Luminant

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CP-201000128
Log # TXX-10016

Ref. # 10 CFR 140.21(e)

February 1, 2010

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

SUBJECT: COMANCHE PEAK STEAM ELECTRIC STATION (CPSES)
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 condensed consolidated financial statements for Texas Competitive Electric Holdings Company LLC as of September 30, 2009 (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, 2009 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. Seawright at (254)897-0140.

Sincerely,

Luminant Generation Company LLC

Rafael Flores

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

M001

Enclosure - Texas Competitive Electric Holdings Company LLC
Condensed Consolidated Financial Statements as of September 30, 2009

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

# TEXAS COMPETITIVE ELECTRIC HOLDINGS COMPANY LLC

## AN ENERGY FUTURE HOLDINGS CORP. ENTERPRISE

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## AS OF SEPTEMBER 30, 2009

## GLOSSARY

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

| | |
|---|---|
| **2008 Audited Financial Statements** | TCEH's audited financial statements for the year ended December 31, 2008 |
| **Adjusted EBITDA** | Adjusted EBITDA means EBITDA adjusted to exclude non-cash items, unusual items and other adjustments allowable under certain debt arrangements of TCEH. Adjusted EBITDA and EBITDA are not recognized terms under GAAP and, thus, are non-GAAP financial measures. 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. |
| **EBITDA** | Refers to earnings (net income) before interest expense, income taxes, depreciation and amortization. See the definition of Adjusted EBITDA above. |
| **EFC Holdings** | Refers to Energy Future Competitive Holdings Company, a direct subsidiary of EFH Corp. and the direct parent of TCEH, and/or its consolidated subsidiaries, depending on context. |
| **EFH Corp.** | Refers to Energy Future Holdings Corp., a holding company, and/or its subsidiaries, depending on context. Its major subsidiaries include TCEH and Oncor. |
| **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 |

| | |
|---|---|
| **GAAP** | generally accepted accounting principles |
| **GWh** | gigawatt-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** | Refers to 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. |
| **Merger** | The transaction referred to in Merger Agreement (Agreement and Plan of Merger, dated February 25, 2007, under which Texas Holdings agreed to acquire EFH Corp.) that was completed on October 10, 2007. |
| **MMBtu** | million British thermal units |
| **Moody's** | Moody's Investors Services, Inc. (a credit rating agency) |
| **NRC** | US Nuclear Regulatory Commission |
| **Oncor** | Refers to Oncor Electric Delivery Company LLC, a direct, majority-owned subsidiary of Oncor Electric Delivery Holdings Company LLC and an indirect subsidiary of EFH Corp., and/or its consolidated bankruptcy-remote financing subsidiary, Oncor Electric Delivery Transition Bond Company LLC, depending on context, that is engaged in regulated electricity transmission and distribution activities. |
| **OPEB** | other postretirement employee benefits |
| **PUCT** | Public Utility Commission of Texas |
| **Purchase accounting** | The purchase method of accounting for a business combination as prescribed by GAAP whereby the cost or "purchase price" of a business combination, including the amount paid for the equity and direct transaction costs are allocated to identifiable assets and liabilities (including intangible assets) based upon their fair values. The excess of the purchase price over the fair values of assets and liabilities is recorded as goodwill. |
| **REP** | retail electric provider |
| **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 |

