETITIVE ELECTRIC HOLDINGS COMPANY LLC
CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(millions of dollars)			
Net income	$ 902	$ 884	$ 1,382	$ 1,947
Other comprehensive income (loss):				
Cash flow hedges:				
Net increase (decrease) in fair value of derivatives held at end of period (net of tax (expense) benefit of $6, $(184), $91 and $(205))	10	342	(167)	381
Derivative value net (gains) losses related to hedged transactions recognized during the period and reported in net income (net of tax (expense) benefit of $(6), $6, $(55) and $11)	(12)	11	(104)	21
Total effect of cash flow hedges	(2)	353	(271)	402
Comprehensive income	$ 900	$ 1,237	$ 1,111	$ 2,349

See Notes to Financial Statements.

TEXAS COMPETITIVE ELECTRIC HOLDINGS COMPANY LLC
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
	(millions of dollars)	
Cash flows – operating activities:		
Net income	$1,382	$1,947
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	293	302
Deferred income tax expense (benefit) – net	37	(21)
Net effect of unrealized mark-to-market valuations – losses (gains)	413	(287)
Bad debt expense	42	52
Net equity loss from unconsolidated affiliate	5	8
Impairment of natural gas-fueled generation plants	—	196
Inventory write-off related to natural gas-fueled generation plants	—	3
Credit related to impaired leases (Note 4)	(82)	(4)
Other, net	13	3
Changes in operating assets and liabilities	(1,420)	1,731
Cash provided by operating activities	683	3,930
Cash flows – financing activities:		
Issuances of long-term debt	1,000	100
Retirements of debt:		
Pollution control revenue bonds	(143)	(203)
Other long-term debt	(8)	(402)
Increase (decrease) in short-term borrowings:		
Commercial paper	(623)	54
Bank borrowings	1,630	(145)
Decrease in income tax-related note payable to Oncor	(24)	(31)
Distributions paid to parent	(851)	(858)
Excess tax benefits on stock-based incentive compensation	—	13
Debt premium, discount, financing and reacquisition expenses - net	(8)	(13)
Cash provided by (used in) financing activities	973	(1,485)
Cash flows – investing activities:		
Net advances to affiliates	(611)	(1,864)
Capital expenditures	(486)	(411)
Nuclear fuel	(54)	(77)
Purchase of mining-related assets	(70)	—
Proceeds from sale of assets	2	11
Reduction of restricted cash	197	—
Proceeds from sales of nuclear decommissioning trust fund securities	402	165
Investments in nuclear decommissioning trust fund securities	(413)	(177)
Proceeds from pollution control revenue bonds deposited with trustee	—	(99)
Other	(2)	2
Cash used in investing activities	(1,035)	(2,450)
Net change in cash and cash equivalents	621	(5)
Cash and cash equivalents – beginning balance	7	12
Cash and cash equivalents – ending balance	$ 628	$ 7

See Notes to Financial Statements.

TEXAS COMPETITIVE ELECTRIC HOLDINGS COMPANY LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2007	December 31, 2006
	(millions of dollars)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 628	$ 7
Restricted cash	—	3
Trade accounts receivable — net (Note 5)	804	804
Advances to parent	3,729	2,418
Note receivable from parent	1,500	1,500
Inventories	328	306
Commodity and other derivative contractual assets (Note 10)	398	948
Accumulated deferred income taxes (Note 2)	175	189
Margin deposits related to commodity positions	211	7
Other current assets	57	84
Total current assets	7,830	6,266
Restricted cash	49	241
Investments	532	496
Advances to parent	—	700
Property, plant and equipment — net	10,343	9,888
Goodwill	517	517
Commodity and other derivative contractual assets (Note 10)	79	251
Other noncurrent assets	158	157
Total assets	$ 19,508	$ 18,516
LIABILITIES AND MEMBERSHIP INTERESTS		
Current liabilities:		
Short-term borrowings (Note 6)	$ 1,825	$ 818
Long-term debt due currently (Note 7)	1,263	154
Trade accounts payable – nonaffiliates	670	802
Trade accounts and other payables to affiliates	134	379
Commodity and other derivative contractual liabilities (Note 10)	162	272
Margin deposits related to commodity positions	116	681
Accrued income taxes payable to parent	85	533
Accrued taxes other than income	64	51
Other current liabilities	233	255
Total current liabilities	4,552	3,945
Accumulated deferred income taxes (Note 2)	2,886	3,237
Investment tax credits	300	311
Commodity and other derivative contractual liabilities (Note 10)	438	127
Notes or other liabilities due affiliates	305	359
Long-term debt, less amounts due currently (Note 7)	2,749	2,882
Other noncurrent liabilities and deferred credits	1,400	1,002
Total liabilities	12,630	11,863
Commitments and contingencies (Note 8)		
Membership interests (Note 9):		
Capital account	6,810	6,314
Accumulated other comprehensive income	68	339
Total membership interests	6,878	6,653
Total liabilities and membership interests	$ 19,508	$ 18,516

See Notes to Financial Statements.

TEXAS COMPETITIVE ELECTRIC HOLDINGS COMPANY LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES AND BUSINESS

Description of Business — TCEH, formerly TXU Energy Company LLC, is a wholly-owned subsidiary of EFC Holdings, which is a wholly-owned subsidiary of EFH Corp. While TCEH is a wholly-owned subsidiary of EFH Corp. and EFC Holdings, TCEH is a separate legal entity from EFH Corp. and EFC Holdings and all of their other affiliates with its own assets and liabilities. TCEH is a holding company whose subsidiaries are engaged in competitive market activities consisting of electricity generation, retail electricity sales to residential and business customers, wholesale energy sales and purchases, commodity risk management and trading activities as well as the development and construction of new generation facilities, all largely in Texas. TCEH is managed as an integrated business; therefore, there are no reportable business segments.

In connection with the Merger, which closed on October 10, 2007 (See Note 13), certain wholly-owned subsidiaries of EFH Corp. established for the purpose of developing and constructing new generation facilities (formerly referred to as TXU DevCo) have become subsidiaries of TCEH, and certain assets of other of these subsidiaries that did not become subsidiaries of TCEH were transferred to TCEH and its subsidiaries. Such asset and subsidiary transfers occurred subsequent to September 30, 2007 and will be accounted for in a manner similar to a pooling of interests; accordingly, the financial statements of TCEH issued in the future will include such assets, liabilities and results of the transferred entities for all prior periods presented in such financial statements.

Basis of Presentation — The condensed consolidated financial statements of TCEH have been prepared in accordance with US GAAP and on the same basis as the audited financial statements included in its 2006 Form 10-K with the exception of the adoption of FIN 48. All adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations and financial position have been included therein. All intercompany items and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with US GAAP have been omitted pursuant to the rules and regulations of the SEC. Because the condensed consolidated interim financial statements do not include all of the information and footnotes required by US GAAP, they should be read in conjunction with the audited financial statements and related notes included in the 2006 Form 10-K. The results of operations for an interim period may not give a true indication of results for a full year. All dollar amounts in the financial statements and tables in the notes are stated in millions of US dollars unless otherwise indicated.

Prior period commodity contract assets and liabilities and cash flow hedge and other derivative assets and liabilities have been combined to conform with the current period presentation (see Note 10).

Use of Estimates — Preparation of TCEH's financial statements requires management to make estimates and assumptions about future events that affect the reporting of assets and liabilities at the balance sheet dates and the reported amounts of revenue and expense, including mark-to-market valuations. In the event estimates and/or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. No material adjustments, other than those disclosed elsewhere herein, were made to previous estimates or assumptions during the current year.

Changes in Accounting Standards — Effective January 1, 2007, TCEH adopted FIN 48 as required. FIN 48 provides clarification of SFAS 109 with respect to the recognition of income tax benefits of uncertain tax positions in the financial statements. See Note 2 for the impacts of adopting FIN 48 and required disclosures.

In April 2007, the FASB issued FASB Staff Position FIN 39-1, "Amendment of FASB Interpretation No. 39". This FSP provides additional guidance regarding the offsetting in the balance sheet of cash collateral and contractual fair value amounts and related disclosures. This FSP is effective for fiscal years beginning after November 15, 2007. TCEH is evaluating the impact of this standard on its balance sheet.

2. ADOPTION OF NEW INCOME TAX ACCOUNTING RULES (FIN 48)

FIN 48 requires that each tax position be reviewed and assessed with recognition and measurement of the tax benefit based on a "more-likely-than-not" standard with respect to the ultimate outcome, regardless of whether this assessment is favorable or unfavorable. TCEH has completed its review and assessment of uncertain tax positions and in the quarter ended March 31, 2007 recorded a net charge to membership interests and an increase to noncurrent liabilities of $36 million in accordance with the new accounting rule.

EFH Corp. and its subsidiaries file income tax returns in US federal, state and foreign jurisdictions and are subject to examinations by the IRS and other taxing authorities. Examinations of income tax returns filed by EFH Corp. and any of its subsidiaries for the years ending prior to January 1, 1997, with few exceptions, are complete. Texas franchise tax return periods under examination or still open for examination range from 2002 to 2006.

As expected, the IRS has completed examining EFH Corp.'s US income tax returns for the years 1997 through 2002, and proposed adjustments were received in July 2007. EFH Corp. filed an appeal of the proposed adjustments in the third quarter of 2007. The proposed adjustments received from the IRS with respect to the 1997-2002 income tax returns do not materially affect EFH Corp.'s assessment of uncertain tax positions as reflected in the amounts recorded upon adoption of FIN 48.

For TCEH, the total amount of benefits taken on income tax returns that do not qualify for financial statement recognition under FIN 48 total $645 million as of September 30, 2007, the substantial majority of which represents amounts that have been accounted for as noncurrent liabilities instead of deferred income tax liabilities; of this amount, $22 million would increase earnings if recognized. The balance sheet at September 30, 2007 reflects a reclassification of $388 million from accumulated deferred income tax liabilities to other noncurrent liabilities recorded in 2007.

TCEH classifies interest and penalties related to unrecognized tax benefits as income tax expense. As of September 30, 2007, noncurrent liabilities included a total of $49 million in accrued interest. The amount of interest included in income tax expense for the three and nine months ended September 30, 2007 totaled $4 million and $15 million after-tax, respectively.

TCEH does not expect that the total amount of unrecognized tax benefits for the positions assessed as of the date of the adoption will significantly increase or decrease within the next 12 months.

3. TEXAS MARGIN TAX

In May 2006, the Texas legislature enacted a new law that reformed the Texas franchise tax system and replaced it with a new tax system, referred to as the Texas margin tax. The Texas margin tax has been determined to be an income tax for accounting purposes. In accordance with the provisions of SFAS 109, which require that deferred tax assets and liabilities be adjusted for the effects of new income tax legislation in the period of enactment, TCEH estimated and recorded a deferred tax expense of $42 million in the second quarter of 2006.

In June 2007, an amendment to this law was enacted that included clarifications and technical changes to the provisions of the tax calculation. In the second quarter of 2007, TCEH recorded a deferred tax benefit of $30 million, essentially all of which related to changes in the rate at which a tax credit is calculated as specified in the new law. This estimated benefit is based on the Texas margin tax law in its current form and the current guidance issued by the Texas Comptroller of Public Accounts.

The effective date of the Texas margin tax for EFH Corp. is January 1, 2008. The computation of tax liability will be based on 2007 revenues as reduced by certain deductions and is being accrued in the current year.

4. OTHER INCOME AND DEDUCTIONS

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Other income:				
Settlement penalty for coal tonnage delivery deficiency	$ 3	$ —	$ 6	$ —
Royalty income from lignite leases	1	—	4	—
Net gain on sale of assets	1	9	1	9
Other	1	—	4	2
Total other income	$ 6	$ 9	$ 15	$ 11
Other deductions:				
Charge related to termination of rail car lease (a)	$ 10	$ —	$ 10	$ —
Credit related to impaired leases (b)	(82)	—	(82)	$ (4)
Charge for impairment of natural gas-fueled generation plants	—	(2)	—	$ 196
Inventory write-off related to natural gas-fueled generation plants	—	—	—	3
Credit related to coal contract counterparty claim (c)	—	—	—	(12)
Charge for settlement of retail matter with the PUCT	—	—	5	—
Equity losses of entity holding investment in Capgemini	2	3	5	8
Accretion expense	2	1	4	3
Other	1	2	5	4
Total other deductions	$ (67)	$ 4	$ (53)	$ 198

(a) Represents costs associated with termination and refinancing of a rail car operating lease.

(b) In 2004, TCEH recorded a liability of $157 million for leases of certain natural gas-fueled combustion turbines, net of estimated sublease revenues, that are no longer operated for its own benefit. In the third quarter of 2007, a reduction in the liability was recorded to reflect new subleases entered into in October 2007. The balance of the liability at September 30, 2007, net of adjustments recorded in prior years, totals $59 million, of which $4 million is classified as current.

(c) In the first quarter of 2006, income of $12 million was recorded upon the settlement of a claim against a counterparty for nonperformance under a coal contract. A charge in the same amount was recorded in the first quarter of 2005 for losses due to the nonperformance.

5. TRADE ACCOUNTS RECEIVABLE AND SALE OF RECEIVABLES PROGRAM

Sale of Receivables — TCEH participates in an accounts receivable securitization program established by EFH Corp. for certain of its subsidiaries, the activity under which is accounted for as a sale of accounts receivable in accordance with SFAS 140. Under the program, subsidiaries of TCEH (originators) sell trade accounts receivable to TXU Receivables Company, a consolidated wholly-owned bankruptcy-remote direct subsidiary of EFH Corp., which sells undivided interests in the purchased accounts receivable for cash to special purpose entities established by financial institutions (the funding entities). In connection with the Merger, the accounts receivable securitization program was amended. See Note 13.

As of September 30, 2007, the program funding to the originators totaled $588 million. Under certain circumstances, the amount of customer deposits held by the originators can reduce the amount of undivided interests that can be sold, thus reducing funding available under the program. Funding availability for all originators is reduced by 100% of the originators' customer deposits if TCEH's fixed charge coverage ratio is less than 2.5 times; 50% if TCEH's coverage ratio is less than 3.25 times, but at least 2.5 times; and zero % if TCEH's coverage ratio is 3.25 times or more. The originators' customer deposits, which totaled $117 million, did not affect funding availability at that date as TCEH's coverage ratio was in excess of 3.25 times.

All new trade receivables under the program generated by the originators are continuously purchased by TXU Receivables Company with the proceeds from collections of receivables previously purchased. Changes in the amount of funding under the program, through changes in the amount of undivided interests sold by TXU Receivables Company, reflect seasonal variations in the level of accounts receivable, changes in collection trends as well as other factors such as changes in sales prices and volumes. TXU Receivables Company has issued subordinated notes payable to the originators for the difference between the face amount of the uncollected accounts receivable purchased, less a discount, and cash paid to the originators that was funded by the sale of the undivided interests. The balance of the subordinated notes issued to the originators, which is reported in trade accounts receivable, was $419 million and $159 million at September 30, 2007 and December 31, 2006, respectively.

The discount from face amount on the purchase of receivables principally funds program fees paid by TXU Receivables Company to the funding entities. The discount also funds a servicing fee paid by TXU Receivables Company to TXU Business Services Company, a direct subsidiary of EFH Corp. The program fees, also referred to as losses on sale of the receivables under SFAS 140, consist primarily of interest costs on the underlying financing. The servicing fee compensates TXU Business Services Company for its services as collection agent, including maintaining the detailed accounts receivable collection records. The program and servicing fees represent essentially all the net incremental costs of the program to TCEH and are reported in SG&A expenses. Fee amounts were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Program fees	$ 8	$ 10	$ 25	$ 25
Program fees as a percentage of average funding (annualized)	6.0%	5.6%	6.3%	5.7%
Servicing fees	$ 1	$ 1	$ 3	$ 3

The accounts receivable balance reported in the September 30, 2007 condensed consolidated balance sheet has been reduced by $1,007 million face amount of trade accounts receivable sold to TXU Receivables Company, partially offset by the inclusion of $419 million of subordinated notes receivable from TXU Receivables Company. Funding under the program increased $47 million to $588 million for the nine month period ending September 30, 2007 and increased $44 million to $626 million for the nine month period ending September 30, 2006. Funding increases or decreases under the program are reflected as operating cash flow activity in the statement of cash flows. The carrying amount of the retained interests in the accounts receivable balance approximated fair value due to the short-term nature of the collection period.

Activities of TXU Receivables Company related to TCEH were as follows:

	Nine Months Ended September 30,	
	2007	2006
Cash collections on accounts receivable	$ 5,015	$ 5,259
Face amount of new receivables purchased	(5,322)	(5,714)
Discount from face amount of purchased receivables	28	28
Program fees paid	(25)	(25)
Servicing fees paid	(3)	(3)
Increase in subordinated notes payable	260	411
Operating cash flows provided to TCEH under the program	$ (47)	$ (44)

Upon termination of the program, cash flows would be delayed as collections of sold receivables would be used by TXU Receivables Company to repurchase the undivided interests from the funding entities instead of purchasing new receivables. The level of cash flows would normalize in approximately 16 to 30 days.

The subordinated notes issued by TXU Receivables Company are subordinated to the undivided interests of the financial institutions in the purchased receivables. As of September 30, 2007, the program was subject to the following termination events:

1) all of the originators cease to maintain their required fixed charge coverage ratio and debt to capital (leverage) ratio; or
2) the delinquency ratio (delinquent for 31 days) for the sold receivables, the default ratio (delinquent for 91 days or deemed uncollectible), the dilution ratio (reductions for discounts, disputes and other allowances) or the days collection outstanding ratio exceed stated thresholds and the financial institutions do not waive such event of termination. The thresholds applied to the entire portfolio of sold receivables, not separately to the receivables of each originator.

Trade Accounts Receivable —

	September 30, 2007	December 31, 2006
Gross trade accounts receivable	$ 1,407	$ 1,353
Undivided interests in accounts receivable sold by TXU Receivables Company	(1,007)	(700)
Subordinated notes receivable from TXU Receivables Company	419	159
Allowance for uncollectible accounts related to undivided interests in receivables retained	(15)	(8)
Trade accounts receivable — reported in balance sheet	$ 804	$ 804

Gross trade accounts receivable at September 30, 2007 and December 31, 2006 included unbilled revenues of $489 million and $406 million, respectively.

Allowance for Uncollectible Accounts Receivable —

	2007	2006
Allowance for uncollectible accounts receivable as of January 1	$ 8	$ 31
Increase for bad debt expense	42	52
Decrease for account write-offs	(45)	(55)
Changes related to receivables sold	11	13
Other (a)	(1)	(15)
Allowance for uncollectible accounts receivable as of September 30	$ 15	$ 26

(a) The 2006 amount represents an allowance established in 2005 for a coal contract dispute that was reversed upon settlement in 2006. See Note 4.

Allowances related to undivided interests in receivables sold are reported in current liabilities and totaled $14 million and $25 million at September 30, 2007 and December 31, 2006, respectively.

6. SHORT-TERM FINANCING

Short-term Borrowings — At September 30, 2007 and December 31, 2006, the outstanding short-term borrowings of TCEH consisted of the following:

	At September 30, 2007		At December 31, 2006	
	Outstanding Amount	Interest Rate (a)	Outstanding Amount	Interest Rate (a)
Bank borrowings	$1,825	6.53%	$ 195	5.97%
Commercial paper	—	—	623	5.52%
Total	$1,825		$ 818	

(a) Weighted average interest rate at the end of the period.

The commercial paper program at September 30, 2007, which provided for the issuance of up to $2.4 billion of commercial paper by TCEH, was effectively supported by existing credit facilities, although there was no contractual obligation under the program to maintain equivalent availability under existing credit facilities.

Credit Facilities — At September 30, 2007, TCEH had access to credit facilities with the following terms:

		At September 30, 2007			
Authorized Borrowers	Maturity Date	Facility Limit	Letters of Credit	Cash Borrowings	Availability
TCEH	February 2008	$ 1,500	$ —	$ —	$ 1,500
TCEH, Oncor	June 2008	1,400	444	665	291
TCEH, Oncor	August 2008	1,000	—	495	505
TCEH, Oncor	March 2010	1,600	386	730	484
TCEH, Oncor	June 2010	500	28	240	232
TCEH	December 2009	500	455	45	—
Total		$ 6,500	$ 1,313	$2,175	$ 3,012

All these facilities were terminated in connection with the Merger. See Note 13. The maximum amount accessible by TCEH and Oncor under the facilities was $6.5 billion and $3.6 billion, respectively. These facilities supported working capital and general corporate needs, including issuances of commercial paper and letters of credit. At September 30, 2007, all of the letters of credit issued under the credit facilities were the obligations of TCEH. At September 30, 2007, TCEH and Oncor had $1.825 billion and $350 million in outstanding cash borrowings, respectively.

Availability under these facilities as of September 30, 2007 declined $2.3 billion from December 31, 2006. Pursuant to PUCT rules, TCEH is required to maintain $125 million of available capacity under its credit facilities in order to permit TXU Energy to return retail customer deposits, if necessary. As a result, at September 30, 2007, the total availability set forth in the table above should be further reduced by $125 million. TCEH will be required to maintain such available capacity under the replacement facilities discussed in Note 13.

7. LONG-TERM DEBT

Long-term debt — At September 30, 2007 and December 31, 2006, the long-term debt of TCEH consisted of the following:

	September 30, 2007	December 31, 2006
Pollution Control Revenue Bonds:		
Brazos River Authority:		
5.400% Fixed Series 1994A due May 1, 2029	$ 39	$ 39
7.700% Fixed Series 1999A due April 1, 2033	111	111
6.750% Fixed Series 1999B due September 1, 2034, remarketing date April 1, 2013 (a)	16	16
7.700% Fixed Series 1999C due March 1, 2032	50	50
3.990% Floating Series 2001A due October 1, 2030 (b)	71	71
5.750% Fixed Series 2001C due May 1, 2036, remarketing date November 1, 2011 (a)	217	217
3.900% Floating Series 2001D due May 1, 2033 (b)	268	268
5.150% Floating Taxable Series 2001I due December 1, 2036 (b)	62	62
3.990% Floating Series 2002A due May 1, 2037 (b)	45	45
6.750% Fixed Series 2003A due April 1, 2038, remarketing date April 1, 2013 (a)	44	44
6.300% Fixed Series 2003B due July 1, 2032	39	39
6.750% Fixed Series 2003C due October 1, 2038	52	52
5.400% Fixed Series 2003D due October 1, 2029, remarketing date October 1, 2014 (a)	31	31
5.000% Fixed Series 2006 due March 1, 2041	100	100
Sabine River Authority of Texas:		
6.450% Fixed Series 2000A due June 1, 2021	51	51
5.500% Fixed Series 2001A due May 1, 2022, remarketing date November 1, 2011 (a)	91	91
5.750% Fixed Series 2001B due May 1, 2030, remarketing date November 1, 2011 (a)	107	107
5.200% Fixed Series 2001C due May 1, 2028	70	70
5.800% Fixed Series 2003A due July 1, 2022	12	12
6.150% Fixed Series 2003B due August 1, 2022	45	45
3.850% Floating Series 2006A due November 1, 2041 (interest rate in effect at March 31, 2007) (c)	—	47
3.850% Floating Series 2006B due November 1, 2041 (interest rate in effect at March 31, 2007) (c)	—	46
Trinity River Authority of Texas:		
6.250% Fixed Series 2000A due May 1, 2028	14	14
3.850% Floating Series 2006 due November 1, 2041 (interest rate in effect at March 31, 2007) (c)	—	50
Other:		
6.125% Fixed Senior Notes due March 15, 2008 (d)	250	250
7.000% Fixed Senior Notes due March 15, 2013	1,000	1,000
6.194% Floating Senior Notes due September 16, 2008 (e)	1,000	—
7.100% Promissory Note due January 5, 2009	65	—
Capital lease obligations	149	98
Fair value adjustments related to interest rate swaps	13	10
Total TCEH	4,012	3,036
Less amount due currently	(1,263)	(154)
Total long-term debt	$ 2,749	$ 2,882

(a) These series are in the multiannual interest rate mode and are subject to mandatory tender prior to maturity on the mandatory remarketing date. On such date, the interest rate and interest rate period will be reset for the bonds.
(b) Interest rates in effect at September 30, 2007. These series are in a weekly interest rate mode and are classified as long-term as they are supported by long-term irrevocable letters of credit.
(c) These series were redeemed on May 8, 2007 as a result of the suspension of development of eight coal-fueled generation facilities.
(d) Interest rate swapped to variable on entire principal amount at September 30, 2007.
(e) Interest rates in effect at September 30, 2007.

Debt-related Activity in 2007 — See Note 13 for debt-related activity in connection with the Merger.

In September 2007, EFH Corp. commenced offers to purchase and consent solicitations with respect to \$250 million in aggregate principal amount of TCEH's outstanding 6.125% Senior Notes due 2008 and \$1.0 billion in aggregate principal amount of TCEH's outstanding 7.000% Senior Notes due 2013. On October 11, 2007, EFH Corp. purchased an aggregate of \$247 million and \$995 million of these notes, respectively. On October 24, 2007, EFH Corp. purchased an additional aggregate principal amount of \$25,000 and \$436,000 of these notes, respectively.