| | |
|---|---|
| **SG&A** | selling, general and administrative |
| **Sponsor Group** | Collectively, the investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P. (KKR), TPG Capital, L.P. and GS Capital Partners, an affiliate of Goldman Sachs & Co. (See Texas Holdings below.) |
| **TCEH** | Refers to Texas Competitive Electric Holdings Company LLC, a direct, wholly-owned subsidiary of EFC Holdings and an indirect wholly-owned subsidiary of EFH Corp., and/or its subsidiaries, depending on context, that are engaged in electricity generation, wholesale and retail energy markets and development and construction activities. Its major subsidiaries include Luminant and TXU Energy. |
| **TCEH Finance** | Refers to TCEH Finance, Inc., a direct, wholly-owned subsidiary of TCEH, formed for the sole purpose of serving as co-issuer with TCEH of certain debt securities. |
| **TCEH Senior Notes** | Refers collectively to TCEH's 10.25% Senior Notes due November 1, 2015 and 10.25% Senior Notes Series B due November 1, 2015 (collectively, TCEH Cash-Pay Notes) and TCEH's 10.50%/11.25% Senior Toggle Notes due November 1, 2016 (TCEH Toggle Notes). |
| **TCEH Senior Secured Facilities** | Refers collectively to the TCEH Initial Term Loan Facility, TCEH Delayed Draw Term Loan Facility, TCEH Revolving Credit Facility, TCEH Letter of Credit Facility and TCEH Commodity Collateral Posting Facility. See Note 4 to Financial Statements for details of these facilities. |
| **TCEQ** | Texas Commission on Environmental Quality |
| **Texas Holdings** | Refers to Texas Energy Future Holdings Limited Partnership, a limited partnership controlled by the Sponsor Group that owns substantially all of the common stock of EFH Corp. |
| **TXU Energy** | Refers to TXU Energy Retail Company LLC, a direct, wholly-owned subsidiary of TCEH engaged in the retail sale of electricity to residential and business customers. TXU Energy is a REP in competitive areas of ERCOT. |
| **US** | United States of America |

# TEXAS COMPETITIVE ELECTRIC HOLDINGS COMPANY LLC
## CONDENSED STATEMENTS OF CONSOLIDATED INCOME (LOSS)
**(Unaudited)**
**(millions of dollars)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Operating revenues | $ 2,433 | $ 3,258 | $ 6,144 | $ 7,809 |
| Fuel, purchased power costs and delivery fees | (1,187) | (1,923) | (2,987) | (4,646) |
| Net gain (loss) from commodity hedging and trading activities | 123 | 6,045 | 1,003 | (248) |
| Operating costs | (161) | (157) | (504) | (501) |
| Depreciation and amortization | (303) | (296) | (862) | (827) |
| Selling, general and administrative expenses | (192) | (172) | (555) | (496) |
| Franchise and revenue-based taxes | (27) | (26) | (74) | (74) |
| Impairment of goodwill (Note 2) | – | – | (70) | – |
| Other income (Note 12) | 33 | 2 | 38 | 8 |
| Other deductions (Note 12) | (6) | (531) | (19) | (550) |
| Interest income | 21 | 20 | 40 | 45 |
| Interest expense and related charges (Note 12) | (770) | (581) | (1,331) | (1,756) |
| Income (loss) before income taxes | (36) | 5,639 | 823 | (1,236) |
| Income tax (expense) benefit | 11 | (2,010) | (330) | 425 |
| Net income (loss) | (25) | 3,629 | 493 | (811) |
| Net (income) loss attributable to noncontrolling interests | – | – | – | – |
| Net income (loss) attributable to TCEH | $ (25) | $ 3,629 | $ 493 | $ (811) |

See Notes to Financial Statements.

## TEXAS COMPETITIVE ELECTRIC HOLDINGS COMPANY LLC
## CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)
**(Unaudited)**
**(millions of dollars)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Net income (loss) | $ (25) | $ 3,629 | $ 493 | $ (811) |
| Other comprehensive income (loss), net of tax effects: | | | | |
| Cash flow hedges: | | | | |
| Net increase (decrease) in fair value of derivatives (net of tax benefit of $2, $75, $11 and $98) | (4) | (139) | (20) | (182) |
| Derivative value net (gain) loss related to hedged transactions recognized during the period and reported in net income (loss) (net of tax benefit of $21, $22, $53 and $45) | 41 | 41 | 99 | 83 |
| Total adjustments to net income (loss) | 37 | (98) | 79 | (99) |
| Comprehensive income (loss) | 12 | 3,531 | 572 | (910) |
| Comprehensive (income) loss attributable to noncontrolling interests | — | — | — | — |
| Comprehensive income (loss) attributable to TCEH | $ 12 | $ 3,531 | $ 572 | $ (910) |

See Notes to Financial Statements.

# TEXAS COMPETITIVE ELECTRIC HOLDINGS COMPANY LLC
# CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
**(Unaudited)**
**(millions of dollars)**

| | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|
| Cash flows — operating activities: | | |
| Net income (loss) | $ 493 | $ (811) |
| Adjustments to reconcile net income (loss) to cash provided by operating activities: | | |
| Depreciation and amortization | 1,298 | 1,153 |
| Deferred income tax expense (benefit) – net | 158 | (390) |
| Impairment of goodwill (Note 2) | 70 | — |
| Impairment of emission allowances intangible assets | — | 501 |
| Charge related to Lehman bankruptcy (Note 12) | — | 26 |
| Unrealized net (gains) losses from mark-to-market valuations of commodity positions | (713) | 221 |
| Unrealized net gains from mark-to-market valuations of interest rate swaps | (527) | (36) |
| Bad debt expense | 87 | 57 |
| Stock-based incentive compensation expense | 5 | 7 |
| Reversal of use tax accrual (Note 12) | (23) | — |
| Other - net | 5 | 27 |
| Changes in operating assets and liabilities: | | |
| Margin deposits — net | 260 | (236) |
| Other operating assets and liabilities | 364 | 344 |
| Cash provided by operating activities | 1,477 | 863 |
| Cash flows — financing activities: | | |
| Issuances of long-term debt securities: | | |
| Pollution control revenue bonds | — | 242 |
| Other long-term debt (Note 4) | 522 | 1,035 |
| Repayments/repurchases of long-term debt/securities: | | |
| Pollution control revenue bonds | — | (242) |
| Other long-term debt (Note 4) | (215) | (155) |
| Increase in short-term borrowings (Note 4) | — | 2,032 |
| Decrease in income tax-related note payable to Oncor | (26) | (25) |
| Contributions from noncontrolling interests (Note 6) | 42 | – |
| Advances from affiliates | (3) | 7 |
| Debt discount, financing and reacquisition expenses | (33) | (4) |
| Other - net | — | 33 |
| Cash provided by financing activities | 287 | 2,923 |
| Cash flows — investing activities: | | |
| Net loans to affiliates | (532) | (388) |
| Capital expenditures | (1,106) | (1,402) |
| Nuclear fuel purchases | (157) | (112) |
| Money market fund redemptions (investments) | 142 | (242) |
| Reduction of restricted cash related to letter of credit facility (Note 4) | 115 | – |
| Reduction of restricted cash related to pollution control revenue bonds | — | 29 |
| Transfer of cash collateral from (to) custodian agent | 3 | (20) |
| Proceeds from sales of environmental allowances and credits | 22 | 30 |
| Purchases of environmental allowances and credits | (23) | (18) |
| Proceeds from sales of nuclear decommissioning trust fund securities | 2,972 | 747 |
| Investments in nuclear decommissioning trust fund securities | (2,983) | (758) |
| Net proceeds from sale of controlling interest in natural gas gathering pipeline business | 40 | — |
| Other - net | 18 | 5 |
| Cash used in investing activities | (1,489) | (2,129) |
| Net change in cash and cash equivalents | 275 | 1,657 |
| Cash and cash equivalents — beginning balance | 479 | 215 |
| Cash and cash equivalents — ending balance | $ 754 | $ 1,872 |

See Notes to Financial Statements.