In September 2007, subsidiaries of TCEH acquired certain assets of Alcoa Inc. relating to the operation of a lignite mine near Sandow for a purchase price of \$135 million, including cash of \$70 million and a promissory note of \$65 million due January 5, 2009 at a fixed interest rate of 7.100%, which has been reported as long-term debt. The TCEH subsidiaries have assumed responsibility for all mining operations. In addition, in August 2007, a subsidiary of EFH Corp. (which became a subsidiary of TCEH after the Merger) acquired the ownership of certain other lignite interests in the mine for approximately \$52 million in cash. The mine provides fuel for the existing Sandow generation unit and will provide fuel for the Sandow unit under construction upon its completion.

In September 2007, TCEH refinanced an existing lease of rail cars, which had been accounted for as an operating lease, with a lease with another party that has been accounted for as a capital lease, resulting in a liability of \$52 million reported as long-term debt.

In May 2007, TCEH redeemed at par the Sabine River Authority of Texas Series 2006A and 2006B pollution control revenue bonds with aggregate principal amounts of \$47 million and \$46 million, respectively, and the Trinity River Authority of Texas Series 2006 pollution control revenue bonds with an aggregate principal amount of \$50 million. All three bond series were issued in conjunction with the development of eight coal-fueled generation units, which has been canceled. Restricted cash retained upon issuance of the bonds was used to fund substantially all of the redemption amounts.

In March 2007, TCEH issued floating rate senior notes with an aggregate principal amount of \$1.0 billion with a floating rate based on LIBOR plus 50 basis points. The notes were to mature in September 2008, but in accordance with their terms, were redeemed upon consummation of the Merger.

Fair Value Hedge — TCEH uses fair value hedging strategies to manage its exposure to fixed interest rates on long-term debt. At September 30, 2007, \$250 million of fixed rate debt had been effectively converted to variable rates through an interest rate swap transaction expiring in 2008. The swap qualified for and has been designated as a fair value hedge in accordance with SFAS 133 (under the short-cut method as the conditions for assuming no ineffectiveness are met).

Long-term debt fair value adjustments —

	Nine Months Ended September 30, 2007
Long-term debt fair value adjustments related to interest rate swap at beginning of period — increase in debt carrying value	\$ 10
Fair value adjustments during the period	4
Recognition of net gains on settled fair value hedges (a)	(1)
Long-term debt fair value adjustments at end of period — increase in debt carrying value (net in-the-money value of swap)	\$ 13

(a) Net value of settled in-the-money fixed-to-variable swaps recognized in net income when the hedged transactions are recognized. Amount is pretax.

Any changes in unsettled swap fair values of active positions reported as fair value adjustments to debt amounts are offset by changes in commodity and other derivative contractual assets and liabilities.

8. COMMITMENTS AND CONTINGENCIES

Generation Development

A subsidiary of TCEH has executed EPC agreements for the development of two lignite coal-fueled generation units in Texas (Oak Grove). The subsidiary and the EPC contractors have placed orders for critical long lead-time equipment, including boilers, turbine generators and air quality control systems for the units, and construction of the two units is underway. EFC Holdings has guaranteed performance of TCEH's subsidiary under these agreements.

In connection with the Merger, certain wholly-owned subsidiaries of EFH Corp. established for the purpose of developing and constructing a third lignite coal-fueled generation unit (Sandow) have become subsidiaries of TCEH, and certain assets of other of these subsidiaries that did not become subsidiaries of TCEH were transferred to TCEH and its subsidiaries.

In September 2007, a subsidiary of TCEH acquired from Alcoa Inc. the air permit related to the Sandow facility that had been previously issued by the TCEQ. Although a federal district court judge approved a settlement pursuant to which a subsidiary of TCEH acquired the permit, environmental groups opposed to the settlement have appealed the decision to the Fifth Circuit Court of Appeals. There can be no assurance that the outcome of this matter would not result in an adverse impact on the project.

A subsidiary of EFH Corp. has received the air permit for the Oak Grove units, which was approved by the TCEQ in June 2007. However, the air permit is the subject of an appeal and litigation as discussed below under "Litigation."

Construction work-in-process assets balances for the three generation units totaled approximately $1.7 billion as of September 30, 2007. If construction-related agreements for the three generation units had been canceled as of that date, subsidiaries of EFH Corp. would have incurred an estimated termination obligation of up to approximately $300 million. This estimated gross cancellation exposure of approximately $2.0 billion at September 30, 2007 excludes any potential recovery values for assets acquired to date and for assets already owned prior to executing such agreements that are intended to be utilized for these projects. As of September 30, 2007, construction work-in-process expenditures under these agreements are assets of subsidiaries of EFH Corp. and not of TCEH (see Note 1).

Litigation

An administrative appeal challenging the order of the TCEQ issuing the air permit for construction and operation of the Oak Grove generation facility in Robertson County, Texas to a subsidiary of EFH Corp. was filed on September 7, 2007 in the State District Court of Travis County, Texas. Plaintiffs ask that the District Court reverse TCEQ's approval of the Oak Grove air permit; TCEQ's adoption and approval of the TCEQ Executive Director's Response to Comments; and remand the matter back to TCEQ for further proceedings. In addition to this administrative appeal, two other petitions were filed in Travis County District Court by non-parties to the administrative hearing before TCEQ and the State Office of Administrative Hearings (SOAH) seeking to challenge the TCEQ's issuance of the Oak Grove air permit and asking the District Court to remand the matter to the SOAH for further proceedings. Finally, the plaintiffs in these two additional lawsuits have filed a third, joint petition claiming insufficiencies in the Oak Grove application, permit, and process and seeking party status and remand to SOAH for further proceedings. EFH Corp. believes the Oak Grove air permit granted by the TCEQ is protective of the environment and that the application for and the processing of the air permit by the TCEQ was in accordance with law. There can be no assurance that the outcome of these matters would not result in an adverse impact on the project.

On December 1, 2006, a lawsuit was filed in the United States District Court for the Western District of Texas against Luminant Generation Company LLC (then known as TXU Generation Company LP), Oak Grove Management Company, LLC and EFH Corp. (then known as TXU Corp.). The complaint sought declaratory and injunctive relief, as well as the assessment of civil penalties, with respect to the permit application for the construction and operation of the Oak Grove generation facility in Robertson County, Texas. The plaintiffs allege violations of the Federal Clean Air Act, Texas Health and Safety Code and Texas Administrative Code and sought to temporarily and permanently enjoin the construction and operation of the Oak Grove generation plant. The complaint also asserted that the permit application was deficient in failing to comply with various modeling and analyses requirements relative to the impact of emissions from the Oak Grove plant. Plaintiffs further requested that the District Court enter an order requiring the defendants to take other appropriate actions to remedy, mitigate and offset alleged harm to the public health and environment. EFH Corp. believes the Oak Grove air permit granted by the TCEQ on June 13, 2007 is protective of the environment and that the application for and the processing of the air permit by Oak Grove Management Company LLC with the TCEQ has been in accordance with applicable law. EFH Corp. and the other defendants filed a Motion to Dismiss the litigation, which was granted by the District Court on May 21, 2007. The Plaintiffs have appealed the District Court's dismissal of the case to the Fifth Circuit Court of Appeals. EFH Corp. believes the District Court properly granted the Motion to Dismiss and while EFH Corp. is unable to estimate any possible loss or predict the outcome of this litigation in the event the Fifth Circuit Court of Appeals reverses the District Court, EFH Corp. maintains that the claims made in the complaint are without merit. Accordingly, EFH Corp. intends to vigorously defend the appeal and this litigation in the event the Fifth Circuit reverses the District Court.

Regulatory Investigations

In March 2007, the PUCT issued a Notice of Violation (NOV) stating that the PUCT Staff was recommending an enforcement action, including the assessment of administrative penalties, against EFH Corp. and certain affiliates for alleged market power abuse by its power generation affiliates and Luminant Energy in ERCOT-administered balancing energy auctions during certain periods of the summer of 2005. In September 2007, the PUCT issued a revised NOV in which the proposed administrative penalty amount was reduced from $210 million to $171 million. The revised NOV was necessary, according to the PUCT Staff, to correct calculation errors in the initial NOV. As revised, the NOV is premised upon the PUCT Staff's allegation that Luminant Energy's bidding behavior was not competitive and increased market participants' costs of balancing energy by approximately $57 million, including approximately $19 million in incremental revenues to EFH Corp. A hearing requested by Luminant Energy to contest the alleged occurrence of a violation and the amount of the penalty in the NOV was originally scheduled to start in April 2008, but was delayed indefinitely in November 2007 by the presiding administrative law judge due to the need to address pending discovery disputes. TCEH believes Luminant Energy's conduct during the period in question was consistent with the PUCT's rules and policies, and no market power abuse was committed. TCEH is vigorously contesting the NOV. TCEH is unable to predict the outcome of this matter.

EFH Corp. and Luminant Energy have taken actions to reduce the risk of future similar allegations related to the balancing energy segment of the ERCOT wholesale market, including working with the PUCT Staff and the PUCT's independent market monitor to develop a voluntary mitigation plan for approval by the PUCT. Luminant Energy submitted a voluntary mitigation plan that was approved by the PUCT in July 2007. The PUCT's approval action has been challenged by some other market participants on procedural grounds, and a Texas District Court has upheld that challenge. TCEH cannot predict whether the PUCT will appeal that ruling or be successful in any such appeal.

As previously disclosed, the PUCT Staff had been investigating TXU Energy with respect to the renewal process for certain small and medium business customers on term service plans. The investigation did not involve residential customers. In June 2007, TXU Energy reached a settlement agreement with the Staff of the PUCT that was approved by the PUCT in July 2007. While TXU Energy expressly denies any violations of rules, it paid the PUCT a $5 million settlement as a compromise in this dispute.

Other Proceedings

In addition to the above, TCEH and its subsidiaries are involved in various other legal and administrative proceedings in the normal course of business, the ultimate resolution of which, in the opinion of management, should not have a material effect on its financial position, results of operations or cash flows.

Guarantees

Overview — TCEH has entered into contracts that contain guarantees to outside parties that could require performance or payment under certain conditions. Guarantees issued or modified after December 31, 2002 are subject to the recognition and initial measurement provisions of FIN 45, which requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee.

Residual value guarantees in operating leases — TCEH is the lessee under various operating leases that guarantee the residual values of the leased assets. At September 30, 2007, both the aggregate maximum amount of residual values guaranteed and the estimated residual recoveries totaled approximately $68 million. These leased assets consist primarily of mining equipment and rail cars. The average life of the lease portfolio is approximately four years. See Note 7 regarding the refinancing of an operating lease of certain rail cars.

Letters of Credit

At September 30, 2007, TCEH had outstanding letters of credit under its revolving credit facilities in the amount of $603 million to support risk management and trading margin requirements in the normal course of business, including over-the-counter hedging transactions, and $43 million for miscellaneous credit support requirements.

At September 30, 2007, TCEH had outstanding letters of credit under its revolving credit facilities totaling $455 million to support floating rate pollution control revenue bond debt of $446 million principal amount. The letters of credit are available to fund the payment of such debt obligations and expire in 2009.

At September 30, 2007, TCEH had outstanding letters of credit under its revolving credit facilities totaling $77 million to support mining reclamation activities and certain collection agent activities performed for REPs in TCEH's historical service territory.

EFH Corp. and TCEH have previously guaranteed the obligations under the lease agreement for EFH Corp.'s current headquarters building. These obligations include future undiscounted base rent payments. As a result of the March 2007 downgrade by S&P of TCEH's credit rating to below investment grade, TCEH has provided a $135 million letter of credit to replace EFH Corp.'s and TCEH's guarantees of these obligations.

Security Interest

A first-lien security interest was placed on the two lignite/coal-fueled generation units at TCEH's Big Brown plant to support commodity hedging transactions entered into by TXU Generation Development. At September 30, 2007, the lien secured obligations related to hedging transactions of TXU Generation Development for an aggregate of 1.2 billion MMBtu of natural gas, and there was no remaining lien capacity under this lien structure. In connection with the closing of the Merger, the hedge transactions were transferred to TCEH or its subsidiaries and became secured by a first-lien security interest in substantially all of the assets of TCEH and its subsidiaries, and the prior lien on the Big Brown plant was released. See Note 13.

9. MEMBERSHIP INTERESTS

Cash Distributions to Parent — During 2007, TCEH declared and paid the following cash distributions to EFC Holdings:

Declaration Date	Payment Date	Dividend Amount
October 1, 2007	October 1, 2007	$284
July 1, 2007	July 2, 2007	$284
April 1, 2007	April 2, 2007	$284
January 1, 2007	January 2, 2007	$283

The following table presents the changes in membership interests for the nine months ended September 30, 2007:

	Capital Accounts	Accumulated Other Comprehensive Income (Loss)	Total Membership Interests
Balance at December 31, 2006	$6,314	$ 339	$6,653
Net income	1,382	—	1,382
Effect of adoption of FIN 48	(36)	—	(36)
Distributions paid to parent	(851)	—	(851)
Net effects of cash flow hedges (net of tax)	—	(271)	(271)
Other	1	—	1
Balance at September 30, 2007	$6,810	$ 68	$6,878

10. COMMODITY AND OTHER DERIVATIVE CONTRACTUAL ASSETS AND LIABILITIES

The following table breaks down commodity and other derivative contractual assets and liabilities as presented in the balance sheet into the two major components:

	September 30, 2007			
	Commodity contracts	Cash flow hedges and other derivatives	Netting adjustments (a)	Total
Assets:				
Current assets	$ 240	$ 342	$ (184)	$ 398
Noncurrent assets	56	52	(29)	79
Total	$ 296	$ 394	$ (213)	$ 477
Liabilities:				
Current liabilities	$ 338	$ 8	$ (184)	$ 162
Noncurrent liabilities	458	9	(29)	438
Total	$ 796	$ 17	$ (213)	$ 600
Net assets (liabilities)	$ (500)	$ 377	$ —	$ (123)

	December 31, 2006			
	Commodity contracts	Cash flow hedges and other derivatives	Netting adjustments (a)	Total
Assets:				
Current assets	$ 276	$ 696	$ (24)	$ 948
Noncurrent assets	163	94	(6)	251
Total	$ 439	$ 790	$ (30)	$ 1,199
Liabilities:				
Current liabilities	$ 278	$ 18	$ (24)	$ 272
Noncurrent liabilities	124	9	(6)	127
Total	$ 402	$ 27	$ (30)	$ 399
Net assets (liabilities)	$ 37	$ 763	$ —	$ 800

(a) Represents the effects of netting assets and liabilities at the counterparty agreement level.

Commodity Contract Assets and Liabilities — Commodity contract assets and liabilities primarily represent mark-to-market values of natural gas and electricity derivative instruments that have not been designated as cash flow hedges or "normal" purchases or sales under SFAS 133.

Current and noncurrent commodity contract assets are stated net of applicable credit (collection) and performance reserves totaling $10 million and $9 million at September 30, 2007 and December 31, 2006, respectively. Performance reserves are provided for direct, incremental costs to settle the contracts.

Commodity contract liabilities at September 30, 2007 include the initial $235 million out-of-the-money value of a multi-year power sales agreement entered into with Alcoa Inc. in the third quarter of 2007. The sales agreement was entered into concurrently with the transfer of an air permit from Alcoa Inc. to an EFH Corp. subsidiary as well as other agreements with Alcoa Inc. that provide, among other things, access to real property and a supply of lignite fuel, all of which provides considerable value to EFH Corp. by providing the right and ability to develop, construct and operate a new lignite coal-fueled generation unit at Sandow. In consideration of this right and ability, the initial out-of-the-money value of the sales agreement, as well as a $29 million out-of-the-money value of a related interim power sales agreement entered into in late 2006, were recorded as part of the construction work-in-process asset balance for the Sandow unit. Subsequent changes in the fair value of the contracts will be marked-to-market in net income.

Commodity contract assets/liabilities at September 30, 2007 include liabilities arising from "day one" losses of $31 million associated with contracts entered into in the first nine months of 2007 at below market prices. Of this amount, $27 million is related to a natural gas-related option agreement entered into in the first quarter of 2007 and intended to economically hedge exposure to future changes in electricity prices. The losses were recorded as a reduction of revenues, consistent with other mark-to-market gains and losses.

Commodity contract assets/liabilities at September 30, 2007 include an asset arising from a "day one" gain of $30 million associated with a long-term power purchase agreement entered into in the second quarter of 2007. The gain was recorded as an increase to revenues, consistent with other mark-to-market gains and losses.

Cash Flow Hedge and Other Derivative Assets and Liabilities — Cash flow hedge and other derivative assets and liabilities primarily represent mark-to-market values of commodity contracts that have been designated as cash flow hedges as well as interest rate swap agreements. The change in fair value of derivative assets and liabilities related to cash flow hedges 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. A portion of the interest rate swaps have been designated as fair value hedges and the change in fair value of such hedges are recorded as an increase or decrease in the carrying value of the debt (see Note 7); changes in fair value of other interest rate swaps are included in net income.

As previously disclosed, a significant portion of natural gas financial instruments entered into to hedge future changes in electricity prices had been designated and accounted for as cash flow hedges. In March 2007, these instruments were dedesignated as cash flow hedges as allowed under SFAS 133. Subsequent changes in the fair value of these instruments are being marked-to-market in net income.

A summary of cash flow hedge and other derivative assets and liabilities follows:

	September 30, 2007	December 31, 2006
Current and noncurrent assets:		
Commodity-related cash flow hedges	$ 394	$ 790
Current and noncurrent liabilities:		
Commodity-related cash flow hedges	$ 16	$ 22
Debt-related interest rate swap	1	5
Total	$ 17	$ 27

The above amounts include values of contracts that have been dedesignated as cash flow hedges. Subsequent to such dedesignation, changes in value of the contacts are reflected in commodity contract assets and liabilities.

Other Cash Flow Hedge Information — TCEH experienced cash flow hedge ineffectiveness of $1 million in net losses and $56 million in net gains for the three and nine month periods ended September 30, 2007, respectively. For the corresponding periods of 2006, the amounts were $132 million and $266 million in net gains, respectively. These amounts are pretax and are reported in revenues.

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 $2 million in net losses and $35 million in net gains for the three and nine month periods ended September 30, 2007, respectively, and $136 million and $286 million in net gains for the three and nine month periods ended September 30, 2006, respectively.

As of September 30, 2007, commodity positions accounted for as cash flow hedges, which represent a small portion of economic hedge positions, reduce exposure to variability of future cash flows from future revenues or purchases through 2010.

Cash flow hedge amounts reported in the Condensed 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 $2 million and $18 million in after-tax net losses for the three and nine month periods ended September 30, 2007, respectively, and $12 million in after-tax net losses and $6 million in after-tax net gains for the three and nine month periods ended September 30, 2006, respectively.

As of September 30, 2007, TCEH expects that $47 million of after-tax net gains related to cash flow hedges included in accumulated other comprehensive income would have been reclassified into net income during the next twelve months as the related hedged transactions affect net income. Of this amount, $51 million in gains relate to commodity hedges and $4 million in losses relate to debt-related hedges. However, in connection with application of purchase accounting related to the Merger, amounts deferred in accumulated other comprehensive income are expected to be eliminated as part of the purchase price allocation of EFH Corp.

11. RELATED-PARTY TRANSACTIONS

The following represent the significant related-party transactions of TCEH:

- TCEH incurs electricity delivery fees charged by Oncor. These fees totaled $302 million and $346 million for the three months ended September 30, 2007 and 2006, respectively, and $799 million and $900 million for the nine months ended September 30, 2007 and 2006, respectively.

- Oncor's bankruptcy-remote financing subsidiary has issued securitization bonds to recover generation-related regulatory assets through a transition surcharge to its customers. Oncor's incremental income taxes related to the transition surcharges it collects are being reimbursed by TCEH. Therefore, TCEH's financial statements reflect a noninterest bearing note payable to Oncor of $332 million ($34 million reported as current liabilities) at September 30, 2007 and $356 million ($33 million reported as current liabilities) at December 31, 2006.

- TCEH reimburses Oncor for interest expense on Oncor's bankruptcy-remote financing subsidiary's securitization bonds. This interest expense totaled $12 million and $13 million for the three months ended September 30, 2007 and 2006, respectively, and $37 million and $40 million for the nine months ended September 30, 2007 and 2006, respectively.

- Current and noncurrent advances to parent totaled $3.7 billion at September 30, 2007 (all reported as current) and $3.1 billion at December 31, 2006 ($700 million reported as noncurrent). The average daily balances of the advances to parent totaled $3.6 billion and $2.4 billion during the three months ended September 30, 2007 and 2006, respectively. Interest income earned on the advances totaled $61 million and $35 million for the three months ended September 30, 2007 and 2006, respectively. The weighted average annual interest rates were 6.51% and 5.72% for the three months ended September 30, 2007 and 2006, respectively. The average daily balances of the advances to parent totaled $3.3 billion and $1.6 billion during the nine months ended September 30, 2007 and 2006, respectively. Interest income earned on the advances totaled $156 million and $67 million for the nine months ended September 30, 2007 and 2006, respectively. The weighted average annual interest rates were 6.24% and 5.35% for the nine months ended September 30, 2007 and 2006, respectively.

- In December 2005, TCEH received a $1.5 billion note from EFH Corp. in partial settlement of outstanding advances to parent. The note carries interest at a rate based on the weighted average cost of TCEH's short-term borrowings. Interest income related to this note totaled $25 million and $21 million for the three months ended September 30, 2007 and 2006, respectively, and $71 million and $61 million for the nine months ended September 30, 2007 and 2006, respectively.

- An EFH Corp. subsidiary charges TCEH for financial, accounting, environmental and other administrative services at cost. These costs, which are primarily reported in SG&A expenses, totaled $14 million and $15 million for the three months ended September 30, 2007 and 2006, respectively, and $43 million and $51 million for the nine months ended September 30, 2007 and 2006, respectively.

- Under Texas regulatory provisions, the trust fund for decommissioning the Comanche Peak nuclear generation facility, reported in investments on TCEH's balance sheet, is funded by a delivery fee surcharge billed to REPs by Oncor and remitted to TCEH, with the intent that the trust fund assets will be sufficient to fund the decommissioning liability, reported in noncurrent liabilities on TCEH's balance sheet. Income and expenses associated with the trust fund and the decommissioning liability incurred by TCEH are offset by a net change in the intercompany receivable/payable with Oncor, which in turn results in a change in the net regulatory asset/liability. The regulatory liability, which totaled $31 million and $17 million at September 30, 2007 and December 31, 2006, respectively, is reported on Oncor's balance sheet and represents the excess of the trust fund balance over the decommissioning liability.

- Distributions and discount amortization (both reported as interest expense) related to TCEH's exchangeable preferred membership interests held entirely by subsidiaries of EFH Corp. totaled $23 million for the three months ended September 30, 2006 and $67 million for the nine months ended September 30, 2006. Effective September 30, 2006, these securities were recapitalized into common equity membership interests.

- In March 2006, EFC Holdings completed the purchase of the owner participant interest in a trust that leases combustion turbines to TCEH. The trust was consolidated by EFC Holdings at December 31, 2005. In 2004, TCEH impaired the lease because TCEH had ceased using certain of the combustion turbines for its own benefit and recorded the related liability representing the discounted amount of future lease payments less estimated sublease proceeds. The liability totaled $11 million ($4 million reported as due currently) at September 30, 2007 and $50 million ($14 million reported as due currently) at December 31, 2006. TCEH's lease expense for the trust's other combustion turbines that it continues to operate for its own benefit totaled $3 million for both the three months ended September 30, 2007 and 2006 and $8 million for both the nine months ended September 30, 2007 and 2006. These expenses are reported as operating costs.

- TCEH has a 53.1% limited partnership interest, with a carrying value of $9 million and $14 million at September 30, 2007 and December 31, 2006, respectively, in a EFH Corp. subsidiary holding Capgemini-related assets. Equity losses related to this interest totaled $2 million and $3 million for the three months ended September 30, 2007 and 2006, respectively, and $5 million and $8 million for the nine months ended September 30, 2007 and 2006, respectively. These losses primarily represent amortization of software assets held by the subsidiary. The equity losses are reported as other deductions.

- EFH Corp. files a consolidated federal income tax return, and federal income taxes are allocated to subsidiaries based on their respective taxable income or loss. As a result, TCEH had an income tax payable to EFH Corp. of $85 million and $533 million as of September 30, 2007 and December 31, 2006, respectively.

- In the second quarter of 2006, TCEH began charging TXU DevCo for employee services related to the development of generation facilities in Texas. These charges totaled $0.8 million and $1 million for the three months ended September 30, 2007 and 2006, respectively, and $2 million for both the nine months ended September 30, 2007 and 2006. These charges are largely reflected as a reduction in TCEH's SG&A expenses.