## TEXAS COMPETITIVE ELECTRIC HOLDINGS COMPANY LLC
## CONDENSED CONSOLIDATED BALANCE SHEETS
**(Unaudited)**
**(millions of dollars)**

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 754 | $ 479 |
| Investments held in money market fund | — | 142 |
| Restricted cash (Note 12) | 1 | 4 |
| Trade accounts receivable — net (Note 3) | 751 | 994 |
| Notes receivable from parents (Note 11) | 1,130 | 598 |
| Inventories (Note 12) | 403 | 361 |
| Commodity and other derivative contractual assets (Note 7) | 2,537 | 2,391 |
| Accumulated deferred income taxes | 82 | 21 |
| Margin deposits related to commodity positions | 158 | 439 |
| Other current assets | 48 | 85 |
| Total current assets | 5,864 | 5,514 |
| Restricted cash (Note 12) | 1,135 | 1,250 |
| Investments (Note 12) | 580 | 483 |
| Property, plant and equipment — net (Note 12) | 20,980 | 20,902 |
| Goodwill (Note 2) | 10,252 | 10,322 |
| Intangible assets — net (Note 2) | 2,658 | 2,774 |
| Commodity and other derivative contractual assets (Note 7) | 1,153 | 962 |
| Other noncurrent assets, principally unamortized debt issuance costs | 675 | 750 |
| Total assets | $ 43,297 | $ 42,957 |
| **LIABILITIES AND MEMBERSHIP INTERESTS** | | |
| Current liabilities: | | |
| Short-term borrowings (Note 4) | $ 900 | $ 900 |
| Advances from parent | 1 | 4 |
| Long-term debt due currently (Note 4) | 200 | 261 |
| Trade accounts payable — nonaffiliates | 589 | 1,000 |
| Trade accounts and other payable to affiliates | 227 | 168 |
| Commodity and other derivative contractual liabilities (Note 7) | 2,535 | 2,730 |
| Margin deposits related to commodity positions | 504 | 525 |
| Accrued income taxes payable to parent (Note 11) | 146 | 33 |
| Accrued taxes other than income | 94 | 70 |
| Accrued interest | 489 | 310 |
| Other current liabilities | 323 | 276 |
| Total current liabilities | 6,008 | 6,277 |
| Accumulated deferred income taxes | 5,411 | 5,249 |
| Commodity and other derivative contractual liabilities (Note 7) | 1,343 | 2,095 |
| Notes or other liabilities due affiliates (Note 11) | 227 | 254 |
| Long-term debt, less amounts due currently (Note 4) | 29,702 | 29,209 |
| Other noncurrent liabilities and deferred credits (Note 12) | 2,642 | 2,527 |
| Total liabilities | 45,333 | 45,611 |
| Commitments and Contingencies (Note 5) | | |
| Membership interests (Note 6): | | |
| TCEH membership interests | (2,078) | (2,654) |
| Noncontrolling interests in subsidiaries | 42 | — |
| Total membership interests | (2,036) | (2,654) |
| Total liabilities and membership interests | $ 43,297 | $ 42,957 |

See Notes to Financial Statements.

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

## 1. BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

***Description of Business***

TCEH is a Dallas-based holding company for subsidiaries engaged in competitive electricity market activities largely in Texas, including electricity generation, development and construction of new generation facilities, wholesale energy sales and purchases, commodity risk management and trading activities, and retail electricity sales. Commodity risk management and allocation of financial resources are performed at the TCEH level; therefore, there are no reportable business segments. TCEH 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.

See "Glossary" for definition of terms and abbreviations.

***Basis of Presentation***

The condensed consolidated financial statements have been prepared in accordance with US GAAP and on the same basis as TCEH's 2008 Audited Financial Statements, with the exception of the adoption of new accounting and disclosure guidance related to derivative instruments and hedging activities, subsequent events and reporting of fair value as discussed below. 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 TCEH's 2008 Audited Financial Statements and related notes. 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. Subsequent events have been evaluated through October 29, 2009, the date these condensed consolidated financial statements were available to be issued.

***Use of Estimates***

Preparation of the financial statements requires 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 fair value measurements. 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***

In August, 2009, the FASB issued guidance on measuring fair value of liabilities, which provides clarification of fair value measurement when there is limited or no observable data available. This new guidance is effective for periods beginning October 1, 2009. TCEH is evaluating the impact of this new guidance, but currently does not expect a material effect on its financial statements.