- In December 2006, TCEH transferred all of its employees and its employee-related assets and liabilities, including pension and other postretirement employee benefit obligations, to new employee services subsidiaries of EFH Corp. Employees of these services subsidiaries are engaged in the business activities of TCEH, and their services are billed to TCEH at cost. The costs totaled $113 million and $375 million for the three and nine month periods ended September 30, 2007, respectively. Classifications of the billed costs in TCEH's income statement are consistent with prior reporting.

See Note 5 for information regarding the accounts receivable securitization program and related subordinated notes receivable from TXU Receivables Company and Note 9 for cash distributions to EFC Holdings.

12. SUPPLEMENTARY FINANCIAL INFORMATION

Interest Expense and Related Charges —

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Interest	$ 119	$ 89	$ 318	$ 256
Distributions on exchangeable preferred membership interests (a)	—	17	—	51
Amortization of discount and debt issuance costs	3	8	10	22
Interest capitalized in accordance with SFAS 34	(7)	(6)	(23)	(19)
Total interest expense and related charges	$ 115	$ 108	$ 305	$ 310

(a) Effective September 30, 2006, TCEH's exchangeable preferred membership interests, which were held entirely by subsidiaries of EFH Corp., were recapitalized into common equity membership interest of TCEH.

Restricted Cash —

	Balance Sheet Classification			
	At September 30, 2007		At December 31, 2006	
	Current Assets	Noncurrent Assets	Current Assets	Noncurrent Assets
Pollution control revenue bond funds held by trustee (See Note 7)	$ —	$ 49	$ —	$ 241
All other	—	—	3	—
Total restricted cash	$ —	$ 49	$ 3	$ 241

Inventories by Major Category —

	September 30, 2007	December 31, 2006
Materials and supplies	$ 126	$ 112
Fuel stock	89	94
Natural gas in storage	67	75
Environmental energy credits and emission allowances	46	25
Total inventories	$ 328	$ 306

Investments —

	September 30, 2007	December 31, 2006
Nuclear decommissioning trust	$ 487	$ 447
Land	33	33
Investment in affiliate holding Capgemini-related assets	9	14
Renewable energy (wind) investment project	3	—
Miscellaneous other	—	2
Total investments	$ 532	$ 496

Property, Plant and Equipment — As of September 30, 2007 and December 31, 2006, property, plant and equipment of $10.3 billion and $9.9 billion, respectively, is stated net of accumulated depreciation and amortization of $8.3 billion and $8.2 billion, respectively.

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 Oncor's rate setting.

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 nine months ended September 30, 2007:

Asset retirement liability at December 31, 2006	$ 585
Additions:	
Accretion	28
Reductions:	
Mining reclamation cost adjustments	(2)
Mining reclamation payments	(18)
Asset retirement liability at September 30, 2007	$ 593

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

	As of September 30, 2007			As of December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets subject to amortization included in property, plant and equipment:						
Capitalized software placed in service	$ 29	$ 9	$ 20	$ 14	$ 5	$ 9
Land easements	2	1	1	2	1	1
Total	$ 31	$ 10	$ 21	$ 16	$ 6	$ 10

Aggregate amortization expense for intangible assets totaled $2 million and $0.8 million for the three months ended September 30, 2007 and 2006, respectively. Aggregate amortization expense for intangible assets totaled $4 million and $2 million for the nine months ended September 30, 2007 and 2006, respectively. At September 30, 2007, the weighted average remaining useful lives of capitalized software and land easements were six years and 54 years, respectively. The estimated aggregate amortization expense for each of the five succeeding fiscal years from December 31, 2006 is as follows:

Year	Amortization Expense
2007	$ 6
2008	7
2009	3
2010	2
2011	1

Goodwill (net of accumulated amortization) as of September 30, 2007 and December 31, 2006 totaled $517 million.

Pension and OPEBs — TCEH bears a portion of the costs of the pension and OPEB plans sponsored by EFH Corp., which provide pension and benefits through either a defined benefit or cash balance plan, and certain health care and life insurance benefits to eligible personnel engaged in TCEH's business activities and their eligible dependents upon the retirement of such personnel from EFH Corp. The allocated pension and OPEB costs applicable to TCEH totaled $3 million and $4 million for the three month periods ended September 30, 2007 and 2006, respectively, and $13 million and $13 million for the nine month periods ended September 30, 2007 and 2006, respectively.

The discount rate reflected in net pension and OPEB costs is 5.90% in 2007. The expected rate of return on plan assets reflected in the 2007 cost amounts is 8.75% for the pension plan and 8.67% for OPEBs.

Supplemental Cash Flow Information —

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash payments (receipts) related to continuing operations:		
Interest (net of amounts capitalized)	$ 293	$ 304
Income taxes	$ 916	$ (169)
Noncash investing and financing activities:		
Noncash construction expenditures (a)	$ 40	$ 32
Promissory note issued in conjunction with acquisition of mining-related assets	$ 65	$ —
Capital lease related to railcars	$ 52	$ —
Net transfer of property from Luminant Construction	$ 7	$ —
Recapitalization of exchangeable preferred membership interests	$ —	$ 521
Noncash contribution of pension-related assets	$ —	$ (8)

(a) Represents end of period accruals.

13. SUBSEQUENT EVENTS

Overview

On October 10, 2007, EFH Corp. completed its Merger with Merger Sub. As a result of the Merger, EFH Corp. became a subsidiary of Texas Holdings, which is controlled by the Sponsor Group, and substantially all of the outstanding shares of common stock of EFH Corp. (formerly TXU Corp.) were converted into the right to receive $69.25 per share.

The aggregate purchase price paid for all of the equity securities of TXU Corp. (on a fully-diluted basis) was approximately $32.4 billion, which was funded by equity financing from the Sponsor Group and certain other investors and by certain debt financings of TCEH and its parent, EFH Corp. These debt financings also funded the repayment of existing credit facilities and the debt that was redeemed or repurchased. The TCEH debt financings are discussed below. The purchase price is exclusive of costs directly associated with the Merger, including legal, consulting and other professional service fees and certain effects of the proposed regulatory settlement discussed below.

The Merger is being accounted for under the purchase method of accounting whereby the total cost of the transaction is being allocated to EFH Corp.'s identifiable tangible and intangible assets acquired and liabilities assumed based on their fair values, and the excess of the purchase price over the fair value of net assets acquired is recorded as goodwill. The allocation of the purchase price to the net assets of EFH Corp. and the resulting goodwill determination are not yet final. The allocation is expected to result in a significant amount of goodwill, an increase in the carrying value of property, plant and equipment and deferred income tax liabilities as well as new identifiable intangible assets and liabilities. Reported earnings in the future will reflect increases in interest, depreciation and amortization expenses.

TCEH Senior Secured Facilities

Overview - In connection with the Merger, TCEH has entered into a credit agreement that provides senior secured financing of $24.5 billion plus the amount of the TCEH Commodity Collateral Posting Facility (as defined below) (the TCEH Senior Secured Facilities), consisting of:

- a senior secured initial term loan facility in an aggregate principal amount of $16.45 billion (the TCEH Initial Term Loan Facility);
- a senior secured delayed draw term loan facility in an aggregate principal amount of $4.1 billion, of which $2.15 billion was drawn at the closing of the Merger (the TCEH Delayed Draw Term Loan Facility);
- a senior secured letter of credit facility in an aggregate principal amount of $1.25 billion (the TCEH Letter of Credit Facility);
- a senior secured revolving credit facility in an aggregate principal amount of $2.7 billion, which includes capacity available for letters of credit and for borrowings on same-day notice (the TCEH Revolving Facility); and
- a senior secured cash posting credit facility that is expected to fund the cash posting requirements for a significant portion of TCEH's long-term hedging program that is not otherwise secured by means of a first lien under the security arrangements described below (the TCEH Commodity Collateral Posting Facility). The amount drawn on the TCEH Commodity Collateral Posting Facility on October 10, 2007 was $382 million.

Interest Rates and Fees - Loans under the TCEH Senior Secured Facilities (other than the TCEH Commodity Collateral Posting Facility) bear interest at per annum rates equal to, at TCEH's option, (i) adjusted LIBOR plus 3.50% or (ii) a base rate (the higher of (1) the prime rate of Citibank, N.A. and (2) the federal funds effective rate plus 0.50%) plus 2.50%. There is a margin adjustment mechanism in relation to term loans, revolving loans and letter of credit fees commencing after delivery of the financial statements for the first quarter ending March 31, 2008, under which the applicable margins may be reduced based on the achievement of certain leverage ratio levels.

A commitment fee is payable quarterly in arrears and upon termination of the TCEH Revolving Facility at a rate per annum equal to 0.50% of the average daily unused portion of such facility. The commitment fee will be subject to reduction, commencing after delivery of the financial statements for the first quarter ending March 31, 2008 based on the achievement of certain leverage ratio levels.

With respect to the TCEH Delayed Draw Term Loan Facility, a commitment fee is payable quarterly in arrears and upon termination on the undrawn portion of the commitments of such facility at a rate per annum equal to, prior to the first anniversary of October 10, 2007, 1.25% per annum, and thereafter, 1.50% per annum.

Letter of credit fees under the TCEH Revolving Facility are payable quarterly in arrears and upon termination at a rate per annum equal to the spread over adjusted LIBOR under the TCEH Revolving Facility, less the issuing bank's fronting fee.

TCEH will pay a fixed quarterly maintenance fee through maturity for having procured the TCEH Commodity Collateral Posting Facility regardless of actual borrowings under the facility. In addition, TCEH will pay interest at LIBOR on actual borrowed amounts under the TCEH Commodity Collateral Posting Facility which will be offset by interest earned on collateral deposits to counterparties, thereby making this facility largely a fixed cost facility regardless of utilization.

Interest Rate Swaps – In late October 2007, TCEH entered into interest rate swap transactions pursuant to which payment of the floating interest rates on an aggregate of $9.0 billion of senior secured term loans of TCEH was exchanged for interest payments at a fixed rate of 8.309% for $7.5 billion through October 2014 and 8.169% for $1.5 billion through October 2012.

Guarantees and Security - *Guarantees.* The TCEH Senior Secured Facilities are unconditionally guaranteed jointly and severally on a senior secured basis by EFC Holdings, and each existing and subsequently acquired or organized direct or indirect wholly-owned U.S. restricted subsidiary of TCEH (other than certain subsidiaries as provided in the TCEH Senior Secured Facilities), subject to certain other exceptions.

Security. The TCEH Senior Secured Facilities, including the guarantees thereof, certain commodity hedging transactions (including those that were formerly secured by a first-lien on the Big Brown plant) and the interest rate swaps described above are secured by (a) substantially all of the current and future assets of TCEH and TCEH's subsidiaries who are guarantors of such facilities as described above, and (b) pledges of the capital stock of TCEH and each current and future material wholly-owned restricted subsidiary of TCEH directly owned by TCEH or any guarantor.

Covenants - The TCEH Senior Secured Facilities contain customary negative covenants, restricting, subject to certain exceptions, TCEH and TCEH's restricted subsidiaries from, among other things:

- incurring additional debt;
- incurring additional liens;
- entering into mergers and consolidations;
- selling or otherwise disposing of assets;
- making dividends, redemptions or other distributions in respect of capital stock;
- making acquisitions, investments, loans and advances; and
- paying or modifying certain subordinated and other material debt.

In addition, the TCEH Senior Secured Facilities contain a maintenance covenant that requires TCEH and its restricted subsidiaries to maintain a maximum consolidated secured leverage ratio and to observe certain customary reporting requirements and other affirmative covenants.

Maturity and Amortization - The TCEH Initial Term Loan Facility is required to be repaid in equal quarterly installments beginning on December 31, 2007 in an aggregate annual amount equal to 1% of the original principal amount of such facility, with the balance payable on October 10, 2014. The TCEH Delayed Draw Term Loan Facility is required to be repaid in equal quarterly installments beginning on the last day of the first fiscal quarter to occur after October 10, 2009 in an aggregate annual amount equal to 1% of the actual principal outstanding under the TCEH Delayed Draw Term Loan Facility as of such date, with the balance payable on October 10, 2014. Amounts borrowed under the TCEH Revolving Facility may be reborrowed from time to time from and after the closing date until October 10, 2013. The TCEH Letter of Credit Facility will mature on October 10, 2014. The TCEH Commodity Collateral Posting Facility will mature on December 31, 2012.

Events of Default - The TCEH Senior Secured Facilities contain certain customary events of default for senior leveraged acquisition financings, the occurrence of which would allow the lenders to accelerate all outstanding loans and terminate their commitments.

Senior Unsecured Interim Facilities – TCEH

Overview - On October 10, 2007, TCEH and TCEH Finance entered into senior unsecured credit facilities (the TCEH Unsecured Interim Facilities). TCEH and TCEH Finance are collectively referred to in this section as the Co-Borrowers.

The TCEH Senior Unsecured Interim Facilities provide senior unsecured financing of $6.75 billion, consisting of a:

- $5.0 billion senior unsecured cash-pay term loan facility with a term of eight years (the TCEH Initial Cash-Pay Loans); and
- $1.75 billion senior unsecured toggle term loan facility with a term of nine years (the TCEH Initial Toggle Loans).

The TCEH Initial Cash-Pay Loans and the TCEH Initial Toggle Loans are collectively referred to below as the TCEH Initial Loans.

As of October 31, 2007, $2.0 billion of TCEH Initial Cash-Pay Loans were outstanding, as $3.0 billion of these loans were repaid using proceeds from the issuance of $3.0 billion principal amount of TCEH Senior Notes, as described below.

If any borrowings under the TCEH Unsecured Interim Facilities remain outstanding on October 10, 2008, the lenders will have the option to exchange such TCEH Initial Loans for senior cash-pay notes (the TCEH Senior Cash-Pay Exchange Notes) or senior toggle notes (the TCEH Senior Toggle Exchange Notes), respectively, which the Co-Borrowers will issue under a senior indenture. The TCEH Senior Cash-Pay Exchange Notes and the TCEH Senior Toggle Exchange Notes are collectively referred to below as the TCEH Senior Exchange Notes. The maturity date of any TCEH Initial Loans that are not exchanged for TCEH Senior Exchange Notes will automatically be extended to October 10, 2015, in the case of the TCEH Initial Cash-Pay Loans and October 10, 2016 in the case of the TCEH Initial Toggle Loans. The TCEH Senior Cash-Pay Exchange Notes will mature on October 10, 2015, and the TCEH Senior Toggle Exchange Notes will mature on October 10, 2016. Holders of the TCEH Senior Exchange Notes will have registration rights.

Interest Rate - Subject to specified caps, borrowings under the TCEH Unsecured Interim Facilities for the first six-month period from the closing of the TCEH Unsecured Interim Facilities will bear interest at a rate equal to LIBOR plus (i) 325 basis points, in the case of the TCEH Initial Cash-Pay Loans and (ii) 350 basis points, in the case of the TCEH Initial Toggle Loans (in each case, the TCEH Initial Margin). Interest for the three-month period commencing at the end of the initial six-month period, subject to specified caps, shall be payable at prevailing LIBOR for the interest period plus the TCEH Initial Margin plus 50 basis points. Thereafter, subject to specified caps, interest will be increased by an additional 25 basis points at the beginning of each three-month period subsequent to the initial nine-month period, for so long as the TCEH Initial Loans are outstanding. If issued to the lenders upon an exchange, the interest rate on the TCEH Senior Exchange Notes will be the same as the interest rate borne by the TCEH Initial Loans; provided, that if any TCEH Senior Exchange Notes are transferred by the lender to a third-party purchaser, the interest rate on those notes will be fixed at the interest rate in effect on the transfer date.

Prepayments and Redemptions - The Co-Borrowers will be required to make an offer to repay loans under the TCEH Unsecured Interim Facilities and, following October 10, 2008, repurchase TCEH Senior Exchange Notes with net proceeds from specified asset sales. In addition, after any payments required to be made to repay the TCEH Unsecured Interim Facilities, the Co-Borrowers will be required to offer to repay loans and, if issued, to repurchase the TCEH Senior Exchange Notes upon the occurrence of a change of control. Prior to October 10, 2008, the Co-Borrowers will also be required to prepay outstanding TCEH Initial Loans with the net proceeds of any refinancing debt.

The Co-Borrowers may voluntarily repay outstanding TCEH Initial Loans, in whole or in part, at their option at any time upon three business days' prior notice, at par plus accrued and unpaid interest and subject to, in the case of TCEH Initial Loans based on LIBOR, certain customary "breakage" costs with respect to such LIBOR loans. The Co-Borrowers may optionally redeem the TCEH Senior Exchange Notes other than fixed-rate exchange notes, if issued, in whole or in part, at any time at par plus accrued and unpaid interest to the redemption date, provided that it also optionally prepays any outstanding TCEH Initial Loans on a pro rata basis.

If any TCEH Senior Exchange Note is sold by a lender to a third-party purchaser, and the interest rate on such TCEH Senior Exchange Note becomes fixed, such TCEH Senior Exchange Note will be non-callable until October 10, 2011, in the case of the TCEH Senior Cash-Pay Exchange Notes, and until October 10, 2012, in the case of the TCEH Senior Toggle Exchange Notes, subject to equity clawback and make-whole provisions, and will be callable thereafter at a specified premium. The premium will decline ratably on each yearly anniversary of the date of such sale to zero two years prior to the final maturity date, in the case of the TCEH Senior Cash-Pay Exchange Notes, and one year, in the case of the TCEH Senior Toggle Exchange Notes.

Guarantee - All obligations under the TCEH Unsecured Interim Facilities and, if the TCEH Senior Exchange Notes are issued, the senior indenture, are jointly and severally guaranteed on a senior unsecured basis by EFC Holdings and each of TCEH's subsidiaries that guarantees obligations under the TCEH Senior Secured Facilities.

Certain Covenants and Events of Default - The TCEH Unsecured Interim Facilities contain, and the senior indenture under which the TCEH Senior Exchange Notes, if any, will be issued (the Senior Exchange Indenture) will contain, a number of covenants that, among other things, restrict, subject to certain exceptions, the Co-Borrowers' ability to:

- incur additional indebtedness;
- create liens;
- engage in mergers or consolidations;
- sell or transfer assets and subsidiary stock;
- pay dividends and distributions or repurchase their capital stock;
- make certain investments, loans or advances;
- prepay certain indebtedness;
- enter into agreements that restrict the payment of dividends by subsidiaries or the repayment of intercompany loans and advances; and
- engage in certain transactions with affiliates.

In addition, the TCEH Unsecured Interim Facilities impose, and the Senior Exchange Indenture will impose, certain requirements as to future subsidiary guarantors. The TCEH Unsecured Interim Facilities also contain, and the Senior Exchange Indenture will also contain, certain customary affirmative covenants consistent with those in the TCEH Senior Secured Facilities, to the extent applicable, and certain customary events of default.

Issuance of TCEH Notes

On October 31, 2007, TCEH and TCEH Finance entered into an indenture (the TCEH Indenture). TCEH and TCEH Finance are collectively referred to in this section as the Co-Issuers. Pursuant to the TCEH Indenture, the Co-Issuers issued and sold $3.0 billion aggregate principal amount of 10.25% Senior Notes due 2015. The TCEH Notes will mature on November 1, 2015. Interest on the TCEH Notes is payable in cash semiannually in arrears on May 1 and November 1 of each year at a fixed rate of 10.25% per annum, and the first interest payment will be made on May 1, 2008.

The TCEH Notes are guaranteed by TCEH's direct parent, EFC Holdings, and by each subsidiary that guarantees the TCEH Senior Secured Facilities (the TCEH Guarantors). The TCEH Notes are the Co-Issuers' senior unsecured debt and rank senior in right of payment to any future subordinated indebtedness of the Co-Issuers, equally in right of payment with all of the Co-Issuers' existing and future senior unsecured indebtedness, including any indebtedness under the TCEH Unsecured Interim Facilities, and structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of the Co-Issuers' non-guarantor subsidiaries, including trade payables (other than indebtedness and liabilities owed to the Co-Issuers or the TCEH Guarantors). The TCEH Notes rank effectively junior in right of payment to all existing and future senior secured indebtedness of the Co-Issuers, including the TCEH Senior Secured Facilities to the extent of the value of the collateral securing such indebtedness.

The guarantees of the TCEH Notes are the TCEH Guarantors' senior unsecured obligations and rank equal in right of payment with all existing and future senior unsecured indebtedness of the relevant TCEH Guarantor. The guarantees rank effectively junior to all secured indebtedness of the TCEH Guarantors to the extent of the assets securing that indebtedness. EFC Holdings' guarantee of the TCEH Notes ranks equally with its guarantee of the EFH Corp. Notes. The guarantees of the TCEH Notes are structurally junior to all indebtedness and other liabilities of the Co-Issuers' subsidiaries that do not guarantee the notes.

The TCEH Indenture contains a number of covenants that, among other things, restrict, subject to certain exceptions, the Co-Issuers' and their restricted subsidiaries' ability to:

- make restricted payments;
- incur debt and issue preferred stock;
- create liens;
- engage in mergers or consolidations;
- permit dividend and other payment restrictions on restricted subsidiaries; and
- engage in certain transactions with affiliates.

The TCEH Indenture also contains customary events of default, including failure to pay principal or interest on the TCEH Notes or the guarantees when due, among others. If an event of default occurs under the TCEH Indenture, the trustee or the holders of at least 30% in principal amount of the Required Debt (as such term is defined in the TCEH Indenture) may declare the principal amount on the TCEH Notes to be due and payable immediately.

The Co-Issuers may redeem the TCEH Notes, in whole or in part, at any time on or after November 1, 2011, at specified redemption prices, plus accrued and unpaid interest, if any. In addition, before November 1, 2010, the Co-Issuers may redeem up to 35% of the aggregate principal amount of TCEH Notes from time to time at a redemption price of 110.250% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, with the net cash proceeds of certain equity offerings. Upon the occurrence of a change in control, the Co-Issuers must offer to repurchase the TCEH Notes at 101% of their principal amount, plus accrued and unpaid interest, if any. The Co-Issuers may also redeem the TCEH Notes at any time prior to November 1, 2011 at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a "make-whole" premium.

The TCEH Notes were issued in a private placement and have not been registered under the Securities Act of 1933, as amended (the Securities Act).

The Co-Issuers have agreed to use their commercially reasonable efforts to register with the SEC notes having substantially identical terms as the TCEH Notes as part of an offer to exchange freely tradable exchange notes for the TCEH Notes. The Co-Issuers have agreed to use commercially reasonable efforts to cause the exchange offer to be completed or, if required, to have one or more shelf registration statements declared effective, within 360 days after the issue date of the TCEH Notes. If this obligation is not satisfied (a TCEH Registration Default), the annual interest rate on the TCEH Notes will increase by 0.25% per annum for the first 90-day period during which a Registration Default continues, and thereafter the annual interest rate on the TCEH Notes will increase by 0.50% per annum over the original interest rate for the remaining period during which the TCEH Registration Default continues. If the TCEH Registration Default is corrected, the applicable interest rate on such TCEH Notes will revert to the original level.

Intercreditor Agreement

On October 10, 2007, in connection with the Merger, TCEH entered into an Intercreditor Agreement (the Intercreditor Agreement) with Citibank, N.A. and four secured commodity hedge counterparties (the Secured Commodity Hedge Counterparties).

The Intercreditor Agreement provides that the lien granted to the Secured Commodity Hedge Counterparties will rank pari passu with the lien granted to the secured parties under the TCEH Senior Secured Facilities on the collateral under the TCEH Senior Secured Facilities The Intercreditor Agreement also provides that the Secured Commodity Hedge Counterparties will be entitled to share, on a pro rata basis, in the proceeds of any liquidation of such collateral in connection with a foreclosure on such collateral in an amount provided in the TCEH Credit Agreement. The Intercreditor Agreement also provides that the Secured Commodity Hedge Counterparties will have voting rights with respect to any amendment or waiver of any provision of the Intercreditor Agreement that changes the priority of the Secured Commodity Hedge Counterparties' lien on such collateral relative to the priority of lien granted to the secured parties under the TCEH Senior Secured Facilities or the priority of payments to the Secured Commodity Hedge Counterparties upon a foreclosure and liquidation of such collateral relative to the priority of the lien granted to the secured parties under the TCEH Senior Secured Facilities.

Amendment to Accounts Receivable Securitization Program

Also in connection with the Merger, the accounts receivable securitization program was amended (see Note 5). The amendments were primarily intended to allow for the closing of the Merger and the related financings without causing a termination event or a default under the receivables program. In addition, certain financial tests relating to TCEH and the originators that could have affected the amount of available funding under the program or caused a termination event or a default, including TCEH's debt to capital (leverage) and fixed charge coverage ratios, were deleted and replaced with other tests. As amended, among other things, the amount of customer deposits held by the originators can reduce funding available under the program so long as TCEH's long term senior unsecured debt rating is lower than investment grade. Also, the originators will continue to be eligible to participate in the program so long as TCEH provides the required form of parent guaranty.

Contribution of Certain Assets and Liabilities of Luminant Construction

In connection with the Merger, assets and liabilities of Luminant Construction related primarily to generation facility construction work-in-process and certain hedging transactions were contributed by EFH Corp. to a subsidiary of TCEH. Such contribution will be accounted for in a manner similar to a pooling of interests.

Repayment of Existing Credit Facilities and Other Indebtedness

On October 10, 2007, in connection with the Merger, TCEH and Oncor repaid in full all outstanding borrowings totaling $2.4 billion, TCEH's portion of which totaled $2.0 billion, together with interest and all other amounts due in connection with such repayment under the $6.5 billion of existing credit facilities. TCEH also repaid floating rate senior notes with an aggregate principal amount of $1.0 billion. (See Notes 6 and 7).

Tender Offers and Consent Solicitations

On September 25, 2007, EFH Corp. commenced offers to purchase and consent solicitations with respect to $250 million in aggregate principal amount of TCEH's outstanding 6.125% Senior Notes due 2008 and $1.0 billion in aggregate principal amount of TCEH's outstanding 7.000% Senior Notes due 2013. On October 11, 2007, EFH Corp. purchased an aggregate of $247 million and $995 million of these notes, respectively. On October 24, 2007, EFH Corp. purchased an additional aggregate principal amount of $25,000 and $436,000 of these notes, respectively.

Settlement of Advances to Parent

In connection with the Merger, TCEH's advances to parent and note receivable from parent were settled in the form of a dividend to EFC Holdings.

Management Agreement

On October 10, 2007, in connection with the Merger, the Sponsor Group and Lehman Brothers Inc. entered into a management agreement with EFH Corp. (the Management Agreement), pursuant to which affiliates of the Sponsor Group will provide management, consulting, financial and other advisory services to EFH Corp. Pursuant to the Management Agreement, affiliates of the Sponsor Group are entitled to receive an aggregate annual management fee of $35 million, which amount will increase 2% annually, and reimbursement of out-of-pocket expenses incurred in connection with the provision of services pursuant to the Management Agreement. The Management Agreement will continue in effect from year to year, unless terminated upon a change of control of EFH Corp. or in connection with an initial public offering of EFH Corp. or if the parties mutually agree to terminate the Management Agreement. Pursuant to the Management Agreement, affiliates of the Sponsor Group and Lehman Brothers Inc. were paid transaction fees of $300 million in connection with certain services provided in connection with the Merger and related transactions. In addition, the Management Agreement provides that the Sponsor Group will be entitled to receive a fee equal to a percentage of the gross transaction value in connection with certain subsequent financing, acquisition, disposition, merger combination and change of control transactions, as well as a termination fee based on the net present value of future payment obligations under the Management Agreement in the event of an initial public offering or under certain other circumstances.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Member of
Texas Competitive Electric Holdings Company LLC:

We have reviewed the accompanying condensed consolidated balance sheet of Texas Competitive Electric Holdings Company LLC and subsidiaries (the "Company") as of September 30, 2007, and the related condensed statements of consolidated income and comprehensive income for the three-month and nine-month periods ended September 30, 2007 and 2006, and of cash flows for the nine-month periods ended September 30, 2007 and 2006. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2006, and the related statements of consolidated income, comprehensive income, membership interests, and cash flows for the year then ended (not presented herein); and in our report dated March 1, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2006 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

Dallas, Texas
November 13, 2007

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business

TCEH (formerly TXU Energy Company LLC) is a wholly-owned subsidiary of EFC Holdings, which is a wholly-owned subsidiary of EFH Corp. While TCEH is a wholly-owned subsidiary of EFH Corp. and EFC Holdings, TCEH is a separate legal entity from EFH Corp. and EFC Holdings and all of their other affiliates with its own assets and liabilities. TCEH is a holding company for businesses engaged in competitive electricity market activities largely in Texas, including electricity generation conducted through Luminant Power, wholesale energy markets activities conducted through Luminant Energy, electricity generation construction conducted through Luminant Construction and the retail sale of electricity conducted through TXU Energy. TCEH is managed as an integrated business; therefore, there are no reportable business segments.

In connection with the Merger, which closed on October 10, 2007 (See Note 13), certain wholly-owned subsidiaries of EFH Corp. established for the purpose of developing and constructing new generation facilities (formerly referred to as TXU DevCo) have become subsidiaries of TCEH, and certain assets of other of these subsidiaries that did not become subsidiaries of TCEH were transferred to TCEH and its subsidiaries. Such asset and subsidiary transfers occurred subsequent to September 30, 2007 and will be accounted for in a manner similar to a pooling of interests; accordingly, the financial statements of TCEH issued in the future will include such assets, liabilities and results of the transferred entities for all prior periods presented in such financial statements.

Significant Developments

Merger — On October 10, 2007, EFH Corp. completed its merger with Merger Sub, a wholly-owned subsidiary of Texas Holdings. As a result of the Merger, EFH Corp. became a subsidiary of Texas Holdings and substantially all of the outstanding shares of common stock of EFH Corp. were converted into the right to receive $69.25 per share. Texas Holdings is controlled by investment funds affiliated with the Sponsor Group. In connection with the Merger, C. John Wilder, EFH Corp.'s Chairman and Chief Executive Officer, resigned from EFH Corp.

The aggregate purchase price paid for all of the equity securities of EFH Corp. (on a fully-diluted basis) was approximately $32.4 billion, which purchase price was funded by approximately $8.3 billion of equity financing from the Sponsor Group and certain other investors and by certain debt financings of TCEH as described below under "Liquidity And Capital Resources — Post-Merger" and other debt financings of its parent, EFH Corp. This purchase price is exclusive of costs directly associated with the Merger including legal, consulting and professional service fees. See Note 13 to Financial Statements for additional details regarding the completion of the Merger and the related debt financings.

The Merger is being recorded using the purchase method of accounting whereby the total purchase price is being allocated to EFH Corp.'s identifiable tangible and intangible assets acquired and liabilities assumed based on their fair values. The allocation of the purchase price to the net assets of EFH Corp. and the calculation of the resulting goodwill amount are not yet complete. However, based on preliminary estimates, which are subject to material change, the allocation is expected to result in approximately $25 billion of goodwill and an estimated $3.5 - 4.0 billion in other intangible assets, a portion of which will be recorded by TCEH. With the closing of the Merger, TCEH's debt is estimated at $29 billion. TCEH's annual interest expense and related charges are expected to total approximately $2.6 billion, but estimated interest expense is subject to change because a significant amount of the debt bears floating rate interest and the remaining TCEH interim loan facilities may be refinanced. Additionally, due primarily to a net increase in the carrying value of generation plants and the recording of retail customer-related intangible assets, TCEH's annual depreciation and amortization expense is expected to total approximately $700 million.

Texas Generation Facilities Development — Luminant Construction is developing three lignite coal-fueled generation units in the state of Texas with a total estimated capacity of approximately 2,200 MW. The three units consist of one new generation unit at a site leased from Alcoa Inc. that is adjacent to an existing owned lignite coal-fueled generation plant site (Sandow) and two units at an owned site (Oak Grove) that was originally slated for the construction of a generation plant a number of years ago. Design and procurement activities for the three proposed units are at an advanced stage and site construction is well underway. Air permits for all three proposed units have been obtained. See discussion in Note 8 to Financial Statements under "Generation Development" regarding actions taken by opponents of the new units. EPC agreements have been executed with leading EPC contractors to engineer and construct the Sandow and Oak Grove units. The expected on-line dates of the units are as follows: Sandow in 2009 and Oak Grove's two units in 2009 and 2010.

In September 2007, subsidiaries of TCEH acquired certain mining-related assets of Alcoa Inc. See Note 7 to Financial Statements.

Nuclear Generation Development — EFH Corp. is proceeding with the preparation of a combined license application for two new nuclear generation facilities, each with approximately 1,700 MW (gross capacity), at its existing Comanche Peak nuclear generation site. Although EFH Corp. may select to develop additional sites at a later date, no work is being done on the development of nuclear generation facilities at additional sites at this time, and there is no schedule for the submittal of additional combined license applications. It is currently anticipated that these new units would be developed by TCEH or its subsidiaries.

Investment in Cleaner Coal-Fueled Generation Technologies — In an initiative separate from but related to the planned generation development and related emissions controls investment spending, subsidiaries of TCEH expect to invest up to $2 billion over the next five to seven years for the development and commercialization of cleaner generation plant technologies, including integrated gasification combined cycle, the next generation of more efficient ultra-supercritical coal and pulverized coal emissions technology to reduce carbon dioxide emissions. Luminant Power has already initiated a number of actions, including research and development investments and partnerships, to advance next-generation technologies.

Integrated Gasification Combined Cycle (IGCC) Demonstration Plants — In March 2007, EFH Corp. and the Sponsor Group announced their intention to explore the development of two IGCC commercial demonstration plants to be located in Texas, and EFH Corp. expects to issue a request for proposal from companies offering coal gasification technologies with carbon dioxide capture.

Long-term Hedging Program — In October 2005, EFH Corp. initiated a long-term hedging program designed to reduce exposure to changes in future electricity prices due to changes in the price of natural gas. Under the program, subsidiaries of TCEH have entered into market transactions involving natural gas-related financial instruments. As of November 9, 2007, these subsidiaries have effectively sold forward approximately 2.6 billion MMBtu of natural gas (equivalent to the natural gas exposure of over 300,000 GWh at an assumed 8.5 MMBtu/MWh market heat rate) over the period from 2008 to 2013 at average annual prices ranging from $7.25 per MMBtu to $8.15 per MMBtu. TCEH currently expects to hedge approximately 80% of the equivalent natural gas price exposure of its planned baseload generation output on a rolling five-year basis. For this purpose, baseload generation output includes nuclear, coal and wind resources. For the period from 2008 to 2012, and taking into consideration the estimated portfolio impacts of TXU Energy's retail electricity business, the hedging transactions described in the previous sentence result in approximately 80% of TCEH's planned baseload generation natural gas price exposure for such period (on an average basis for such period) having been effectively hedged as of November 9, 2007. Due to regulatory, legislative and market dynamics, there can be no guarantee that this long-term hedging program will result in the desired outcome.

Prior to March 2007, a significant portion of the instruments under the long-term hedging program had been designated as cash flow hedges. In March 2007, these instruments were dedesignated as allowed under SFAS 133. Subsequent changes in the fair value of these instruments are being marked-to-market in net income, which has and could continue to result in significantly increased volatility in reported earnings. Based on the size of the long-term hedging program as of October 31, 2007, a $1.00/MMBtu change in natural gas prices would result in the recognition by TCEH of approximately $2.6 billion in pretax unrealized mark-to-market gains or losses.

In the first quarter of 2007, TCEH entered into a natural gas-related option agreement that resulted in a "day one" loss of $27 million. The "day one" loss essentially represents the discount to transact this position given its complexity and relatively illiquid nature.

Effective with the Merger, approximately 90% of these hedging transactions are secured by a first-lien security interest in TCEH's assets (including the transactions supported by the TCEH Commodity Collateral Posting Facility - see discussion below under "Liquidity And Capital Resources — Post-Merger ") thereby reducing the cash and letter of credit collateral requirements of the hedging program.

Retail Pricing — In May 2007, EFH Corp. and the Sponsor Group announced that residential price cuts provided by TXU Energy subsequent to the announcement of the Merger would total 15% (5% of which was implemented in late October 2007 and was contingent upon closing of the Merger), which represented a five percentage point increase over the previously announced price discount program.

Management Agreement — On October 10, 2007, in connection with the Merger, the Sponsor Group and Lehman Brothers Inc. entered into a management agreement with EFH Corp. (the "Management Agreement"), pursuant to which affiliates of the Sponsor Group will provide management, consulting, financial and other advisory services to EFH Corp. Pursuant to the Management Agreement, affiliates of the Sponsor Group are entitled to receive an aggregate annual management fee of $35 million, which will increase 2% annually, and reimbursement of out-of-pocket expenses incurred in connection with the provision of services pursuant to the Management Agreement. The Management Agreement will continue in effect from year to year, unless terminated upon a change in control of EFH Corp. or in connection with an initial public offering of EFH Corp. or if the parties mutually agree to terminate the Management Agreement. Pursuant to the Management Agreement, affiliates of the Sponsor Group and Lehman Brothers Inc. were paid transaction fees of $300 million in connection with certain services provided in connection with the Merger and related transactions. In addition, the Management Agreement provides that the Sponsor Group will be entitled to receive a fee equal to a percentage of the gross transaction value in connection with certain subsequent financing, acquisition, disposition, merger combination and change of control transactions, as well as a termination fee based on the net present value of future payment obligations under the Management Agreement in the event of an initial public offering or under certain other circumstances.

RESULTS OF OPERATIONS

Sales Volume Data

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2007	2006	Change %	2007	2006	Change %
Sales volumes:						
Retail electricity sales volumes (GWh):						
Historical service territory:						
Residential	7,341	8,838	(16.9)	18,061	20,896	(13.6)
Small business (a)	2,066	2,408	(14.2)	5,246	6,203	(15.4)
Total historical service territory	9,407	11,246	(16.4)	23,307	27,099	(14.0)
Other territories:						
Residential	1,448	1,245	16.3	3,195	2,874	11.2
Small business (a)	247	213	16.0	615	513	19.9
Total other territories	1,695	1,458	16.3	3,810	3,387	12.5
Large business and other customers	3,902	3,918	(0.4)	10,946	10,703	2.3
Total retail electricity	15,004	16,622	(9.7)	38,063	41,189	(7.6)
Wholesale electricity sales volumes	9,938	10,165	(2.2)	27,914	25,870	7.9
Net sales (purchases) of balancing electricity to/from ERCOT	(4)	103	–	622	1,268	–
Total sales volumes	24,938	26,890	(7.3)	66,599	68,327	(2.5)
Average volume (kWh) per retail customer (b):						
Residential	4,764	5,244	(9.2)	11,399	12,235	(6.8)
Small business	8,969	9,501	(5.6)	22,421	23,926	(6.3)
Large business and other customers	109,115	81,369	34.1	276,764	210,515	31.5
Weather (service territory average) – percent of normal (c):						
Percent of normal:						
Cooling degree days	97.2%	109.0%		94.2%	118.5%	

(a) Customers with demand of less than 1 MW.
(b) Calculated using average number of customers for period.
(c) Weather data is obtained from Weatherbank, Inc., an independent company that collects and archives weather data from reporting stations of the National Oceanic and Atmospheric Administration (a federal agency under the US Department of Commerce).

Customer Count Data

	September 30,		
	2007	2006	Change %
Customer counts:			
Retail electricity customers (end of period and in thousands) (a):			
Historical service territory:			
Residential	1,551	1,670	(7.1)
Small business (b)	243	265	(8.3)
Total historical service territory	1,794	1,935	(7.3)
Other territories:			
Residential	307	234	31.2
Small business (b)	13	8	62.5
Total other territories	320	242	32.2
All territories:			
Residential	1,858	1,904	(2.4)
Small business (b)	256	273	(6.2)
Total all territories	2,114	2,177	(2.9)
Large business and other customers	35	47	(25.5)
Total retail electricity customers	2,149	2,224	(3.4)

(a) Based on number of meters.
(b) Customers with demand of less than 1MW.

Revenue and Market Share Data

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2007	2006	Change %	2007	2006	Change %
Operating revenues:						
Retail electricity revenues:						
Historical service territory:						
Residential	$ 1,018	$ 1,333	(23.6)	$ 2,502	$ 3,086	(18.9)
Small business (a)	304	357	(14.8)	772	923	(16.4)
Total historical service territory	1,322	1,690	(21.8)	3,274	4,009	(18.3)
Other territories:						
Residential	203	194	4.6	452	442	2.3
Small business (a)	31	25	24.0	77	61	26.2
Total other territories	234	219	6.8	529	503	5.2
Large business and other customers	368	375	(1.9)	1,025	1,031	(0.6)
Total retail electricity revenues	1,924	2,284	(15.8)	4,828	5,543	(12.9)
Wholesale electricity revenues	589	680	(13.4)	1,571	1,635	(3.9)
Net sales (purchases) of balancing electricity to/from ERCOT	(19)	(32)	–	(11)	(6)	–
Net gains (losses) from risk management and trading activities	320	72	–	(317)	134	–
Other operating revenues	75	87	(13.8)	229	263	(12.9)
Total operating revenues	$ 2,889	$ 3,091	(6.5)	$ 6,300	$ 7,569	(16.8)
Risk management and trading activities:						
Realized net gains (losses) on settled positions (b)	$ (17)	$ (67)		$ 96	$ (153)	
Reversal of prior periods' unrealized net (gains) losses on positions settled in current period	(4)	(17)		(17)	21	
Other unrealized net gains (losses), including cash flow hedge ineffectiveness	341	156		(396)	266	
Total net gains (losses)	$ 320	$ 72		$ (317)	$ 134	
Average revenues per MWh:						
Residential	$ 138.96	$ 151.45	(8.2)	$ 138.99	$ 148.44	(6.4)

	2007	2006
Estimated share of ERCOT retail markets (c):		
Historical service territory:		
Residential	61%	67%
Small business	61%	67%
Total ERCOT:		
Residential	36%	37%
Small business	25%	27%
Large business and other customers	11%	16%

(a) Customers with demand of less than 1 MW.

(b) Includes physical commodity trading activity not subject to mark-to-market accounting of $7 million and $10 million in net losses in the third quarter of 2007 and 2006,respectively, and $14 million and $25 million in net losses in the nine months ended September 30, 2007 and 2006, respectively.

(c) Based on number of meters. Estimated market share is based on the number of customers that have choice.

Production, Purchased Power and Delivery Cost Data

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2007	2006	Change %	2007	2006	Change %
Fuel, purchased power costs and delivery fees ($ millions):						
Nuclear fuel	$ 24	$ 22	9.1	$ 63	$ 65	(3.1)
Lignite/coal	161	124	29.8	451	353	27.8
Total baseload fuel	185	146	26.7	514	418	23.0
Natural gas fuel and purchased power	559	740	(24.5)	1,377	1,429	(3.6)
Other costs	55	41	34.1	199	163	22.1
Fuel and purchased power costs	799	927	(13.8)	2,090	2,010	4.0
Delivery fees	383	415	(7.7)	992	1,065	(6.9)
Total	$ 1,182	$ 1,342	(11.9)	$ 3,082	$ 3,075	0.2
Fuel and purchased power costs (which excludes generation plant operating costs) per MWh:						
Nuclear fuel	$ 4.68	$ 4.29	9.1	$ 4.59	$ 4.25	8.0
Lignite/coal (a)	$ 14.18	$ 11.29	25.6	$ 14.31	$ 11.60	23.4
Natural gas fuel and purchased power	$ 63.71	$ 69.87	(8.8)	$ 62.29	$ 65.71	(5.2)
Delivery fees per MWh	$ 25.09	$ 24.75	1.4	$ 25.60	$ 25.60	—
Production and purchased power volumes (GWh):						
Nuclear	5,110	5,115	(0.1)	13,664	15,292	(10.6)
Lignite/coal	12,353	12,348	—	34,297	34,252	0.1
Total baseload generation	17,463	17,463	—	47,961	49,544	(3.2)
Natural gas-fueled generation	2,108	1,948	8.2	3,491	3,487	0.1
Purchased power	6,662	8,641	(22.9)	18,619	18,258	2.0
Total energy supply	26,233	28,052	(6.5)	70,071	71,289	(1.7)
Less line loss and power imbalances	1,295	1,162	11.4	3,472	2,962	17.2
Net energy supply volumes	24,938	26,890	(7.3)	66,599	68,327	(2.5)
Baseload capacity factors (%):						
Nuclear	100.6%	101.2%	(0.6)	90.8%	102.0%	(10.9)
Lignite/coal	95.8%	95.8%	—	89.7%	89.5%	0.2
Total baseload	97.2%	97.3%	(0.1)	90.0%	93.1%	(3.3)

(a) Includes depreciation and amortization of lignite mining assets, which is reported in the depreciation and amortization expense line item, but is part of overall fuel costs.

Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006

Operating revenues decreased $202 million, or 7%, as follows:

	Three Months Ended September 30,		
	2007	2006	Increase (Decrease)
Retail electricity revenues	$1,924	$2,284	$(360)
Wholesale electricity revenues	589	680	(91)
Wholesale balancing activities	(19)	(32)	13
Net gains (losses) from risk management and trading activities	320	72	248
Other operating revenues	75	87	(12)
Total operating revenues	$2,889	$3,091	$(202)

The $360 million, or 16%, decrease in retail electricity revenues reflected the following:

- Lower retail volumes contributed $222 million to the revenue decrease. Residential and small business volumes in the historical service territory decreased 16% reflecting a decrease in average consumption per customer of 9% in the residential market and 6% in the small business market, due in part to cooler, below normal weather, as well as a net loss of customers due to competitive activity.

- Lower average pricing (including customer mix effects) contributed $138 million to the revenue decrease, driven by residential price discounts. Lower average retail pricing reflected a six percent price discount, effective with meter reads on March 27, 2007, and an additional four percent price discount, effective with meter reads on June 8, 2007, to those residential customers in the historical service territory with month-to-month service plans and a rate equivalent to the former price-to-beat rate. Such customers received an additional five percent price discount upon closing of the Merger (effective with October 24, 2007 meter reads).

  Such customers have protection against price increases at the full 15 percent discounted level from Merger closing (October 10, 2007) through December 2008 (excluding increases in response to a change in law or regulatory charges). Additionally, such customers have protection against price increases above the rates in effect prior to the six percent discount described above for bills through December 31, 2009 (excluding increases in response to a change in law or regulatory charges).

- Total retail electricity customer counts at September 30, 2007 declined 3% from September 30, 2006. Total residential and small business customer counts in the historical service territory declined 7% and in all combined territories declined 3%.

Wholesale electricity revenues decreased $91 million, or 13%. The decrease was driven by a $76 million pricing impact as average wholesale prices declined 11% reflecting lower natural gas prices. A 2% decline in wholesale volumes contributed $15 million to the decrease.

Wholesale balancing activity comparisons are not meaningful because the activity represents intraday purchases and sales transactions with ERCOT for real-time balancing purposes, as measured in 15-minute intervals that are highly variable.

Results from risk management and trading activities include realized and unrealized gains and losses associated with financial instruments used for economic hedging and trading purposes, as well as gains and losses on physical sales and purchases of commodities for trading purposes. Hedging results should not be viewed in isolation, but rather taken together with the effects of pricing and cost changes on gross margin. Following is an analysis of activities in the third quarter of 2007 and 2006:

Three Months Ended September 30, 2007

Unrealized mark-to-market net gains totaling $337 million including:

- $334 million in net gains on positions in the long-term hedging program, which includes $352 million in net gains on unsettled positions and $18 million in net losses that represent reversals of previously recorded unrealized net gains on positions settled in the current period; and
- $7 million in net gains on other economic hedges, which includes $9 million in net losses on unsettled positions and $16 million in net gains that represent reversals of previously recorded unrealized net losses on positions settled in the current period.

Realized net losses totaling $17 million including:

- $33 million in net gains on settlement of positions in the long-term hedging program, which offset hedged electricity revenues recognized in the current period;
- $37 million in net losses on settlement of other economic hedge positions that offset hedged electricity revenues recognized in the current period; and
- $13 million in other net losses primarily related to settlement of trading positions.

Three Months Ended September 30, 2006

Unrealized mark-to market net gains totaling $139 million including:

- $139 million in net gains on positions in the long-term hedging program, which includes $132 million in cash flow hedge ineffectiveness net gains and $7 million in net gains on unsettled positions.

Realized net losses totaling $67 million including:

- $28 million in net losses on settlement of positions in the long-term hedging program, which offset hedged electricity revenues recognized in the current period;
- $48 million in net losses on settlement of other hedge positions that offset hedged electricity revenues recognized in the current period; and
- $9 million in net gains on settlement of trading positions.

Gross Margin

	Three Months Ended September 30,			
	2007	% of Revenue	2006	% of Revenue
Operating revenues	$ 2,889	100%	$ 3,091	100%
Costs and expenses:				
Fuel, purchased power costs and delivery fees	1,182	41	1,342	43
Generation plant operating costs	140	5	142	5
Depreciation and amortization	82	3	80	3
Gross margin	$ 1,485	51%	$ 1,527	49%

Gross margin is considered a key operating metric as its changes measure the effect of movements in sales volumes and pricing versus the variable and fixed costs to generate, purchase and deliver electricity.

Gross margin decreased $42 million, or 3%, to $1.5 billion in 2007. The decrease reflected the effect of a 16% decrease in residential and small business volumes in the historical service territory, lower average retail prices driven by residential price discounts and increased lignite mining costs due to inefficiencies caused by significantly above normal rain fall, partially offset by a favorable change in results from risk management and trading activities, lower purchased power volumes due in part to the cooler, below normal weather and lower purchased power costs driven by lower natural gas prices.