In June 2009, the FASB issued "The *FASB Accounting Standards Codification*™ and the Hierarchy of Generally Accepted Accounting Principles," which establishes the *FASB Accounting Standards Codification*™ (Codification) as the source of authoritative US GAAP recognized by the FASB to be applied to nongovernmental entities. The Codification was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of the Codification did not affect reported results of operations, financial condition or cash flows. TCEH implemented the Codification in these financial statements.

In June 2009, the FASB issued new guidance that (i) changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated and (ii) requires additional disclosures. This new guidance is effective for periods beginning after November 15, 2009. TCEH is evaluating the impact of this new guidance, including the impact to its sale of receivable program discussed in Note 3 and immediately below.

In June 2009, the FASB issued new guidance regarding accounting for transfers of financial assets that eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets and requires additional disclosures. This new guidance is effective in the first quarter of 2010. TCEH continues to evaluate the impact of this new guidance on its financial statements and footnote disclosures; however, TCEH currently expects that its accounts receivable securitization program discussed in Note 3 will no longer be accounted for as a sale of accounts receivable as a result of the guidance, and the funding under the program will be reported as short-term borrowings. This new guidance will not impact the covenant-related ratio calculations in TCEH's debt agreements.

In May 2009, the FASB issued new guidance related to subsequent events that requires disclosure of the date through which TCEH has evaluated subsequent events related to the financial statements being issued and the basis for that date. This guidance was effective for interim and annual reporting periods ending after June 15, 2009. TCEH's adoption of this guidance as of April 1, 2009 did not affect reported results of operations, financial condition or cash flows, and the required disclosure is provided above in "Basis of Presentation."

In April 2009, the FASB issued new guidance regarding determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. This guidance was effective for interim reporting periods ending after June 15, 2009, and TCEH adopted it as of April 1, 2009. This guidance did not change TCEH's fair value measurement techniques. However, this guidance requires disclosures of additional detail of securities held in TCEH's nuclear decommissioning trust that are provided in Notes 8 and 12.

In April 2009, the FASB issued new guidance regarding the recognition and presentation of other-than-temporary impairments, which changed the guidance for recording impairment of investments in debt securities. This guidance was effective for interim and annual reporting periods ending after June 15, 2009, and is expected to affect many utility companies that hold debt securities in nuclear decommissioning trust funds. However, TCEH's adoption as of April 1, 2009 did not affect the accounting for its nuclear decommissioning trust fund because the trust balance is reported at fair value, with changes in fair value of the trust resulting in changes in Oncor's regulatory asset or liability related to the decommissioning cost. This new guidance also requires the disclosure of information about the fair value of the investments for interim reporting as provided in Note 12.

In April 2009, the FASB issued new guidance requiring the disclosure of summarized financial information about the fair value of financial instruments for interim reporting. This new guidance was effective for interim reporting periods ending after June 15, 2009, and TCEH adopted it as of April 1, 2009. As this new guidance provides only disclosure requirements, the adoption did not have any effect on reported results of operations, financial condition or cash flows. The disclosures are provided in Note 9.

In December 2008, the FASB issued new guidance for employers' disclosures about postretirement benefit plan assets. This new guidance provides enhanced disclosures regarding how investment allocation decisions are made and certain aspects of fair value measurements on plan assets. The required disclosures are intended to provide transparency related to the types of assets and associated risks in an employer's defined benefit pension or other postretirement employee benefits plan and events in the economy and markets that could have a significant effect on the value of plan assets. These new disclosure requirements are effective for fiscal years ending after December 15, 2009. As this new guidance provides only disclosure requirements, the adoption will not have any effect on reported results of operations, financial condition or cash flows.

In March 2008, the FASB issued amended disclosure guidance for derivative instruments and hedging activities. This amended guidance enhances required disclosures regarding derivatives and hedging activities to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. This guidance was effective with reporting for the three months ended March 31, 2009. As this guidance provides only disclosure requirements, the adoption did not have any effect on reported results of operations or financial condition. The disclosures are provided in Note 7.

In December 2007, the FASB issued amended guidance for accounting for noncontrolling interests in consolidated financial statements effective for fiscal years beginning on or after December 15, 2008. This amended guidance requires noncontrolling interests in subsidiaries initially to be measured at fair value and classified as a separate component of equity. Effective January 2009, TCEH classified the noncontrolling interests created as part of the nuclear generation development joint venture formed in the first quarter of 2009 as a separate component of equity in the balance sheet, and reported consolidated net income (loss) includes the net income attributable to noncontrolling interests, the amount of which was immaterial in the period from the formation of the joint venture in January 2009 through September 30, 2009.

## 2. GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

***Goodwill***

Reported goodwill totaled $10.25 billion and $10.32 billion as of September 30, 2009 and December 31, 2008, respectively.

In the first quarter of 2009, TCEH recorded a $70 million goodwill impairment charge. This charge resulted from the completion of fair value calculations supporting the initial $8.0 billion goodwill impairment charge that was recorded in the fourth quarter of 2008. The impairment charge primarily reflected the dislocation in the capital markets during the fourth quarter of 2008 that increased interest rate spreads and the resulting discount rates used in estimating fair values and the effect of declines in market values of debt and equity securities of comparable companies. The impairment determination involved significant assumptions and judgments in estimating TCEH's enterprise value and the fair values of its assets and liabilities. There have been no other goodwill impairments recorded since the Merger.

The calculations supporting the impairment determination utilized models that take into consideration multiple inputs, including commodity prices, debt yields, equity prices of comparable companies and other inputs. Those models were generally used in developing long-term forward price curves for certain commodities and discount rates for determining fair values of certain individual assets and liabilities of TCEH. The fair value measurements resulting from such models are classified as Level 3 measurements consistent with accounting standards related to the determination of fair value (see Note 8).

### *Identifiable Intangible Assets*

Identifiable intangible assets reported in the balance sheet are comprised of the following:

| | As of September 30, 2009 | | | As of December 31, 2008 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Retail customer relationship | $ 463 | $ 194 | $ 269 | $ 463 | $ 130 | $ 333 |
| Favorable purchase and sales contracts | 700 | 340 | 360 | 700 | 249 | 451 |
| Capitalized in-service software | 179 | 23 | 156 | 48 | 13 | 35 |
| Environmental allowances and credits | 988 | 187 | 801 | 994 | 121 | 873 |
| Mining development costs | 19 | 4 | 15 | 19 | 2 | 17 |
| Total intangible assets subject to amortization | $2,349 | $ 748 | 1,601 | $2,224 | $ 515 | 1,709 |
| Trade name (not subject to amortization) | | | 955 | | | 955 |
| Mineral interests (not currently subject to amortization) | | | 102 | | | 110 |
| Total intangible assets | | | $2,658 | | | $2,774 |

Amortization expense related to intangible assets consisted of:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| Intangible Asset (Income Statement line) | 2009 | 2008 | 2009 | 2008 |
| Retail customer relationship (Depreciation and amortization) | $ 21 | $ 13 | $ 64 | $ 39 |
| Favorable purchase and sales contracts (Operating revenues/ fuel, purchased power costs and delivery fees) | 18 | 9 | 91 | 115 |
| Capitalized in-service software (Depreciation and amortization) | 5 | 2 | 11 | 8 |
| Environmental allowances and credits (Fuel, purchased power costs and delivery fees) | 25 | 28 | 66 | 77 |
| Mining development costs (Depreciation and amortization) | 1 | — | 2 | — |
| Total amortization expense | $ 70 | $ 52 | $ 234 | $ 239 |

***Estimated Amortization of Intangible Assets*** — The estimated aggregate amortization expense related to identifiable intangible assets for each of the next five fiscal years is as follows:

| Year | Amount |
|---|---|
| 2009 | $ 323 |
| 2010 | 228 |
| 2011 | 174 |
| 2012 | 138 |
| 2013 | 122 |