Gross margin as a percent of revenues increased two percentage points to 51%. The increase reflected the effect of results from risk management and trading activities, including higher net unrealized mark-to-market gains on positions in the long-term hedging program (five percentage point margin increase), partially offset by the effect of lower average retail prices (two percentage point margin decrease).

Operating costs decreased $2 million, or 1%, to $140 million in 2007. The decrease primarily reflected $3 million in maintenance costs for scheduled baseload generation plant outages in the fall of 2006 and $7 million in decreases in various other cost categories in 2007, largely offset by costs in 2007 for utilization of sulfur-dioxide emission credits for the coal/lignite-fueled generation plants.

Depreciation and amortization (consisting almost entirely of amounts related to generation plants shown in the gross margin table above) increased $2 million, or 2%, to $84 million primarily reflecting $4 million in higher baseload generation plant depreciation driven by ongoing investments in property, plant and equipment, partially offset by lower asset retirement obligation costs.

SG&A expenses increased $13 million, or 9%, to $150 million in 2007. The increase reflected:

- $10 million in increased retail marketing expenses;
- $4 million in higher salary and benefit costs primarily driven by an increase in staffing in retail operations; and
- $3 million in higher professional fees primarily for marketing/strategic projects and retail billing and customer care systems enhancements,

partially offset by $5 million in lower bad debt expense driven by a decrease in delinquencies and lower accounts receivable balances.

Other income totaled $6 million in 2007 and $9 million in 2006. Other deductions totaled a credit of $67 million in 2007 and charges of $4 million in 2006. The 2007 other deductions amount includes an $82 million reduction in the liability previously recorded for leases related to gas-fueled combustion turbines that TCEH has ceased operating for its own benefit and a $10 million charge related to the termination of a railcar operating lease. See Note 4 to Financial Statements for additional detail.

Interest income increased $36 million to $97 million in 2007 reflecting $18 million due to higher average advances to affiliates and $18 million due to higher average rates on advances.

Interest expense and related charges increased $7 million, or 6%, to $115 million in 2007. The increase reflected $26 million due to higher average borrowings, partially offset by $18 million due to lower average interest rates and $1 million in increased capitalized interest.

Income tax expense totaled $461 million in 2007 compared to $431 million in 2006. The effective income tax rate was 33.8% in 2007 compared to 32.8% in 2006. The increase in the effective income tax rate reflects the impact of the significant unrealized mark-to-market net gains associated with the long-term hedging activities.

Net income increased $18 million to $902 million in 2007 driven by lower other deductions and a decrease in net interest expense, partially offset by lower gross margin.

Net pension and postretirement benefit costs reduced results by $2 million in 2007 and $3 million in 2006.

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006

Operating revenues decreased $1.3 billion, or 17%, as follows:

	Nine Months Ended September 30, 2007	2006	Increase (Decrease)
Retail electricity revenues	$ 4,828	$ 5,543	$ (715)
Wholesale electricity revenues	1,571	1,635	(64)
Wholesale balancing activities	(11)	(6)	(5)
Net gains (losses) from risk management and trading activities	(317)	134	(451)
Other operating revenues	229	263	(34)
Total operating revenues	$ 6,300	$ 7,569	$ (1,269)

The $715 million, or 13%, decrease in retail electricity revenues reflected the following:

- Lower retail volumes contributed $421 million to the revenue decrease. Residential and small business volumes in the historical service territory decreased 14% reflecting the effects of a net loss of customers due to competitive activity and lower average consumption per customer of 7% in the residential market and 6% in the small business market due in part to cooler, below normal summer weather. Large business market volumes increased 2% reflecting a change in customer mix.

- Lower average pricing (including customer mix effects) contributed $294 million to the revenue decrease. Lower average retail pricing was driven by residential price discounts including a six percent price discount, effective with meter reads on March 27, 2007, and an additional four percent price discount, effective with meter reads on June 8, 2007, to those residential customers in the historical service territory with month-to-month service plans and a rate equivalent to the former price-to-beat rate. Such customers received an additional five percent price discount upon closing of the Merger (effective with October 24, 2007 meter reads). Lower average pricing also reflected new competitive product offerings in residential and small business markets and a change in customer mix in the large business market.

- Total retail electricity customer counts at September 30, 2007 declined 3% from September 30, 2006. Total residential and small business customer counts in the historical service territory declined 7% and in all combined territories declined 3%.

Wholesale electricity revenues decreased $64 million, or 4%. The decrease was driven by a $193 million pricing impact as average wholesale prices declined 11% reflecting lower natural gas prices. The pricing impact was partially offset by a $129 million increase in wholesale revenues on volume growth of 8% due in part to the decline in retail volumes associated with competitive activity.

Wholesale balancing activity comparisons are not meaningful because the activity represents intraday purchases and sales transactions with ERCOT for real-time balancing purposes, as measured in 15-minute intervals that are highly variable.

Results from risk management and trading activities include realized and unrealized gains and losses associated with financial instruments used for economic hedging and trading purposes, as well as gains and losses on physical sales and purchases of commodities for trading purposes. Hedging results should not be viewed in isolation, but rather taken together with the effects of pricing and cost changes on gross margin. Following is an analysis of activities for the nine months ended September 30, 2007 and 2006:

Nine Months Ended September 30, 2007

Unrealized mark-to-market net losses totaling $413 million including:

- $398 million in net losses on positions in the long-term hedging program, which includes:
  - $422 million in net losses on unsettled positions and $13 million in net gains that represent reversals of previously recorded net losses on positions settled in the current period;
  - $56 million in cash flow hedge ineffectiveness net gains on unsettled positions and $18 million in net losses that represent reversals of previously recorded ineffectiveness net gains on positions settled in the current period; and
  - $27 million in "day one" losses on large positions entered into at below-market prices;
- $50 million in net losses on commodity trading positions, which includes $15 million in net losses on unsettled positions and $35 million in net losses that represent reversals of previously recorded net gains on positions settled in the current period; and
- $30 million in a "day one" gain on a power purchase agreement.

Realized net gains totaling $96 million including:

- $126 million in net gains on settlement of positions in the long-term hedging program, which offset hedged electricity revenues recognized in the current period;
- $56 million in losses on settlement of other economic hedges, which offset hedged revenues and cost of energy sold recognized in the current period; and
- $26 million in net gains on settlement of trading positions.

Nine Months Ended September 30, 2006

Unrealized mark-to-market net gains totaling $287 million including:

- $266 million in net gains on positions in the long-term hedging program, which includes $258 million in cash flow hedge ineffectiveness net gains and $8 million in net gains on unsettled positions.

Realized net losses totaling $153 million including:

- $101 million in net losses on settlement of economic hedge positions that offset hedged electricity revenues recognized in the current period; and
- $51 million in net losses on settlement of trading positions.

Gross Margin

	Nine Months Ended September 30,			
	2007	% of Revenue	2006	% of Revenue
Operating revenues	$ 6,300	100%	$ 7,569	100%
Costs and expenses:				
Fuel, purchased power costs and delivery fees	3,082	49	3,075	41
Generation plant operating costs	459	7	447	6
Depreciation and amortization	239	4	246	3
Gross margin	$ 2,520	40%	$ 3,801	50%

Gross margin decreased $1.3 billion, or 34%, to $2.5 billion in 2007. The decrease reflected an unfavorable change in results from risk management and trading activities, lower average retail electricity pricing driven by residential price discounts and a 14% decrease in residential and small business volumes in the historical service territory. Gross margin performance also reflected the effects of a scheduled nuclear generation unit outage in early 2007 and increased lignite mining costs due to inefficiencies caused by significantly above normal rainfall.

Gross margin as a percent of revenues decreased 10 percentage points to 40%. The decline reflected:

- the effect of results from risk management and trading activities, including net unrealized mark-to-market losses on positions in the long-term hedging program (four percentage point margin decrease);
- the effect of lower average retail electricity pricing (two percentage point margin decrease);
- the effect of a decrease in residential and small business retail sales volumes and an increase in wholesale sales volumes (two percentage point margin decrease);
- the effect of lower nuclear generation volumes and higher purchased power volumes (one percentage point margin decrease); and
- the effect of higher lignite mining costs (one percentage point margin decrease).

Operating costs increased $12 million, or 3%, to $459 million in 2007. The increase reflected $18 million in higher generation maintenance costs largely due to the scheduled outage in the spring of 2007 of one of the nuclear generation units and $7 million for the utilization of sulfur-dioxide emission credits in 2007 for the lignite/coal-fueled generation plants, partially offset by $13 million in lower costs largely resulting from generation technical support outsourcing service agreements.

Depreciation and amortization (consisting almost entirely of amounts related to generation plants shown in the gross margin table above) decreased $7 million, or 3%, to $244 million driven by lower natural gas-fueled generation plant depreciation due to the impairment of natural gas-fueled generation plants in the second quarter of 2006 and lower expense associated with mining reclamation obligations, partially offset by higher baseload generation plant depreciation, driven by ongoing investments in property, plant and equipment.

SG&A expenses increased $52 million, or 14%, to $435 million in 2007. The increase reflected:

- $27 million in increased retail marketing expenses;
- $14 million in higher professional fees primarily for retail billing and customer care systems enhancements and marketing/strategic projects;
- $12 million in higher salary and benefit costs primarily driven by an increase in staffing in retail operations; and
- $10 million in higher costs primarily due to reallocation of Capgemini outsourcing fees;

partially offset by $10 million in lower bad debt expense driven by a decrease in delinquencies and lower accounts receivable balances.

Other income totaled $15 million in 2007 and $11 million in 2006. Other deductions totaled a credit of $53 million in 2007 and charges of $198 million in 2006. The 2007 other deductions amount includes a credit of $82 million for reducing a liability previously recorded for leases related to gas fueled combustion turbines that TCEH has ceased operating for its own benefit and a $10 million charge related to the termination of a railcar operating lease. The 2006 other deductions amount included a net $196 million impairment charge related to natural gas-fueled generation plants. See Note 4 to Financial Statements.

Interest income increased $122 million to $259 million in 2007 reflecting $68 million due to higher average advances to affiliates and $54 million due to higher average rates on advances.

Interest expense and related charges decreased $5 million, or 2%, to $305 million in 2007. The decrease reflected $48 million due to lower average interest rates and $4 million in increased capitalized interest, partially offset by $47 million due to higher average borrowings.

Income tax expense totaled $642 million in 2007 compared to $1.0 billion in 2006. Excluding the $30 million deferred tax benefit in 2007 and the $42 million deferred tax charge in 2006 related to the Texas margin tax as described in Note 3 to Financial Statements, the effective income tax rate was 33.2% in 2007 and 33.0% in 2006. (These unusual deferred tax adjustments distort the comparison; they have therefore been excluded for purposes of a more meaningful discussion.) The increased effective rate reflects higher interest accrued related to uncertain tax positions and higher income-based taxes arising from enactment of the Texas margin tax, which were offset by the impacts of the significant unrealized mark-to-market net losses on positions in the long-term hedging program.

Net income decreased $565 million to $1.4 billion in 2007 driven by the decline in gross margin, partially offset by lower other deductions.

Net pension and postretirement benefit costs reduced results by $8 million in both 2007 and 2006.

Energy-Related Commodity Contracts and Mark-to-Market Activities

The table below summarizes the changes in commodity contract assets and liabilities for the nine months ended September 30, 2007. The net changes in these assets and liabilities, excluding "other activity" as described below, represent the pretax effect of mark-to-market accounting on net income for positions in the commodity contract portfolio, which excludes positions that are subject to cash flow hedge accounting (see discussion below). For the nine months ended September 30, 2007, this effect totaled $448 million in unrealized net losses, which included $452 million in net losses on unsettled positions, principally those positions entered into as part of the long-term hedging program, and $4 million in reversals of net losses recognized in prior periods on positions settled in the current period. These positions represent both economic hedging and trading activities.

	Nine Months Ended September 30, 2007
Net commodity contract asset at beginning of period	$ 37
Settlements of positions included in the opening balance (1)	4
Unrealized mark-to-market valuations of positions held at end of period (2)	(452)
Other activity (3)	(89)
Net commodity contract liability at end of period	$(500)

(1) Represents reversals of unrealized mark-to-market valuations of these positions recognized in net income prior to the beginning of the period, to offset gains and losses realized upon settlement of the positions in the current period.

(2) Includes mark-to-market effects of positions dedesignated as cash flow hedges (see discussion above under "Long-term Hedging Program"). Also includes $31 million in losses and a $30 million gain recorded at contract inception dates (see Note 10 to Financial Statements).

(3) These amounts have not been recognized in prior and current year mark-to-market earnings. Includes initial values of positions involving the receipt or payment of cash or other consideration such as option premiums paid and received. Activity in 2007 included payments of $62 million related to natural gas physical swap transactions and $106 million of premium payments which includes a $102 million premium paid in 2007 related to a structured economic hedge transaction in the long-term hedging program. Also includes $257 million (net of amounts settled of $7 million) in liabilities related to certain power sales agreements. (See Note 10 to Financial Statements).

In addition to the effect on net income of recording unrealized mark-to-market gains and losses that are reflected in the table above, similar effects arise in the recording of unrealized ineffectiveness gains and losses associated with commodity-related cash flow hedges. These effects on net income, which include reversals of previously recorded unrealized ineffectiveness gains and losses to offset realized gains and losses upon settlement, are reflected in the balance sheet as changes in cash flow hedge and other derivative assets and liabilities (see Note 10 to Financial Statements). The total pretax effect of recording unrealized gains and losses related to commodity contracts in net income under SFAS 133 is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Unrealized gains (losses) related to contracts marked-to-market	$ 339	$ 3	$ (448)	$ 1
Ineffectiveness gains related to cash flow hedges (a)	(2)	136	35	286
Total unrealized gains (losses) related to commodity contracts	$ 337	$ 139	$ (413)	$ 287

(a) See Note 10 to Financial Statements.

These amounts are reported in the "risk management and trading activities" component of revenues.

Maturity Table — Following are the components of the net commodity contract liability at September 30, 2007:

	Amount
Net liability arising from mark-to-market accounting	$ (575)
Premiums paid under option agreements	99
Net receipts of natural gas under physical swap transactions	(24)
Total	$ (500)

The following table presents the net commodity contract liability arising from mark-to-market accounting as of September 30, 2007, scheduled by contractual settlement dates of the underlying positions.

	Maturity dates of unrealized commodity contract net liabilities at September 30, 2007				
Source of fair value	Less than 1 year	1-3 years	4-5 years	Excess of 5 years	Total
Prices actively quoted	$ 85	$ (90)	$(153)	$ (11)	$ (169)
Prices provided by other external sources (a)	56	(55)	(69)	(11)	(79)
Prices based on models (b) (c)	(63)	(48)	(31)	(185)	(327)
Total	$ 78	$ (193)	$(253)	$(207)	$ (575)
Percentage of total fair value	(14)%	34%	44%	36%	100%

(a) Includes "day one" gain of $30 million associated with a long-term power purchase agreement and a $4 million "day one" loss.
(b) Includes "day one" loss of $27 million associated with a hedge transaction.
(c) Includes $257 million (net of amounts settled of $7 million) in liabilities related to certain power sales agreements (see Note 10 to Financial Statements).

The "prices actively quoted" category reflects only exchange traded contracts with active quotes available. The "prices provided by other external sources" category represents forward commodity positions at locations for which over-the-counter broker quotes are available. Over-the-counter quotes for power in ERCOT generally extend through 2012 and over-the-counter quotes for natural gas generally extend through 2015, depending upon delivery point. The "prices based on models" category contains the value of all nonexchange traded options, valued using option pricing models. In addition, this category contains other contractual arrangements which may have both forward and option components. In many instances, these contracts can be broken down into their component parts and each component valued separately. Components valued as forward commodity positions are included in the "prices provided by other external sources" category. Components valued as options are included in the "prices based on models" category.

COMPREHENSIVE INCOME – Continuing Operations

Cash flow hedge activity reported in other comprehensive income (loss) included (all amounts after-tax):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net increase (decrease) in fair value of cash flow hedges (all commodity-related) held at end of period	$ 10	$ 342	$ (167)	$ 381
Derivative value net losses (gains) reported in net income that relate to hedged transactions recognized in the period:				
Commodities	(13)	9	(108)	16
Financing – interest rate swaps (a)	1	2	4	5
	(12)	11	(104)	21
Total income (loss) effect of cash flow hedges reported in other comprehensive income from continuing operations	$ (2)	$ 353	$ (271)	$ 402

(a) Represents recognition of net losses on settled swaps.

TCEH has historically used, and expects to continue to use, derivative instruments that are effective in offsetting future cash flow variability in interest rates and energy commodity prices. Amounts in accumulated other comprehensive income include (i) the value of unsettled transactions accounted for as cash flow hedges (for the effective portion), based on current market conditions, and (ii) the value of dedesignated and terminated cash flow hedges at the time of such dedesignation, less amounts reclassified to earnings as the original hedged transactions were recognized, unless the hedged transactions became probable of not occurring. Also see Note 10 to Financial Statements.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES – HISTORICAL/PRE-MERGER

Cash Flows — Cash provided by operating activities for the nine months ended September 30, 2007 totaled $683 million compared to cash provided by operating activities of $3.9 billion for the nine months ended September 30, 2006. The decrease of $3.2 billion reflected:

- an unfavorable change of $1.3 billion in net margin deposits due to the effect of higher forward natural gas prices on hedge positions;
- an unfavorable change in federal income taxes payable to EFH Corp. of $1.1 billion reflecting a $916 million tax payment in 2007 and a $169 million net tax refund in 2006;
- lower operating earnings after taking into account noncash items such as deferred federal income taxes, unrealized mark-to-market valuations and charges related to impairment of gas-fueled generation plants in 2006;
- an unfavorable change in working capital (accounts receivable, accounts payable and inventories) balances of $177 million primarily due to the effects of lower natural gas prices, as cash flows in 2006 included the collection of higher wholesale natural gas and electricity receivables that resulted from higher prices in late 2005; and
- a $102 million premium paid in 2007 related to a structured natural gas-related option transaction entered into as part of the long-term hedging program.

Cash provided by financing activities totaled $973 billion in 2007 compared to cash used by financing activities of $1.5 billion in 2006 as summarized below:

	Nine Months Ended September 30,	
	2007	2006
Net issuances, repayments and repurchases of borrowings	$ 1,991	$ (406)
Repayment of pollution control revenue bonds	(143)	(203)
Payments on income tax-related note payable to Oncor	(24)	(31)
Distributions paid to parent	(851)	(858)
Excess tax benefits on stock-based incentive compensation	—	13
Total provided by (used in) financing activities	$ 973	$ (1,485)

Cash used in investing activities decreased $1.4 billion as summarized below:

	Nine Months Ended September 30,	
	2007	2006
Increase in advances to affiliates	$ (611)	$ (1,864)
Capital expenditures, including purchases of mining-related assets and nuclear fuel	(610)	(488)
Proceeds from sale of assets	2	11
Reduction of restricted cash related to pollution control revenue bonds	197	—
Proceeds from pollution control revenue bonds deposited with trustee	—	(99)
Net investments in nuclear decommissioning trust fund securities	(11)	(12)
Other	(2)	2
Total used in investing activities	$ (1,035)	$ (2,450)

Depreciation and amortization expense reported in the statement of cash flows exceeds the amount reported in the statement of income by $49 million for 2007. This difference represents amortization of nuclear fuel, which is reported as fuel, purchased power costs and delivery fees in the statement of income consistent with industry practice.

Long-term Debt Activity — For the nine months ended September 30, 2007, issuances totaled $1 billion principal amount in floating rate senior notes subject to mandatory redemption upon closing of the Merger. Principal payments totaled $151 million for the nine months ended September 30, 2007, including $143 million in pollution control revenue bonds.

See Notes 7 and 13 to Financial Statements for further detail of long-term debt and other financing arrangements.

Credit Facilities/Short-term Borrowings — See Note 6 to Financial Statements for details of the credit facility arrangements as of September 30, 2007. Availability under these facilities at September 30, 2007 declined $2.3 billion from year-end 2006 primarily due to incremental credit support requirements related largely to the long-term hedging program, capital expenditures and borrowings to repay all outstanding commercial paper as it matured due to the effects of previous rating agency actions on the commercial paper program. TCEH's commercial paper maturities totaled $623 million in the first nine months of 2007.

In connection with the Merger, TCEH and Oncor terminated their credit facilities totaling $6.5 billion and repaid all existing borrowings. See Note 13 to Financial Statements.

Cash Distributions to Parent — TCEH paid EFC Holdings cash distributions of $283 million in January 2007 and $284 million in each of April 2007, July 2007 and October 2007.

Sales of Accounts Receivable — TCEH participates in an accounts receivable securitization program established by EFH Corp. for certain of its subsidiaries, the activity under which is accounted for as a sale of accounts receivable in accordance with SFAS 140. Under the program, subsidiaries of TCEH sell trade accounts receivable to TXU Receivables Company, a consolidated wholly-owned bankruptcy-remote direct subsidiary of EFH Corp., which sells undivided interests in the purchased accounts receivable for cash to special purpose entities established by financial institutions. All new trade receivables under the program generated by TCEH are continuously purchased by TXU Receivables Company with the proceeds from collections of receivables previously purchased. Funding to TCEH under the program totaled $588 million and $541 million at September 30, 2007 and December 31, 2006, respectively. See Note 5 to Financial Statements for a more complete description of the program including the impact on the financial statements for the periods presented. This program was amended upon the closing of the Merger. See Note 13 to Financial Statements.

New Lease — The lessor under a lease for certain rail cars exercised a termination right that had been triggered under the lease as a result of the S&P downgrade of TCEH's credit rating to below investment grade. In September 2007, TCEH entered into a lease with another party, which is being accounted for as a capital lease, to refinance the existing lease that was being accounted for as an operating lease. An obligation of $52 million under the new lease was reported as long-term debt. In addition, TCEH recorded a make-whole charge of $10 million upon termination of the existing lease, which is reported in other deductions.

LIQUIDITY AND CAPITAL RESOURCES – POST-MERGER

New Debt, Covenants and Restrictions

The following financing arrangements were entered into or amended in connection with the Merger.

TCEH Senior Secured Facilities — TCEH entered into a credit agreement for $24.5 billion of senior secured financing plus a commodity collateral posting facility that is expected to fund the cash posting requirements for a significant portion of TCEH's long-term hedging program. See Note 13 to Financial Statements for a description of the different tranches of the TCEH Senior Secured Facilities as well as more detail regarding this financing arrangement.

TCEH Senior Unsecured Interim Facilities/TCEH Notes — On October 31, 2007, TCEH and TCEH Finance, as Co-Issuers, issued and sold $3.0 billion aggregate principal amount of 10.25% TCEH Notes due 2015 to refinance a portion of their $6.75 billion TCEH Senior Unsecured Interim Facilities that they executed in connection with the Merger. See Note 13 to Financial Statements for more detail regarding these financing arrangements.

The following is a summary of the financing arrangements entered into by TCEH in connection with the Merger:

	Outstanding at October 31, 2007
TCEH Senior Secured Facilities:	
TCEH Initial Term Loan Facility (a)	$ 16,450
TCEH Delayed Draw Term Loan Facility (b)	2,150
TCEH Letter of Credit Facility (c)	1,250
TCEH Commodity Collateral Posting Facility (d)	741
TCEH Revolving Credit Facility (e)	—
TCEH Senior Unsecured Interim Facility (f)	3,750
TCEH Notes (f)	3,000
Total debt financing issued by TCEH	27,341

(a) Initial term loan facility used to fund the Merger.

(b) A $4.1 billion credit facility to be used during the two-year period commencing on the consummation of the Merger to fund expenditures for constructing new generation facilities and environmental upgrades of existing generation plants.

(c) A $1.25 billion letter of credit facility to be used for general corporate purposes, including, but not limited to, providing collateral support under commodity hedging arrangements and other commodity transactions that are not eligible for funding under the TCEH Commodity Collateral Posting Facility. The borrowings have been retained as restricted cash. Letters of credit totaling $1.24 billion issued against this facility as of October 31, 2007 are supported by the restricted cash.

(d) Revolving credit facility to be used to fund cash collateral posting requirements under certain specified natural gas hedging transactions. See discussion below under "Liquidity Effects of Risk Management and Trading Activities".

(e) A $2.7 billion credit facility to be used for letters of credit and for borrowings for general corporate purposes. Letters of credit totaling $279 million have been issued against this facility as of October 31, 2007.

(f) A $6.75 billion senior unsecured interim loan facility used to fund the Merger, net of $3.0 billion that was repaid with the proceeds from the sale of the TCEH Notes offering completed on October 31, 2007.

Description of Certain Covenants – Each of the TCEH Senior Secured Facilities, TCEH Senior Interim Facilities and indentures governing the TCEH Senior Notes contain covenants that could have a material impact on the liquidity and operations of TCEH and its subsidiaries. A brief summary description of certain of these covenants is provided below. See also Note 13 to Financial Statements for additional discussion of the covenants contained in these financing arrangements.

When the term "Adjusted EBITDA" is referenced in the covenant description below, it is a reference to, and generally synonymous with, the term "Consolidated EBITDA" that is used in the TCEH Senior Secured Facilities and a reference to, and generally synonymous with, the term "EBITDA" that is used in the TCEH Senior Interim Facilities and the indenture governing the TCEH Senior Notes. Adjusted EBITDA for the twelve months ended September 30, 2007 totaled $3.7 billion for TCEH. See glossary for definition of Adjusted EBITDA.

Maintenance Covenant – Under the TCEH Senior Secured Facilities, TCEH and its restricted subsidiaries will be required to maintain a consolidated secured debt to Adjusted EBITDA ratio (as defined in the credit agreement) measured over a rolling four-quarter measurement period, which cannot exceed 7.25 to 1.00 for the first measurement period ending September 30, 2008 declining over time to 5.75 to 1.00 for measurement period ending March 31, 2014. In the event that TCEH fails to comply with this ratio, it has the right to cure its non-compliance by soliciting a cash investment in an amount necessary to cause TCEH to be in compliance with the required consolidated secured debt to Adjusted EBITDA ratio.

Debt Incurrence Covenant – Under the indenture governing the EFH Corp. Notes, TCEH and its restricted subsidiaries are not permitted to incur indebtedness or issue certain classes of stock unless, on a pro forma basis, after giving effect to such incurrence or issuance, the fixed charge coverage ratio (as defined in the indenture) on a consolidated basis for TCEH and its restricted subsidiaries is at least 2.0 to 1.0 or such incurrence or issuance is otherwise permitted in the indenture. The fixed charge coverage ratio is generally defined as the ratio of Adjusted EBITDA of TCEH to fixed charges of TCEH, in each case, on a consolidated basis.

Under the TCEH Senior Secured Facilities, TCEH and its restricted subsidiaries are generally not permitted to incur indebtedness unless, on a pro forma basis, after giving effect to such incurrence, the Adjusted EBITDA to consolidated interest expense ratio (as defined in the credit agreement) is at least 2.0 to 1.0 determined or such incurrence is otherwise permitted in the TCEH Senior Secured Facilities.

Under the TCEH Senior Unsecured Interim Facilities and indenture governing the TCEH Notes, TCEH and its restricted subsidiaries are not permitted to incur indebtedness or issue certain classes of stock unless, on a pro forma basis, after giving effect to such incurrence or issuance, the fixed charge coverage ratio (as defined in the applicable debt agreements) on a consolidated basis for TCEH and its restricted subsidiaries is at least 2.0 to 1.0 or such incurrence or issuance is otherwise permitted in the applicable debt agreements, except that under the TCEH Senior Unsecured Interim Facilities, TCEH may not used this 2.0 to 1.0 provision for the first year such interim loans are outstanding. The fixed charge coverage ratio is generally defined as the ratio of Adjusted EBITDA of TCEH to fixed charges of TCEH, in each case, on a consolidated basis.

Restricted Payments/Limitation on Investments – Under the TCEH Senior Secured Facilities, TCEH Senior Unsecured Interim Facilities and indenture governing the TCEH Notes, TCEH and its restricted subsidiaries have limitations (subject to certain exceptions) on making restricted payments or investments (as that term is defined in the applicable debt agreements), including certain dividends, equity repurchases, debt repayments extensions of credit and certain types of investments.

Repayment of Existing Credit Facilities and other Indebtedness — See Note 13 to Financial Statements.

Interest Rate Swaps — In late October 2007, TCEH entered into interest rate swap transactions pursuant to which payment of the floating interest rates on an aggregate of $9.0 billion of senior secured term loans of TCEH was exchanged for interest payments at a fixed rate of 8.309% for $7.5 billion through October 2014 and 8.169% for $1.5 billion through October 2012. These interest rate swap transactions are secured by a first priority lien on the assets of TCEH on a pari passu basis with the TCEH Senior Secured Facilities.

Long-term Contractual Obligations and Commitments — The following are the significant changes resulting from the closing of the Merger to the estimated contractual cash obligations of TCEH and its subsidiaries as disclosed in the 2006 Form 10-K.

	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years	Total
Long-term debt – principal	$ 165	$ 101	$ 372	$ 25,094	$ 25,732
Long-term debt – interest	$ 531	$ 4,069	$ 3,854	$ 4,943	$ 13,397

See the "Interest Rate Risk" section of "Quantitative and Qualitative Disclosures About Market Risk" for additional information regarding the interest rate sensitivity of TCEH's financial instruments.

Liquidity Needs, Including Capital Expenditures — Capital expenditures for the full year 2007 are expected to total approximately $2.3 billion for investments in generation facilities, including approximately $1.5 billion for construction of one generation unit at Sandow and two generation units at Oak Grove.

TCEH expects capital expenditures including capitalized interest to total approximately $2.1 billion over the twelve months ending December 31, 2008. TCEH expects cash flows from operations combined with availability under the new credit facilities discussed above, to provide sufficient liquidity to fund current obligations, projected working capital requirements, any restructuring obligations and capital spending for a period that includes the next twelve months.

Liquidity Effects of Risk Management and Trading Activities — Risk management and trading transactions typically require collateral to support potential future payment obligations. In particular, commodity transactions typically require a counterparty to post collateral if the forward price of the underlying commodity moves such that the hedging or trading instrument is out-of-the-money to such counterparty. TCEH and its subsidiaries use cash and letters of credit and other collateral structures to satisfy such collateral obligations. In addition, in connection with the Merger, TCEH entered into the TCEH Commodity Collateral Posting Facility, which is a senior secured revolving credit facility that will fund the cash collateral posting requirements due to trading counterparties for a significant portion of the positions in the long-term hedging program not otherwise secured by a first-lien in the assets of TCEH. The aggregate principal amount of this facility is determined by the out-of-the-money exposure, regardless of the amount of such exposure, on a portfolio of certain natural gas swap transactions under which TCEH is the "floating price" payor. This facility is secured on a pari passu basis with the TCEH Senior Secured Facilities. See Note 13 to Financial Statements for more information about this facility. At October 31, 2007, approximately 90% of TCEH's hedging transactions were secured by a first lien security interest in the assets of TCEH (including the transactions covered by the TCEH Commodity Collateral Posting Facility) that is pari passu with the TCEH Senior Secured Facilities.

As of October 31, 2007, TCEH has received or posted cash and letters of credit for risk management and trading activities as follows:

- $11 million in cash has been received from counterparties for exchange cleared transactions (including initial margin), as compared to $672 million received as of December 31, 2006;
- $459 million in cash has been posted with counterparties for over-the-counter and other non-exchanged cleared transactions, as compared to $2 million received as of December 31, 2006; and
- $667 million in letters of credit have been posted with counterparties, as compared to $455 million posted as of December 31, 2006.

Borrowings under the TCEH Commodity Collateral Posting Facility funded $741 million of the above cash postings.

With respect to exchange cleared transactions, these transactions typically require initial margin (i.e. the upfront cash and/or letter of credit posted to take into account the size and maturity of the positions and credit quality) in addition to variation margin (i.e. the daily cash margin posted to take into account changes in the value of the underlying commodity). The amount of initial margin required is generally defined by exchange rules. Clearing agents, however, typically have the right to request additional initial margin based on various factors including market depth, volatility and credit quality, which may be in the form of cash, letters of credit, a guaranty or other forms as negotiated with the clearing agent. With respect to cash collateral that is received, such cash collateral is used by TCEH for working capital and other corporate purposes, including reducing short-term borrowings under credit facilities. Such counterparties generally have the right to substitute letters of credit for such cash collateral. In such event, the cash collateral previously posted would be returned to such counterparties thereby reducing TCEH's liquidity.

As a result of the long-term hedging program, increases in natural gas prices result in increased cash collateral and letter of credit margin requirements. As representative example, as of October 31, 2007, for each $1.00 per MMBtu increase in natural gas prices, TCEH's cash collateral posting requirements associated with the long-term hedging program would increase by approximately $1.2 billion. Of this amount, approximately $900 million would be funded by the TCEH Commodity Collateral Posting Facility.

Financial Covenants, Credit Rating Provisions and Cross Default Provisions

Credit Ratings

The rating agencies assign issuer credit ratings for TCEH. Reflecting the Merger and related financings, the issuer credit ratings as of October 31, 2007 for EFH Corp. and its subsidiaries are B-, B2 and B by S&P, Moody's and Fitch, respectively.

Additionally, the rating agencies assign credit ratings on certain debt securities issued by EFH Corp. and its subsidiaries. The credit ratings assigned for debt securities issued by TCEH as of October 31, 2007 are presented below:

	TCEH (Senior Secured)	TCEH (Senior Unsecured)
S&P	B+	CCC
Moody's	Ba3	B3
Fitch	BB	B+

The senior unsecured ratings for TCEH reflect multi-notch downgrades from all rating agencies as a result of the significant amount of debt incurred by TCEH in connection with the Merger in October 2007. All three rating agencies placed these ratings on "stable outlook".

A rating reflects only the view of a rating agency, and is not a recommendation to buy, sell or hold securities. Any rating can be revised upward or downward at any time by a rating agency if such rating agency decides that circumstances warrant such a change.

Material Credit Rating Covenants

TCEH has entered into certain retail and wholesale commodity contracts that in some instances give the other party the right, but not the obligation, to request TCEH to post collateral in the event that its credit rating falls below investment grade. Because of the credit rating actions in connection with the Merger, and based on its commodity contract positions at October 31, 2007, counterparties have the option to request TCEH to post up to $73 million in additional collateral support.

Certain transmission and distribution utilities in Texas have tariffs in place to assure adequate credit worthiness of any REP to support the REP's obligation to collect securitization bond-related (transition) charges on behalf of the utility. Under these tariffs, as a result of the previous downgrade of TCEH's credit rating to below investment grade, TCEH is required to post collateral support in an amount equal to estimated transition charges over specified time periods. The amount of collateral support required to be posted, as well as the time period of transition charges covered, varies by utility. Based on requests to post collateral support from utilities that have been received by TCEH and its subsidiaries as of October 31, 2007, TCEH has posted collateral support to the applicable utilities in an aggregate amount equal to $26 million, with $16 million of this amount posted for the benefit of Oncor.

The PUCT has rules in place to assure adequate credit worthiness of any REP. Under these rules, as a result of the previous downgrade of TCEH's credit rating to below investment grade, TCEH agreed to maintain availability under its credit facilities of an amount no less than the aggregate amount of customer deposits and any advanced payments received from customers. As of October 31, 2007, the amount of customer deposits received from customers held by TCEH's REP subsidiaries totaled approximately $124 million. The PUCT revised the applicable rule regarding these deposits effective October 21, 2007. This revision is not expected to materially affect TCEH's cost of operations.

ERCOT also has rules in place to assure adequate credit worthiness of parties that schedule power on the ERCOT System. Under these rules, as a result of the previous downgrade of TCEH's credit rating to below investment grade, TCEH has posted collateral support totaling $90 million as of September 30, 2007 (which is subject to periodic adjustments).

Other arrangements of TCEH, including credit facilities, the accounts receivable securitization program and certain leases, contain terms pursuant to which the interest rates charged under the agreements may be adjusted depending on credit ratings.

Material Cross Default Provisions

Certain financing arrangements contain provisions that may result in an event of default if there were a failure under other financing arrangements to meet payment terms or to observe other covenants that may result in, or for certain arrangements provided that such failure actually results in, an acceleration of payments due. Such provisions are referred to as "cross default" provisions.

A default by TCEH or any restricted subsidiary in respect of indebtedness, excluding indebtedness relating to the trade receivables program, in an aggregate amount in excess of $200 million may result in a cross default under the TCEH Senior Secured Facilities. Under these facilities such a default may cause the maturity of outstanding balances ($20.6 billion at October 31, 2007) under such facility to be accelerated.

The Senior Unsecured Interim Facility ($3.75 billion remaining at October 31, 2007) and the indenture governing the $3.0 billion of outstanding TCEH Notes and the Notes offered hereby contain a cross acceleration provision where a payment default at maturity or on acceleration of principal indebtedness under any instrument or instruments of TCEH and any of its restricted subsidiaries in the aggregate of $250 million or more may cause the acceleration of such indebtedness.

The accounts receivable securitization program contains a cross default provision with a threshold of $200 million applicable in the aggregate of the originators, any parent guarantor of an originator and any affiliate of TCEH acting as collection agent under the program. TXU Receivables Company and TXU Business Services Company, as collection agent, in the aggregate have a cross default threshold of $50 thousand. If any of the aforementioned defaults on indebtedness of the applicable threshold were to occur, the facility could terminate.

TCEH and its subsidiaries enter into energy-related and financial contracts, the master forms of which contain provisions whereby an event of default or acceleration of settlement would occur if TCEH or those subsidiaries were to default under an obligation in respect of borrowings in excess of thresholds, which vary, stated in the contracts. The entities whose default would trigger cross default vary depending on the contract.

Each of TCEH's natural gas hedging agreements that are secured with a lien on its assets on a pari passu basis with the TCEH Senior Secured Facilities contains a cross default provision. In the event of a default by TCEH or any of its subsidiaries relating to indebtedness in an amount equal to or greater than $250 million, then each counterparty under these hedging agreements would have the right to terminate its hedge agreement with TCEH and require all outstanding obligations under such agreement to be settled.

In the event of a default by TCEH relating to indebtedness in an amount equal to or greater than $200 million that results in the acceleration of such debt, then each counterparty under TCEH's interest rate swap agreements totaling $9 billion would have the right to terminate its interest rate swap agreement with TCEH and require all outstanding obligations under such agreement to be settled.

Other arrangements, including leases, have cross default provisions, the triggering of which would not result in a significant effect on liquidity.

Also see Note 8 to Financial Statements for details of guarantees.

OFF BALANCE SHEET ARRANGEMENTS

Subsidiaries of TCEH participate in an accounts receivable securitization program established by EFH Corp. See discussion above under "Sales of Accounts Receivables" and in Notes 5 and 13 to Financial Statements.

Also see Note 8 to Financial Statements regarding guarantees.

COMMITMENTS AND CONTINGENCIES

See Note 8 to Financial Statements for discussion of commitments and contingencies.

CHANGES IN ACCOUNTING STANDARDS

See Notes 1 and 2 to Financial Statements for a discussion of changes in accounting standards.

REGULATION AND RATES

Regulatory Investigations — See Note 8 to Financial Statements for discussion.

2007 Texas Legislative Session

The Texas Legislature convened in its regular biennial session on January 9, 2007 and adjourned on May 28, 2007. The session was not a "sunset" session for the PUCT, so there was no requirement that the Legislature consider any electric industry-related bills. However, various measures pertaining to the electric industry were considered. The primary measures that were under consideration and would have materially affected TCEH's businesses and potentially the Merger were ultimately not enacted. New PURA provisions were enacted that ensure the PUCT shall have authority to enforce commitments made in a filing under PURA Section 14.101 (such as the filing made by Texas Holdings and Oncor on April 25, 2007).

REP Certification Rulemaking

On March 30, 2007, the PUCT publicly requested comments on proposed revisions to its substantive rules governing the certification of REPs that, if ultimately approved, would have (1) expanded the types of transactions that would be considered to constitute the transfer of a REP certificate and (2) subjected a REP to unspecified additional or different financial requirements if it serves one million residential customers in Texas or more and does not have its own investment grade credit rating. The PUCT Staff conducted a workshop on September 24, 2007 to discuss with interested stakeholders potential revisions to the rule and the largest REPs, including TXU Energy, ultimately agreed with the PUCT Staff to compromise rule revision language specifying acceptable additional minimum financial requirements for REPs with at least one million Texas residential customers. In an Open Meeting on October 9, 2007, the PUCT voted to approve revisions to its REP certification rule. The PUCT Commissioners declined to make any revisions to expand the types of transactions that would be considered to constitute the transfer of a REP certificate. The PUCT Commissioners approved the compromise agreed to by the largest REPs and PUCT Staff. The approved revisions provide that REPs that serve one million Texas residential customers or more are subject to additional or different financial requirements as determined by the PUCT unless they meet one of the following specified additional financial requirements: (1) a heightened credit rating of "BBB" for S&P or "Baa2" for Moody's, or their financial equivalent (satisfied through the REP's own credit rating, a guaranty of a parent or controlling shareholder with the required credit rating, or a bond, guaranty or corporate commitment of another company with the required credit rating); (2) an increased amount of equity (defined as assets in excess of liabilities); or (3) an increased amount of unused cash resources. The additional financial requirements are not anticipated to significantly increase TCEH's cost of doing business.

Summary

Although TCEH cannot predict future regulatory or legislative actions or any changes in economic and securities market conditions, no changes are expected in trends or commitments, other than those discussed in this report, which might significantly alter its basic financial position, results of operations or cash flows.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risk is the risk that TCEH may experience a loss in value as a result of changes in market conditions affecting commodity prices and interest rates, which TCEH is exposed to in the ordinary course of business. TCEH's exposure to market risk is affected by a number of factors, including the size, duration and composition of its energy and financial portfolio, as well as the volatility and liquidity of markets. TCEH enters into instruments such as interest rate swaps to manage interest rate risks related to its indebtedness, as well as exchange traded, over-the-counter contracts and other contractual commitments to manage commodity price risk as part of its wholesale activities. TCEH's interest rate risk discussed below was significantly affected by debt issuances in connection with the Merger.

RISK OVERSIGHT

TCEH's wholesale operation manages the commodity price, counterparty credit and operational risk related to the unregulated energy business within limitations established by senior management and in accordance with TCEH's overall risk management policies. Interest rate risks are managed centrally by the corporate treasury function. Market risks are monitored daily by risk management groups that operate and report independently of the wholesale commercial operations, utilizing defined practices and analytical methodologies. These techniques measure the risk of change in value of the portfolio of contracts and the hypothetical effect on this value from changes in market conditions and include, but are not limited to, Value at Risk (VaR) methodologies. Key risk control activities include, but are not limited to, credit review and approval, operational and market risk measurement, validation of transaction capture, portfolio valuation and daily portfolio reporting, including mark-to-market valuation, VaR and other risk measurement metrics.

TCEH has a corporate risk management organization that is headed by a Chief Risk Officer. The Chief Risk Officer, through his designees, enforces all applicable risk limits, including the respective policies and procedures to ensure compliance with such limits and evaluates the risks inherent in the various businesses of TCEH and their associated transactions.

COMMODITY PRICE RISK

TCEH's businesses are subject to the inherent risks of market fluctuations in the price of electricity, natural gas and other energy-related products they market or purchase. TCEH's businesses actively manage their portfolio of owned generation assets, fuel supply and retail sales load to mitigate the near-term impacts of these risks on results of operations. These businesses, similar to other participants in the market, cannot fully manage the long-term value impact of structural declines or increases in natural gas and power prices and spark spreads (differences between the market price of electricity and its cost of production).

In managing energy price risk, subsidiaries of TCEH enter into a variety of market transactions including, but not limited to, short- and long-term contracts for physical delivery, exchange traded and over-the-counter financial contracts and bilateral contracts with customers. Activities in the wholesale operations include hedging, the structuring of long-term contractual arrangements and proprietary trading. The wholesale operation continuously monitors the valuation of identified risks and adjusts the portfolio based on current market conditions. Valuation adjustments or reserves are established in recognition that certain risks exist until full delivery and settlement of energy has occurred, counterparties have fulfilled their financial commitments and related contracts have either matured or are settled. TCEH strives to use consistent assumptions regarding forward market price curves in evaluating and recording the effects of commodity price risk.

Long-term Hedging Program — See discussion above under "Significant Developments" for an update of the program, including potential effects on reported results.

VaR Methodology — A VaR methodology is used to measure the amount of market risk that exists within the portfolio under a variety of market conditions. The resultant VaR produces an estimate of a portfolio's potential for loss given a specified confidence level and considers among other things, market movements utilizing standard statistical techniques given historical and projected market prices and volatilities.

A Monte Carlo simulation methodology is used to calculate VaR and is considered by management to be the most effective way to estimate changes in a portfolio's value based on assumed market conditions for liquid markets. The use of this method requires a number of key assumptions, such as use of (i) an assumed confidence level; (ii) an assumed holding period (i.e. the time necessary for management action, such as to liquidate positions); and (iii) historical estimates of volatility and correlation data.

Trading VaR — This measurement estimates the potential loss in fair value, due to changes in market conditions, of all contracts entered into for trading purposes based on a 95% confidence level and an assumed holding period of five to 60 days.

	Nine Months Ended September 30, 2007	Year Ended December 31, 2006
Month-end average Trading VaR:	$ 8	$ 12
Month-end high Trading VaR:	$ 11	$ 30
Month-end low Trading VaR:	$ 6	$ 5

VaR for Energy-Related Contracts Subject to Mark-to-Market (MtM) Accounting — This measurement estimates the potential loss in fair value, due to changes in market conditions, of all contracts marked-to-market in net income (principally hedges not accounted for as cash flow hedges and trading positions), based on a 95% confidence level and an assumed holding period of five to 60 days.

	Nine Months Ended September 30, 2007	Year Ended December 31, 2006
Month-end average MtM VaR:	$ 515	$ 89
Month-end high MtM VaR:	$ 819	$ 246
Month-end low MtM VaR:	$ 253	$ 5

Earnings at Risk (EaR) — This measurement estimates the potential reduction of fair value of expected pretax earnings for the years presented, due to changes in market conditions, of all energy-related contracts marked-to-market in net income and contracts not marked-to-market in net income that are expected to be settled within the fiscal year (physical purchases and sales of commodities). For this purpose, cash flow hedges are also included with transactions that are not marked-to-market in net income. A 95% confidence level and a holding period of five to 60 days is assumed in determining EaR.

	Nine Months Ended September 30, 2007	Year Ended December 31, 2006
Month-end average EaR:	$ 506	$ 99
Month-end high EaR:	$ 812	$ 241
Month-end low EaR:	$ 249	$ 21

The increases in the risk measures (MtM VaR and EaR) above are driven by the dedesignation of positions in the long-term hedging program as cash flow hedges for accounting purposes as well as the increase in number of positions in the program.

INTEREST RATE RISK

The table below provides information concerning TCEH's financial instruments entered into in connection with the Merger as of October 31, 2007 that are sensitive to changes in interest rates. The weighted average interest rate presented is based on the rate in effect at the reporting date. The TCEH Commodity Collateral Posting Facility is excluded from the table below as borrowings under this facility are expected to be classified as short-term borrowings. Capital leases and the effects of unamortized premiums and discounts are also excluded from the table.

	Expected Maturity Date (million of dollars, except percentages)						
	2007	2008	2009	2010	2011	There-After	Total Carrying Amount
Long-term debt issued in connection with the Merger (including current maturities)							
Fixed rate debt amount	$ —	$ —	$ —	$ —	$ —	$ 8,000	$ 8,000
Average interest rate	—	—	—	—	—	9.27%	9.27%
Variable rate debt amount	$ 165	$ 165	$ 186	$ 186	$ 186	$17,712	$ 18,600
Average interest rate	8.46%	8.25%	8.54%	8.66%	8.80%	8.93%	8.91%
Total debt issued in connection with the Merger	$ 165	$ 165	$ 186	$ 186	$ 186	$25.712	$ 26.600
Debt swapped to fixed:							
Amount	$ —	$ —	$ —	$ —	$ —	$9,000	$9,000
Average pay rate	—	—	—	—	—	8.29%	8.29%
Average receive rate	—	—	—	—	—	8.39%	8.39%

Taking into consideration long-term debt (except capital leases) outstanding as of October 31, 2007, the potential reduction of annual pretax earnings due to a one-point increase in interest rates totaled approximately $103 million.

CREDIT RISK

Credit Risk — Credit risk relates to the risk of loss associated with nonperformance by counterparties. TCEH and its subsidiaries maintain credit risk policies with regard to their counterparties to minimize overall credit risk. These policies require an evaluation of a potential counterparty's financial condition, credit rating and other quantitative and qualitative credit criteria and specify authorized risk mitigation tools including, but not limited to, use of standardized master netting contracts and agreements that allow for netting of positive and negative exposures associated with a single counterparty. TCEH has standardized documented processes for monitoring and managing credit exposure of its businesses including methodologies to analyze counterparties' financial strength, measurement of current and potential future credit exposures and standardized contract language that provides rights for netting and set-off. Credit enhancements such as parental guarantees, letters of credit, surety bonds and margin deposits are also utilized. Additionally, individual counterparties and credit portfolios are managed to preset limits and analyzed to assess potential credit exposure. This evaluation results in establishing credit limits or collateral requirements prior to entering into an agreement with a counterparty that creates credit exposure. Additionally, TCEH has established controls to determine and monitor the appropriateness of these limits on an ongoing basis. Any prospective material adverse change in the payment history or financial condition of a counterparty or downgrade of its credit quality will result in the reassessment of the credit limit with that counterparty. This process can result in the subsequent reduction of the credit limit or a request for additional financial assurances.

Credit Exposure — TCEH's gross exposure to credit risk associated with trade accounts receivable (retail and wholesale) and net asset positions arising from hedging and trading activities totaled $2.0 billion at September 30, 2007.

Gross assets subject to credit risk as of September 30, 2007 include $691 million in accounts receivable from the retail sale of electricity to residential and small business customers. The risk of material loss (after consideration of bad debt allowances) from nonperformance by these customers is unlikely based upon historical experience. Allowances for uncollectible accounts receivable are established for the potential loss from nonpayment by these customers based on historical experience and market or operational conditions.

Most of the remaining credit exposure is with large business retail customers and wholesale counterparties. These counterparties include energy companies, financial institutions, electric utilities, independent power producers, oil and gas producers, local distribution companies and energy trading and marketing companies. As of September 30, 2007, the exposure to credit risk from these customers and counterparties totaled $1.3 billion taking into account standardized master netting contracts and agreements described above and $30 million in credit collateral (cash, letters of credit and other security interests) held by TCEH subsidiaries.

Of this $1.3 billion net exposure, 77% is with investment grade customers and counterparties, as determined using publicly available information including major rating agencies' published ratings and TCEH's internal credit evaluation process. Those customers and counterparties without an S&P rating of at least BBB- or similar rating from another major rating agency are rated using internal credit methodologies and credit scoring models to estimate an S&P equivalent rating. TCEH routinely monitors and manages its credit exposure to these customers and counterparties on this basis.

The following table presents the distribution of credit exposure as of September 30, 2007, for retail trade accounts receivable from large business customers, wholesale trade accounts receivable as well as net asset positions arising from hedging and trading activities, by investment grade and noninvestment grade, credit quality and maturity.

				Net Exposure by Maturity			
	Exposure before Credit Collateral	Credit Collateral	Net Exposure	2 years or less	Between 2-5 years	Greater than 5 years	Total
Investment grade	$ 1,023	$ 3	$ 1,020	$ 735	$ 61	$ 224	$ 1,020
Noninvestment grade	332	27	305	222	35	48	305
Totals	$ 1,355	$ 30	$ 1,325	$ 957	$ 96	$ 272	$ 1,325
Investment grade	75%	10%	77%				
Noninvestment grade	25%	90%	23%				

Approximately 72% of the net $1.3 billion credit exposure has a maturity date of two years or less. TCEH does not anticipate any material adverse effect on its financial position or results of operations due to nonperformance by any customer or counterparty.

TCEH had credit exposure to two counterparties each having an exposure greater than 10% of the net exposure of $1.3 billion at September 30, 2007. These two counterparties represented 13% and 10%, respectively, of the net exposure. TCEH views its exposure with these two counterparties to be within an acceptable level of risk tolerance as they are rated investment grade.

TCEH is exposed to credit risk related to its long-term hedging program. Of the transactions in the program, over 98% of the volumes are with counterparties with an A credit rating or better, and 99% are at least investment grade.

Additionally, under the long-term hedging program, TCEH has potential credit risk exposure concentration related to a limited number of counterparties. The hedge transactions with these counterparties contain certain credit rating provisions that would require the counterparties to post collateral in the event of significant declines in natural gas prices and a material downgrade in the credit rating of the counterparties. TCEH views the potential concentration of risk with these counterparties to be within an acceptable risk tolerance due to the strong financial profile of the counterparties and their respective A or above credit rating.

TCEH is also exposed to credit risk related to the Capgemini put option with a carrying value of $103 million. 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 the payment in connection with a put option. S&P currently maintains a BB+ rating with a CreditWatch positive outlook for Cap Gemini S. A.

FORWARD-LOOKING STATEMENTS

This report and other presentations made by TCEH contain "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, that are included in this report, or made in presentations, in response to questions or otherwise, that address activities, events or developments that TCEH expects or anticipates to occur in the future, including such matters as projections, capital allocation and cash distribution policy, future capital expenditures, business strategy, competitive strengths, goals, future acquisitions or dispositions, development or operation of electricity generation assets, market and industry developments and the growth of TCEH's business and operations (often, but not always, through the use of words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "projection," "target," "outlook"), are forward-looking statements. Although TCEH believes that in making any such forward-looking statement its expectations are based on reasonable assumptions, any such forward-looking statement involves uncertainties and is qualified in its entirety by reference to the discussion of risk factors discussed under "Risk Factors" and the following important factors, among others, that could cause the actual results of TCEH to differ materially from those projected in such forward-looking statements:

- prevailing governmental policies and regulatory actions, including those of the Texas Legislature, the Governor of Texas, the US Congress, FERC, the PUCT, the RRC, the NRC, the EPA and the TCEQ, with respect to:
    - allowed prices;
    - industry, market and rate structure;
    - purchased power and recovery of investments;
    - operations of nuclear generation facilities;
    - operations of mines;
    - acquisitions and disposal of assets and facilities;
    - development, construction and operation of facilities;
    - decommissioning costs;
    - present or prospective wholesale and retail competition;
    - changes in tax laws and policies; and
    - changes in and compliance with environmental and safety laws and policies including climate change initiatives;
- continued implementation of the 1999 Restructuring Legislation;
- legal and administrative proceedings and settlements;
- general industry trends;
- TCEH's ability to attract and retain profitable customers;
- TCEH's ability to profitably serve its customers given the announced price protection and price cuts;
- restrictions on competitive retail pricing;
- changes in wholesale electricity prices or energy commodity prices;
- changes in prices of transportation of natural gas, lignite, coal, crude oil and refined products;
- unanticipated changes in market heat rates in the Texas electricity market;
- TCEH's ability to effectively hedge against changes in commodity prices and market heat rates;
- weather conditions and other natural phenomena, and acts of sabotage, wars or terrorist activities;
- unanticipated population growth or decline, and changes in market demand and demographic patterns;
- changes in business strategy, development plans or vendor relationships;
- access to adequate transmission facilities to meet changing demands;
- unanticipated changes in interest rates, commodity prices or rates of inflation;
- unanticipated changes in operating expenses, liquidity needs and capital expenditures;
- commercial bank market and capital market conditions;
- competition for new energy development and other business opportunities;
- inability of various counterparties to meet their obligations with respect to TCEH's financial instruments;
- changes in technology used by and services offered by TCEH;

- significant changes in TCEH's relationship with its employees, including the availability of qualified personnel, and the potential adverse effects if labor disputes or grievances were to occur;
- significant changes in critical accounting policies material to TCEH;
- actions by credit rating agencies;
- the ability of TCEH to implement cost reduction initiatives; and
- with respect to TCEH's lignite coal-fueled generation construction and development program, more specifically, TCEH's ability to fund such investments, changes in competitive market rules, changes in environmental laws or regulations, changes in electric generation and emissions control technologies, changes in projected demand for electricity, the ability of TCEH and its contractors to attract and retain, at projected rates, skilled labor for constructing the new generating units, changes in wholesale electricity prices or energy commodity prices, transmission capacity and constraints, supplier performance risk, changes in the cost and availability of materials necessary for the construction program and the ability of TCEH to manage the significant construction program to a timely conclusion with limited cost overruns; and
- with respect to the Merger: the outcome of any legal proceedings that have been or may be instituted against EFH Corp. and others related to the Merger Agreement; risks that the Merger and related transactions disrupt current plans and operations and the potential difficulties in management and employee retention as a result of the Merger; the amount of the costs, fees, expenses and charges related to the Merger; and the impact of the substantial indebtedness incurred to finance the consummation of the Merger.

Any forward-looking statement speaks only as of the date on which it is made, and TCEH undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for TCEH to predict all of them, nor can it assess the impact of each such factor or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of TCEH's management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the disclosure controls and procedures in effect as of the end of the current period included in this quarterly report. Based on the evaluation performed, TCEH's management, including the principal executive officer and principal financial officer, concluded that the disclosure controls and procedures were effective. During the most recent fiscal quarter covered by this quarterly report, there have been no changes in TCEH's internal controls over financial reporting that have occurred that have materially affected, or are reasonably likely to materially affect, TCEH's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

Reference is made to the discussion in Note 8 regarding legal proceedings.

Item 1A. RISK FACTORS.

Risks Relating to TCEH's Indebtedness

TCEH's substantial leverage could adversely affect its ability to raise additional capital to fund its operations, limit TCEH's ability to react to changes in the economy or its industry, expose TCEH to interest rate risk to the extent of its variable rate debt and prevent TCEH from meeting its obligations under its indebtedness.

TCEH and its subsidiaries may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in TCEH's and its subsidiaries' existing indebtedness. If new indebtedness is added to TCEH's current debt levels, the related risks that TCEH now faces could intensify.

TCEH's substantial leverage could have important consequences, including:

- making it more difficult for TCEH to make payments on its indebtedness;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on TCEH's indebtedness, therefore reducing TCEH's ability to use its cash flow to fund its operations, capital expenditures and future business opportunities;
- increasing TCEH's vulnerability to general economic and industry conditions;
- exposing TCEH to the risk of increased interest rates because certain of TCEH's borrowings, including borrowings under the TCEH Senior Secured Facilities, will be at variable rates of interest;
- limiting TCEH's ability to make strategic acquisitions or causing it to make non-strategic divestitures;
- limiting TCEH's ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting TCEH's ability to adjust to changing market conditions and placing it at a competitive disadvantage compared to its competitors who are less highly leveraged.

TCEH's debt agreements contain restrictions that limit TCEH's flexibility in operating its businesses.

The TCEH Senior Secured Facilities, the TCEH Senior Interim Facility and other debt agreements of TCEH affiliates contain various covenants and other restrictions that limit TCEH's ability and/or the ability of TCEH's restricted subsidiaries to engage in specified types of transactions. These covenants and other restrictions limit TCEH's and its restricted subsidiaries' ability to, among other things:

- incur additional indebtedness or issue preferred shares;
- pay dividends on, repurchase or make distributions in respect of capital stock or make other restricted payments;
- make investments;
- sell or transfer assets;
- create liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of TCEH's assets; and
- enter into transactions with TCEH's affiliates.

Under the TCEH Senior Secured Facilities, TCEH will be required to maintain a specified leverage ratio. TCEH's ability to meet such ratio can be affected by events beyond its control. A breach of any such covenant could result in a default under the TCEH Senior Secured Facilities and other debt. Upon the occurrence of an event of default under the TCEH Senior Secured Facilities, the lenders could elect to declare all amounts outstanding under the TCEH Senior Secured Facilities to be immediately due and payable and terminate all commitments to extend further credit. If TCEH were unable to repay those amounts, the lenders under the TCEH Senior Secured Facilities could proceed against the collateral granted to them to secure such indebtedness. TCEH has pledged substantially all of its tangible and intangible assets as collateral under the TCEH Senior Secured Facilities. If the lenders under the TCEH Senior Secured Facilities accelerated the repayment of borrowings, TCEH cannot assure you that it would have sufficient assets to repay the TCEH Senior Secured Facilities, the Notes, the TCEH Senior Interim Facility and its other existing debt.

TCEH's subsidiaries may not be able to generate sufficient cash to service all of TCEH's and its subsidiaries' indebtedness and may be forced to take other actions to satisfy TCEH's and its subsidiaries' obligations under TCEH's indebtedness, which may not be successful.

TCEH's ability to make scheduled payments on or to refinance TCEH's debt obligations depends on TCEH's financial condition and the operating performance of TCEH's subsidiaries, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond TCEH's control.

If TCEH's and TCEH's subsidiaries' cash flows and capital resources are insufficient to fund TCEH's debt service obligations and those of TCEH's subsidiaries, TCEH or its subsidiaries may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance TCEH's indebtedness. These alternative measures may not be successful and may not permit TCEH to meet its and its subsidiaries' scheduled debt service obligations. If operating results and available cash are insufficient to meet TCEH's and its subsidiaries' debt service obligations, TCEH and its subsidiaries could face substantial liquidity problems and might be required to dispose of material assets or operations to meet debt service and other obligations. A significant portion of TCEH's assets consist of goodwill, the value of which will depend upon a variety of factors. TCEH and its subsidiaries, including TCEH, may not be able to consummate those dispositions or obtain the proceeds that TCEH and its subsidiaries could realize from them, and any proceeds received may not be adequate to meet any debt service obligations then due. Additionally, TCEH's debt agreements will limit the use of the proceeds from any disposition. As a result, TCEH and its subsidiaries may not be allowed, under the terms of TCEH's and their indebtedness, to use proceeds from such dispositions to satisfy all current debt service obligations.

EFH Corp., TCEH's ultimate parent, is highly leveraged and will rely upon TCEH for a significant amount of its cash flows.

EFH Corp. is a holding company and substantially all of its consolidated assets are held by its subsidiaries. As a result of the consummation of the Merger and the financing thereof, EFH Corp. is highly leveraged and its liquidity requirements will be significant, primarily due to debt service requirements and financing costs incurred in connection with the Merger. To meet these debt service requirements, EFH Corp. will rely on loans and dividends from its subsidiaries, including TCEH, which, together with its subsidiaries, represented 88% and 88% of EFH Corp.'s consolidated revenues for the year ended December 31, 2006 and the nine-month period ended September 30, 2007, respectively.

As a result of the ring-fencing measures undertaken by Oncor, EFH Corp. will depend on distributions from TCEH.

Upon the consummation of the Merger, Texas Holdings and Oncor, which is a subsidiary of EFH Corp. but not a subsidiary of TCEH, implemented certain structural and operational measures based on principles articulated by rating agencies and commitments made by Texas Holdings and Oncor to the PUCT and the FERC that are intended to further separate Oncor from Texas Holdings and its other subsidiaries in order to mitigate Oncor's credit exposure to those entities and to reduce the risk that the assets and liabilities of Oncor would be substantively consolidated with the assets and liabilities of Texas Holdings or any of its other subsidiaries in the event of a bankruptcy of one or more of those entities.

The creditors of TCEH will not be entitled to look to the assets, financial condition or results of operations of Oncor for payments on its indebtedness. As part of the ring-fencing measures undertaken by Oncor, a majority of the members of the board of directors of Oncor will be independent from EFH Corp. The independent directors will be appointed by the nominating committee of Oncor Holdings, and a majority of the members of Oncor Holdings' nominating committee will be members of Oncor Holdings' board of directors who are independent from EFH Corp. The organizational documents of Oncor give these independent directors the express right, acting by majority vote, to prevent distributions to EFH Corp., if the directors determine that it is in the best interests of Oncor to retain such amounts to meet expected future requirements. Accordingly, there can be no assurance that Oncor will make any distributions to EFH Corp. which might in turn be contributed to TCEH, and EFH Corp. will therefore rely on distributions from TCEH for a significant amount of its liquidity.

Despite current indebtedness levels, TCEH and its subsidiaries may still be able to incur substantially more indebtedness. This could further exacerbate the risks associated with TCEH's substantial financial leverage.

TCEH and its subsidiaries may be able to incur substantial additional indebtedness in the future because the terms of its and their debt agreements do not prohibit TCEH or its subsidiaries from doing so. Subject to covenant compliance and other conditions, the debt agreements would permit additional borrowing. If new indebtedness is added to TCEH's and its subsidiaries' current indebtedness levels, the related risks that TCEH and its subsidiaries now face could intensify.

Risks Relating to TCEH's Businesses

TCEH's businesses are subject to ongoing complex governmental regulations and legislation that have impacted, and may in the future impact, TCEH's business and/or results of operations.

TCEH's businesses operate in changing market environments influenced by various state and federal legislative and regulatory initiatives regarding the restructuring of the energy industry, including competition in the generation and sale of electricity. TCEH will need to continually adapt to these changes. For example, the Texas retail electricity market became competitive as of January 1, 2002, and the introduction of competition has resulted in, and may continue to result in, declines in customer counts and sales volumes.

TCEH's businesses are subject to changes in state and federal laws (including PURA, the Federal Power Act, the Atomic Energy Act, the Public Utility Regulatory Policies Act of 1978, the Clean Air Act and the Energy Policy Act of 2005) and changing governmental policy and regulatory actions (including those of the PUCT, the Electric Reliability Organization, the Texas Regional Entity, the Texas Railroad Commission, the TCEQ, the FERC, the EPA and the NRC) and also the rules, guidelines and protocols of ERCOT with respect to matters including, but not limited to, market structure and design, operation of nuclear generation facilities, construction and operation of other generation facilities, construction and operation of transmission facilities, acquisition, disposal, depreciation and amortization of regulated assets and facilities, recovery of costs and investments, decommissioning costs, market behavior rules, present or prospective wholesale and retail competition and environmental matters. TCEH, along with other market participants, is subject to electricity pricing constraints and market behavior and other competition-related rules and regulations under PURA that are administered by the PUCT and ERCOT, and, with respect to its wholesale power sales outside the ERCOT market, is subject to market behavior and other competition-related rules and regulations under the Federal Power Act that are administered by the FERC. Changes in, revisions to, or reinterpretations of existing laws and regulations (particularly with respect to prices at which TCEH may sell electricity) may have an adverse effect on TCEH's businesses.

Although the recently concluded 2007 Texas Legislative Session closed without passage of legislation that significantly negatively impacted TCEH's businesses, the legislature did adopt several pieces of legislation that, if passed, may have had a material impact on TCEH and its financial prospects, including, for example, legislation that would have:

- required EFH Corp. to separate its subsidiaries into two or three stand-alone companies, which could have resulted in a significant tax cost to EFH Corp. or the sale by EFH Corp. of assets for an amount it would not have considered to be full value;
- required divestiture of significant wholesale power generation assets, which also could have resulted in a significant tax cost to EFH Corp. or the sale by EFH Corp. of assets for an amount it would not have considered to be full value; and
- given new authority to the PUCT to cap retail electric prices.

Although none of this legislation was passed, there can be no assurance that future action of the Texas Legislature, which could be similar or different from the proposals considered by the most recent Texas Legislature, will not have a material adverse effect on TCEH and its financial prospects. In addition, the Sponsor Group has publicly indicated its intention to:

- spend more than $30 million per year over five years to provide relief for low-income residents and to pursue new demand side management initiatives in conservation, energy efficiency and weatherization;
- in the current regulatory system, hold a majority of their ownership in EFH Corp. for more than five years after closing of the Merger; and
- invest significant resources in emerging energy technologies, such as integrated gasification combined cycle coal plants, including an increased commitment to renewable energy.

Litigation or legal proceedings could expose TCEH to significant liabilities, damage TCEH's reputation and have a material adverse effect on TCEH's results of operations, and the litigation environment in which TCEH operates poses a significant risk to its businesses.

TCEH and its subsidiaries are involved in the ordinary course of business in a number of lawsuits involving employment, commercial, environmental and injuries and damages issues, among other matters. TCEH evaluates litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, TCEH establishes reserves and disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from current assessments and estimates. The settlement or resolution of such claims or proceedings may have a material adverse effect on TCEH's results of operations.

In addition, judges and juries in the state of Texas have demonstrated a willingness to grant large verdicts, including punitive damages, to plaintiffs in personal injury, property damage and business tort cases. TCEH and its subsidiaries use legal and appropriate means to contest litigation threatened or filed against it or them, but the litigation environment in the state of Texas poses a significant business risk.

TCEH is also exposed to the risk that it may become the subject of regulatory investigations. For example, in March 2007, the PUCT issued a Notice of Violation ("NOV") stating that the PUCT Staff is recommending an enforcement action, including the assessment of administrative penalties, against EFH Corp. and certain affiliates for alleged market power abuse in ERCOT-administered balancing energy auctions during certain periods of the summer of 2005. The PUCT Staff issued a revised NOV in September 2007, in which the proposed administrative penalty amount was reduced from $210 million to $171 million. The revised NOV was necessary, according to the PUCT Staff, to correct calculation errors in the initial NOV. As revised, the NOV is premised upon the PUCT Staff's allegation that Luminant Energy's bidding behavior was not competitive and increased market participants' costs of balancing energy by approximately $57 million, including approximately $19 million in incremental revenues to TCEH. A hearing requested by Luminant Energy to contest the alleged occurrence of a violation and the amount of the penalty in the NOV was originally scheduled to start in April 2008, but was delayed indefinitely in November 2007 by the presiding administrative law judge due to the need to address pending discovery disputes. While TCEH believes no market power abuse was committed, it is unable to predict the outcome of this matter.

TXU Energy may lose a significant number of retail customers in its historical service territory due to competitive marketing activity by retail electric providers and face competition from incumbent providers outside its historical service territory.

TXU Energy faces competition for customers within its historical service territory. Competitors may offer lower prices and other incentives, which, despite TXU Energy's long-standing relationship with customers, may attract customers away from TXU Energy.

In most retail electric markets outside TXU Energy's historical service territory, TXU Energy's principal competitor may be the retail affiliate of the local incumbent utility company. The incumbent retail affiliates have the advantage of long-standing relationships with their customers, including well-known brand recognition.

In addition to competition from the incumbent utilities and their affiliates, TXU Energy may face competition in all of its service territories from a number of other energy service providers, or other energy industry participants, who may develop businesses that will compete with TXU Energy and nationally branded providers of consumer products and services. Some of these competitors or potential competitors may be larger or better capitalized than TXU Energy. If there is inadequate potential margin in these retail electric markets, it may not be profitable for TXU Energy to compete in these markets.

TCEH's revenues and results of operations may be negatively impacted by decreases in market prices for power, decreases in natural gas prices, and/or decreases in market heat rates.

TCEH is not guaranteed any rate of return on its capital investments in its competitive businesses. TCEH markets and trades electricity and natural gas, including electricity from its own generation facilities and generation contracted from third parties, as part of its wholesale markets management operation. TCEH's results of operations depend in large part upon market prices for electricity, natural gas, lignite, uranium and coal in its regional market and other competitive markets and upon prevailing retail electricity rates, all of which may be impacted by actions of regulatory authorities in addition to market forces. Market prices may fluctuate substantially over relatively short periods of time. Demand for electricity can fluctuate dramatically, creating periods of substantial under- or over-supply. During periods of over-supply, prices might be depressed. Also, at times there may be political pressure, or pressure from regulatory authorities with jurisdiction over wholesale and retail energy commodity and transportation rates, to impose price limitations, bidding rules and other mechanisms to address volatility and other issues in these markets. For example, as a result of Hurricane Katrina, such pressures in September and October of 2005 played a role in TXU Energy's decision to moderate the implementation of a price increase in November and December 2005 and to voluntarily forego an increase in its price-to-beat retail price from January 1, 2006 through April 1, 2006. Further, TXU Energy has agreed to grant price discounts in connection with the Merger and provide price protection through December 2008.

Some of the fuel for Luminant's generation facilities is purchased under short-term contracts or on the spot market. Prices of fuel, including natural gas, may also be volatile, and the price TCEH can obtain for electricity sales may not change at the same rate as changes in fuel costs. In addition, TCEH purchases and sells natural gas and other energy related commodities, and volatility in these markets may affect TCEH's costs incurred in meeting its obligations.

Volatility in market prices for fuel and electricity may result from the following:

- severe or unexpected weather conditions;
- seasonality;
- changes in electricity and fuel usage;
- illiquidity in the wholesale power or other markets;
- transmission or transportation constraints, inoperability or inefficiencies;
- availability of competitively-priced alternative energy sources;
- changes in supply and demand for energy commodities, including nuclear fuel and related enrichment and conversion services;
- changes in generation efficiency and market heat rates;
- outages at Luminant's generation facilities or those of its competitors;
- changes in production and storage levels of natural gas, lignite, coal, crude oil and refined products;
- natural disasters, wars, sabotage, terrorist acts, embargoes and other catastrophic events; and
- federal, state and local energy, environmental and other regulation and legislation.

All of Luminant's generation facilities are located in the ERCOT market, a market with limited interconnections to other markets. Wholesale electricity prices in the ERCOT market generally correlate with the price of natural gas because marginal demand is generally supplied by natural gas-fueled generation plants. Wholesale electricity prices also correlate with market heat rates (a measure of efficiency of the marginal price-setting generator of electricity), which could fall if demand for electricity were to decrease or if additional generation facilities are built in ERCOT. Accordingly, the contribution to earnings and the value of Luminant's baseload (lignite/coal-fueled and nuclear) generation assets, which provided a substantial portion of its supply volumes in 2006, are dependent in significant part upon the price of natural gas and market heat rates. As a result, Luminant's baseload generation assets could significantly decrease in profitability and value if natural gas prices fall or if market heat rates fall.

TCEH's assets or positions cannot be fully hedged against changes in commodity prices and market heat rates, and TCEH's hedging transactions may not work as planned or hedge counterparties may default on their obligations to TCEH

TCEH cannot fully hedge the risk associated with changes in natural gas prices or market heat rates because of the expected useful life of TCEH's generation assets and the size of TCEH's position relative to market liquidity. To the extent TCEH has unhedged positions, fluctuating commodity prices and/or market heat rates can materially impact TCEH's results of operations and financial position, either favorably or unfavorably.

To manage its financial exposure related to commodity price fluctuations, TCEH routinely enters into contracts to hedge portions of its purchase and sale commitments, weather positions, fuel requirements and inventories of natural gas, lignite, coal, crude oil and refined products, and other commodities, within established risk management guidelines. As part of this strategy, TCEH routinely utilizes fixed-price forward physical purchase and sales contracts, futures, financial swaps and option contracts traded in the over-the-counter markets or on exchanges. Although TCEH devotes a considerable amount of management time and effort to the establishment of risk management procedures, as well as the ongoing review of the implementation of these procedures, the procedures in place may not be followed or may not always function as planned and cannot eliminate all the risks associated with these activities. As a result of these and other factors, TCEH cannot precisely predict the impact that risk management decisions may have on its business, results of operations or financial position.

To the extent TCEH engages in hedging and risk management activities, TCEH is exposed to the risk that counterparties that owe it money, energy or other commodities as a result of market transactions will not perform their obligations. Should the counterparties to these arrangements fail to perform, TCEH might be forced to enter into alternative hedging arrangements or honor the underlying commitment at then-current market prices. In such event, TCEH might incur losses in addition to amounts, if any, already paid to the counterparties. ERCOT market participants are also exposed to risks that another ERCOT market participant may default in its obligations to pay ERCOT for power taken, in which case such costs, to the extent not offset by posted security and other protections available to ERCOT, may be allocated to various non-defaulting ERCOT market participants, including TCEH

In connection with its affiliates' hedging and risk management activities, TCEH has guaranteed or indemnified the performance of a portion of its affiliates' obligations relating to such activities. TCEH might not be able to satisfy all of these guarantees and indemnification obligations if they were to come due at the same time. In addition, reductions in credit quality or changes in the market prices of energy commodities could increase the cash collateral required to be posted in connection with hedging and risk management activities, which could materially impact TCEH's liquidity and financial position.

TCEH may suffer material losses, costs and liabilities due to Luminant's ownership and operation of the Comanche Peak nuclear generation plant.

The ownership and operation of a nuclear generation plant involves certain risks. These risks include:

- unscheduled outages or unexpected costs due to equipment, mechanical, structural or other problems;
- inadequacy or lapses in maintenance protocols;
- the impairment of reactor operation and safety systems due to human error;
- the costs of storage, handling and disposal of nuclear materials;
- the costs of procuring nuclear fuel;
- the costs of securing the plant against possible terrorist attacks;
- limitations on the amounts and types of insurance coverage commercially available; and
- uncertainties with respect to the technological and financial aspects of decommissioning nuclear facilities at the end of their useful lives.

The prolonged unavailability of Comanche Peak could materially affect TCEH's financial condition and results of operations, particularly when the cost to produce power at Comanche Peak is significantly less than market wholesale power prices. The following are among the more significant of these risks:

- *Operational Risk* — Operations at any nuclear generation plant could degrade to the point where the plant would have to be shut down. If such degradations were to occur, the process of identifying and correcting the causes of the operational downgrade to return the plant to operation could require significant time and expense, resulting in both lost revenue and increased fuel and purchased power expense to meet supply commitments. Furthermore, a shut-down or failure at any other nuclear generation plant could cause regulators to require a shut-down or reduced availability at Comanche Peak.
- *Regulatory Risk* — The NRC may modify, suspend or revoke licenses and impose civil penalties for failure to comply with the Atomic Energy Act, the regulations under it or the terms of the licenses of nuclear generation facilities. Unless extended, the NRC operating licenses for Comanche Peak Unit 1 and Unit 2 will expire in 2030 and 2033, respectively. Changes in regulations by the NRC could require a substantial increase in capital expenditures or result in increased operating or decommissioning costs.
- *Nuclear Accident Risk* — Although the safety record of Comanche Peak and other nuclear generation plants generally has been very good, accidents and other unforeseen problems have occurred both in the United States and elsewhere. The consequences of an accident can be severe and include loss of life, injury, lasting negative health impact and property damage. Any accident, or perceived accident, could subject TCEH to significant liabilities and damage TCEH's reputation. Any such resulting liability from a nuclear accident could exceed TCEH's resources, including insurance coverage.

The operation and maintenance of electricity generation and delivery facilities involves significant risks that could adversely affect TCEH's results of operations and financial condition.

The operation and maintenance of electricity generation and delivery facilities involves many risks, including, as applicable, start-up risks, breakdown or failure of facilities, lack of sufficient capital to maintain the facilities, the dependence on a specific fuel source or the impact of unusual or adverse weather conditions or other natural events, as well as the risk of performance below expected levels of output, efficiency or reliability, the occurrence of any of which could result in lost revenues and/or increased expenses. A significant number of Luminant's facilities were constructed many years ago. In particular, older generating equipment and transmission and distribution equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to keep operating at peak efficiency or reliability. The risk of increased maintenance and capital expenditures arises from (a) increased starting and stopping of generation equipment due to the volatility of the competitive market, (b) any unexpected failure to generate electricity, including failure caused by breakdown or forced outage and (c) damage to facilities due to storms, natural disasters, wars, terrorist acts and other catastrophic events. Further, TCEH's ability to successfully and timely complete capital improvements to existing facilities or other capital projects is contingent upon many variables and subject to substantial risks. Should any such efforts be unsuccessful, TCEH could be subject to additional costs and/or the write-off of its investment in the project or improvement.

Insurance, warranties or performance guarantees may not cover all or any of the lost revenues or increased expenses, including the cost of replacement power. Likewise, TCEH's ability to obtain insurance, and the cost of and coverage provided by such insurance, could be affected by events outside TCEH's control.

TCEH's cost of compliance with environmental laws and regulations and its commitments, and the cost of compliance with new environmental laws, regulations or commitments could materially adversely affect TCEH's results of operations and financial condition.

TCEH is subject to extensive environmental regulation by governmental authorities. In operating its facilities, TCEH is required to comply with numerous environmental laws and regulations and to obtain numerous governmental permits. TCEH may incur significant additional costs beyond those currently contemplated to comply with these requirements. If TCEH fails to comply with these requirements, it could be subject to civil or criminal liabilities and fines. Existing environmental regulations could be revised or reinterpreted, new laws and regulations could be adopted or become applicable to TCEH or its facilities, and future changes in environmental laws and regulations could occur, including potential regulatory and enforcement developments related to air emissions.

In conjunction with the building of three new generation units, TCEH has committed to reduce emissions of mercury, nitrogen oxide ("NOX") and sulfur dioxide ("SO2") associated with its baseload generation units so that the total of these emissions from both existing and new lignite/coal-fueled units are 20% below 2005 levels. TCEH may incur significantly greater costs than those contemplated in order to achieve this commitment. TCEH may also make new environmental commitments and incur significant additional costs in order to achieve such commitments.

TCEH will put in place a Sustainable Energy Advisory Board that will focus on assisting it in pursuing technology development opportunities that, among other things, are designed to reduce TCEH's impact on the environment. TCEH may incur significant costs in addition to the costs referenced above as it pursues these opportunities.

TCEH may not be able to obtain or maintain all required environmental regulatory approvals. If there is a delay in obtaining any required environmental regulatory approvals or if TCEH fails to obtain, maintain or comply with any such approval, the operation of its facilities could be stopped, curtailed or modified or become subject to additional costs.

In addition, TCEH may be responsible for any on-site liabilities associated with the environmental condition of facilities that it has acquired, leased or developed, regardless of when the liabilities arose and whether they are known or unknown. In connection with certain acquisitions and sales of assets, TCEH may obtain, or be required to provide, indemnification against certain environmental liabilities. Another party could, depending on the circumstances, assert an environmental claim against TCEH or fail to meet its indemnification obligations to TCEH

Increasing attention to potential environmental effects of "greenhouse" gas emissions may result in new regulation and restrictions on emissions of certain gasses that may be contributing to warming the earth's atmosphere. Several bills addressing climate change have been introduced in the U.S. Congress and, in April 2007, the U.S. Supreme Court issued a decision ruling the EPA improperly declined to address carbon dioxide impacts in a rulemaking related to new motor vehicle emissions. While this decision is not directly applicable to power plant emissions, the reasoning of the decision could affect other regulatory programs. The impact on TCEH of any future greenhouse gas legislation or other regulation will depend in large part on the details of the requirements and the timetable for mandatory compliance. Although TCEH continues to assess the financial and operational risks posed by possible future legislative changes pertaining to greenhouse gas emissions, it is currently unable to predict any future impact on its financial condition and operations.

TCEH's growth strategy, including its investment in three new lignite coal-fueled generation facilities, may not be executed as planned which could adversely impact its financial condition and results of operations.

There can be no guarantee that the execution of TCEH's growth strategy will be successful. As discussed below, TCEH's growth strategy is dependent upon many factors. Changes in laws, regulations, markets, costs or other factors could negatively impact the execution of TCEH's growth strategy, including causing management to change the strategy. Even if TCEH is able to execute its growth strategy, it may take longer than expected and costs may be higher than expected.

With respect to Luminant Construction's lignite coal-fueled generation development program, there can be no guarantee that the execution of the program will be successful. While Luminant Construction has experience in operating lignite coal-fueled generation facilities, it has limited experience in developing and constructing such facilities. To the extent construction is not managed efficiently and to a timely conclusion, cost overruns may occur resulting in the overall program costing significantly more than anticipated. This may also result in delays in the expected online dates for the facilities resulting in less overall income than projected. While Luminant Construction believes it can acquire the resources needed to effectively execute this program, it is exposed to the risk that it may not be able to attract and retain skilled labor, at projected rates, for developing and constructing these new facilities.

Luminant Construction's lignite coal-fueled generation development program is subject to changes in laws, regulations and policies that are beyond its control. Changes in law, regulation or policy regarding commodity prices, power prices, electric competition or solid-fuel generation facilities or other related matters could adversely impact this program. In recent months, global warming has received significant media attention, which has resulted in legislators focusing on environmental laws, regulations and policies. Changes in any environmental law, regulation or policy, such as regulations of emissions of carbon dioxide, could adversely impact this program.

Luminant Construction's lignite coal-fueled generation development program is subject to changes in the electricity market, primarily ERCOT for its new build program in Texas, that are beyond its control. If demand growth is less than expected or if other generation companies build new generation assets in ERCOT, Luminant Construction's program could impact market prices of power such that the new generation capacity becomes uneconomical. In addition, any unanticipated reduction in wholesale electricity prices, market heat rates and natural gas prices, which could occur for a variety of reasons, could adversely impact this program. Even if Luminant Construction enters into hedges to reduce such exposures, it would still be subject to the credit risk of its counterparties.

Luminant Construction's lignite coal-fueled generation development program is subject to other risks that are beyond its control. For example, Luminant Construction is exposed to the risk that a change in technology for electricity generation facilities and/or emissions control technologies may make other generation facilities less costly and more attractive than Luminant Construction's new lignite coal-fueled generation facilities. Luminant Construction is subject to risks relating to transmission capabilities and constraints. Luminant Construction is also exposed to the risk that its contractors may default on their obligations to Luminant Construction and compensation for damages received, if any, will not cover its losses.

TXU Energy's retail business is subject to the risk that sensitive customer data may be compromised, which could result in an adverse impact to its reputation and/or the results of operations of the retail business.

TXU Energy's retail business requires access to sensitive customer data in the ordinary course of business. Examples of sensitive customer data are names, addresses, account information, historical electricity usage, expected patterns of use, payment history, credit bureau data, credit and debit card account numbers, drivers license numbers, social security numbers and bank account information. TXU Energy's retail business may need to provide sensitive customer data to vendors and service providers who require access to this information in order to provide services, such as call center operations, to the retail business. If a significant or widely publicized breach occurred, the reputation of TXU Energy's retail business may be adversely affected, customer confidence may be diminished, or TXU Energy's retail business may be subject to legal claims, any of which may contribute to the loss of customers and have a negative impact on the business and/or results of operations of the retail business.

Ongoing performance improvement initiatives may not achieve desired cost reductions and may instead result in significant additional costs if unsuccessful.

The implementation of performance improvement initiatives identified by management may not produce the desired reduction in costs and may result in disruptions arising from employee displacements and the rapid pace of changes to organizational structure and operating practices and processes. Specifically, TCEH is subject to the risk that the joint venture outsourcing arrangement with Capgemini that provides business support services to TCEH or other similar arrangements may not produce the desired cost savings. Should TCEH wish to terminate or modify the arrangements with Capgemini or other providers, or if Capgemini or those other providers become financially unable to perform their obligations, TCEH would incur transition costs, which would likely be significant, to switch to another vendor.

TXU Energy relies on the infrastructure of local utilities or independent transmission system operators to provide electricity to, and to obtain information about, its customers. Any infrastructure failure could negatively impact customer satisfaction and could have a material negative impact on its business and results of operations.

TXU Energy depends on transmission and distribution facilities owned and operated by unaffiliated utilities, as well as Oncor's facilities, to deliver the electricity it sells to its customers. If transmission capacity is inadequate, TXU Energy's ability to sell and deliver electricity may be hindered, it may have to forgo sales or it may have to buy more expensive wholesale electricity than is available in the capacity-constrained area. For example, during some periods, transmission access is constrained in some areas of the Dallas-Fort Worth metroplex, where TXU Energy has a significant number of customers. The cost to provide service to these customers may exceed the cost to provide service to other customers, resulting in lower profits. In addition, any infrastructure failure that interrupts or impairs delivery of electricity to TXU Energy's customers could negatively impact the satisfaction of its customers with its service.

TXU Energy offers bundled services to its retail customers, with some bundled services offered at fixed prices and for fixed terms. If TXU Energy's costs for these bundled services exceed the prices paid by its customers, TXU Energy's results of operations could be materially adversely affected.

TXU Energy offers its customers a bundle of services that include, at a minimum, electricity plus transmission, distribution and related services. The prices TXU Energy charges for its bundle of services or for the various components of the bundle, any of which may be fixed by contract with the customer for a period of time, could fall below TXU Energy's underlying cost to provide the components.

TXU Energy's retail business is subject to the risk that it will not be able to profitably serve its customers given the announced price protection and price cuts, which could result in an adverse impact to its reputation and/or results of operations of TXU Energy's retail business.

In connection with the Merger, TXU Energy announced a 15% price reduction for residential customers in its historical service territory who have not already switched to one of the many pricing plans other than the basic month-to-month plan. These customers received a six percent reduction beginning in late March 2007, an additional four percent reduction in June 2007 and an additional five percent reduction in October 2007. In addition, TXU Energy announced that it will provide price protection for these customers through December 2008, ensuring that these customers receive the benefits of these savings through two summer seasons of peak energy usage. The prices TXU Energy charges during this period could fall below TXU Energy's underlying cost to provide electricity.

Although the PUCT does not have the right to approve the REP certification pursuant to the Merger, the PUCT may at anytime initiate an investigation into whether TXU Energy has met all of the requirements for REP certification including financial requirements, so that it can maintain its REP certification. Any removal or revocation of a REP certification would mean that TCEH or TXU Energy, as applicable, would no longer be allowed to provide electric service to retail customers.

Changes in technology may reduce the value of Luminant's generation plants and may significantly impact TCEH's business in other ways as well.

Research and development activities are ongoing to improve existing and alternative technologies to produce electricity, including gas turbines, fuel cells, microturbines and photovoltaic (solar) cells. It is possible that advances in these or other technologies will reduce the costs of electricity production from these technologies to a level that will enable these technologies to compete effectively with the traditional generation plants owned by Luminant. While demand for electric energy services is generally increasing throughout the US, the rate of construction and development of new, more efficient generation facilities may exceed increases in demand in some regional electric markets. Consequently, where TCEH has facilities, the profitability and market value of its generation assets could be significantly reduced. Also, electricity demand could be reduced by increased conservation efforts and advances in technology, which could likewise significantly reduce the value of Luminant's generation assets. Changes in technology could also alter the channels through which retail electric customers buy electricity. To the extent self-generation facilities become a more cost-effective option for certain customers, TCEH's revenues could be reduced.

TCEH's future results of operations may be negatively impacted by settlement adjustments determined by ERCOT related to prior periods.

ERCOT is the independent system operator that is responsible for maintaining reliable operation of the bulk electric power supply system in the ERCOT market. Its responsibilities include the clearing and settlement of electricity volumes and related ancillary services among the various participants in the deregulated Texas market. Settlement information is due from ERCOT within two months after the operating day, and true-up settlements are due from ERCOT within six months after the operating day. As a result, TCEH is subject to settlement adjustments from ERCOT related to prior periods, which may result in charges or credits impacting TCEH's future reported results of operations.

TCEH's results of operations and financial condition could be negatively impacted by any development or event beyond TCEH's control that causes economic weakness in the ERCOT market.

TCEH derives substantially all of its revenues from operations in the ERCOT market, which covers approximately 75% of the geographical area in the state of Texas. As a result, regardless of the state of the economy in areas outside the ERCOT market, economic weakness in the ERCOT market could lead to reduced demand for electricity in the ERCOT market. Such a reduction could have a material negative impact on TCEH's results of operations and financial condition.

TCEH's (or any applicable subsidiary's) credit ratings could negatively affect TCEH's (or the pertinent subsidiary's) ability to access capital and could require TCEH or its subsidiaries to post collateral or repay certain indebtedness.

Downgrades in TCEH's or any of its subsidiaries' long-term debt ratings generally cause borrowing costs to increase and the potential pool of investors and funding sources to decrease and might trigger liquidity demands pursuant to the terms of a number of commodity contracts, leases and other agreements. On October 8, 2007, Fitch downgraded TCEH's long term debt ratings and on October 9, 2007, both Moody's and S&P also downgraded TCEH's long term debt ratings.

Most of TCEH's large customers, suppliers and counterparties require an expected level of creditworthiness in order for them to enter into transactions with it. As TCEH's (or an applicable subsidiary's) credit ratings decline, the costs to operate TCEH's businesses will likely increase because counterparties may require the posting of collateral in the form of cash-related instruments, or counterparties may decline to do business with TCEH

TCEH's liquidity needs could be difficult to satisfy under some circumstances, particularly during times of uncertainty in the financial markets and/or during times when there are significant increases in natural gas prices. The inability to access liquidity, particularly on favorable terms, could materially adversely affect TCEH's results of operations and/or financial condition.

TCEH's businesses are capital intensive. TCEH and its subsidiaries rely on access to financial markets as a significant source of liquidity for capital requirements not satisfied by cash-on-hand or operating cash flows. The inability to raise capital on favorable terms, particularly during times of uncertainty in the financial markets similar to that which is currently being experienced in the financial markets, could impact TCEH's ability to sustain and grow its businesses and would likely increase capital costs. TCEH's access to the financial markets could be adversely impacted by various factors, such as:

- changes in financial markets that reduce available credit or the ability to obtain or renew liquidity facilities on acceptable terms;
- economic weakness in the ERCOT market;
- changes in interest rates;
- a deterioration of TCEH's credit or the credit of its subsidiaries or a reduction in TCEH's credit ratings or the credit ratings of its subsidiaries;
- volatility in commodity prices that increases margin or credit requirements;
- a material breakdown in TCEH's risk management procedures; and
- the occurrence of material adverse changes in TCEH's businesses that restrict its ability to access its liquidity facilities.

Although TCEH expects to actively manage the liquidity exposure of existing and future hedging arrangements, given the size of TCEH's long-term hedging program, any significant increase in the price of natural gas could result in TCEH's subsidiaries being required to provide cash or letter of credit collateral in substantial amounts. In addition, any perceived reduction in TCEH's or one of its subsidiary's credit quality could result in clearing agents or other counterparties requesting additional collateral.

In addition, given the size of TCEH's long-term hedging program, any significant increase in the price of natural gas could result in TCEH's subsidiaries being required to provide cash or letter of credit collateral (i.e. margin) in very large amounts. In addition, any perceived reduction in TCEH's or one of its subsidiary's credit quality could result in clearing agents or other counterparties requesting additional margin. In the event TCEH's liquidity facilities are being used largely to support its long-term hedging program as a result of a significant increase in the price of natural gas or significant reduction in credit quality, TCEH and its subsidiaries may have to forego certain capital expenditures or other investments in TCEH's businesses or other business opportunities.

Further, a lack of available liquidity could adversely impact the evaluation of TCEH's and its subsidiaries' creditworthiness by counterparties and rating agencies. In particular, such concerns by existing and potential counterparties could significantly limit TCEH's wholesale markets activities, including its long-term hedging program.

The loss of the services of TCEH's key management and personnel could adversely affect TCEH's ability to operate its businesses.

TCEH's future success will depend on its ability to continue to attract and retain other highly qualified personnel. TCEH competes for such personnel with many other companies, in and outside TCEH's industry, government entities and other organizations. TCEH may not be successful in retaining its current personnel or in hiring or retaining qualified personnel in the future. Additionally, the Merger may have a negative impact on TCEH's ability to attract and retain key management and other employees. TCEH's failure to attract new personnel or retain its existing personnel could have a material adverse effect on TCEH's businesses.

TCEH's future success depends, to a significant extent, on the abilities and efforts of its executive officers and other members of its management team. EFH Corp.'s chief executive officer resigned following the consummation of the Merger, and EFH Corp. has not yet identified a successor. In addition, one or more of TCEH's other executive officers may elect to leave the company as a result of the Merger. TCEH's executive officers have substantial experience and expertise in TCEH's industry, which TCEH has relied upon significantly. TCEH cannot assure you that it will be able to attract and retain new members of management to replace its chief executive officer and any other executive officers that may leave. If TCEH is not successful in doing so, its business may be adversely affected.

The Sponsor Group controls TCEH and may have conflicts of interest with TCEH in the future.

The Sponsor Group indirectly owns approximately 62% of TCEH's capital stock on a fully-diluted basis through their investment in Texas Holdings. As a result, the Sponsor Group has control over TCEH's decisions to enter into any corporate transaction and will have the ability to prevent any transaction that requires the approval of stockholders regardless of whether debt holders believe that any such transactions are in their own best interests.

Additionally, the Sponsor Group is in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with TCEH The Sponsor Group may also pursue acquisition opportunities that may be complementary to TCEH's business and, as a result, those acquisition opportunities may not be available to TCEH So long as the Sponsor Group, or other funds controlled by or associated with the Sponsor Group, continues to indirectly own a significant amount of the outstanding shares of TCEH's common stock, even if such amount is less than 50%, the Sponsor Group will continue to be able to strongly influence or effectively control TCEH's decisions.

SIGNATURE

Texas Competitive Electric Holdings Company LLC has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TEXAS COMPETITIVE ELECTRIC HOLDINGS COMPANY LLC

By /s/ Stan Szlauderbach

Stan Szlauderbach
Senior Vice President and
Controller

Date: November 21, 2007

EXHIBIT A

TEXAS COMPETITIVE ELECTRIC HOLDINGS COMPANY LLC
CONDENSED STATEMENT OF CONSOLIDATED INCOME
(Unaudited)

	Twelve Months Ended September 30, 2007 (millions of dollars)
Operating revenues	$ 8,325
Costs and expenses:	
Fuel, purchased power costs and delivery fees	3,928
Operating costs	627
Depreciation and amortization	325
Selling, general and administrative expenses	585
Franchise and revenue-based taxes	120
Other income	(31)
Other deductions	(50)
Interest income	(324)
Interest expense and related charges	379
Total costs and expenses	5,559
Income before income taxes	2,766
Income tax expense	896
Net income	$ 1,870

EXHIBIT B

TEXAS COMPETITIVE ELECTRIC HOLDINGS COMPANY LLC Consolidated
Adjusted EBITDA Reconciliation

		Twelve months ended September 30, 2007 (Dollars in millions)
Net income	$	1,871
Provision for income taxes		896
Interest Expense		378
Depreciation and amortization		325
EBITDA	$	3,470
Adjustment to EBITDA:		
Interest Income		(325)
Amortization of nuclear fuel		65
Purchase accounting adjustments		-
Impairment of assets and inventory write down		-
Unrealized net loss related to hedging transactions		370
One-time customer appreciation bonus		165
Losses on sales of receivables under the Accounts Receivables Securitization Program		38
Income from discontinued operations, net of tax		-
Extraordinary (gain) or loss, net of tax		-
Cumulative effect of changes in accounting principles, net of tax		-
Non-cash compensation expense (FAS 123R)		3
Severance expense (a)		2
Loss on early extinguishment of debt		-
Transition and business optimization costs (b)		15
Transaction and merger expenses (c)		-
Restructuring & other (d)		(62)
Expenses incurred to upgrade or expand a generation plant (e)		5
Adjusted EBITDA	$	3,746

Footnotes

(a) Severance expense includes amounts incurred related to outsourcing, restructuring and other amounts deemed to be in excess of normal recurring amounts.
(b) Transition and business optimization costs include amounts related to outsourcing initiatives and computer system implementations.
(c) Transaction and merger expenses include costs incurred related to abandoned strategic transactions, new growth initiatives and merger expenses.
(d) Restructuring & other costs relate to restructuring initiatives and other non-recurring activities.
(e) This amount does not include costs incurred to purchase replacement power, which should be included under the definition, as these costs were not historically captured.