## 3. TRADE ACCOUNTS RECEIVABLE AND SALE OF RECEIVABLES PROGRAM

*Sale of Receivables*

TXU Energy participates in an accounts receivable securitization program, the activity under which is accounted for as a sale of accounts receivable in accordance with transfers and servicing accounting standards (see Note 1 for discussion of a new accounting standard effective in the first quarter of 2010). Under the program, TXU Energy (originator) sells trade accounts receivable to TXU Receivables Company, which is a special purpose entity created for the purpose of purchasing receivables from the originator and is a consolidated wholly-owned bankruptcy-remote direct subsidiary of EFH Corp. TXU Receivables Company sells undivided interests in the purchased accounts receivable for cash to special purpose entities established by financial institutions (the funding entities).

Program funding totaled $700 million at September 30, 2009, the maximum amount currently available under the accounts receivable securitization program.

All new trade receivables under the program generated by the originator 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 and 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 originator that was funded by the sale of the undivided interests. The balance of the subordinated notes payable, which is reported in trade accounts receivable, totaled $489 million and $268 million at September 30, 2009 and December 31, 2008, respectively.

The discount from face amount on the purchase of receivables from the originator principally funds program fees paid to the funding entities. The program fees, which are also referred to as losses on sale of the receivables under transfers and servicing accounting standards, consist primarily of interest costs on the underlying financing. The discount also funds a servicing fee paid by TXU Receivables Company to EFH Corporate Services Company, a direct wholly-owned subsidiary of EFH Corp., which provides recordkeeping services and is the collection agent for the program.

Program fee amounts, which are reported in SG&A expenses, were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Program fees | $ 2 | $ 7 | $ 9 | $ 18 |
| Program fees as a percentage of average funding (annualized) | 1.3% | 4.2% | 2.4% | 5.2% |

The trade accounts receivable balance reported in the September 30, 2009 consolidated balance sheet has been reduced by $1.189 billion face amount of retail accounts receivable sold to TXU Receivables Company, partially offset by the inclusion of $489 million of subordinated notes receivable from TXU Receivables Company. Funding under the program increased $284 million and $337 million for the nine month periods ending September 30, 2009 and 2008, respectively. 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 were as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2009 | 2008 |
| Cash collections on accounts receivable | $ 4,660 | $ 4,881 |
| Face amount of new receivables purchased | (5,165) | (5,263) |
| Discount from face amount of purchased receivables (to fund fees paid) | 11 | 22 |
| Program fees paid to funding entities | (9) | (18) |
| Servicing fees paid to EFH Corp. subsidiary for recordkeeping and collection services | (2) | (3) |
| Increase in subordinated notes payable | 221 | 44 |
| Operating cash flows provided to originator under the program | $ (284) | $ (337) |

The program, which expires in October 2013, may be terminated upon the occurrence of a number of specified events, including if 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 funding entities do not waive such event of termination. The thresholds apply to the entire portfolio of sold receivables. In addition, the program may be terminated if TXU Receivables Company or the EFH Corp. subsidiary acting as collection agent defaults in any payment with respect to debt in excess of $50,000 in the aggregate for such entities, or if TCEH, any affiliate of TCEH acting as collection agent other than the EFH Corp. subsidiary, any parent guarantor of the originator or the originator shall default in any payment with respect to debt (other than hedging obligations) in excess of $200 million in the aggregate for such entities. As of September 30, 2009, there were no such events of termination.

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 funding entities in the purchased receivables.

***Trade Accounts Receivable***

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Gross wholesale and retail trade accounts receivable | $ 1,535 | $ 1,474 |
| Retail accounts receivable sold to TXU Receivables Company | (1,189) | (684) |
| Subordinated notes receivable from TXU Receivables Company | 489 | 268 |
| Allowance for uncollectible accounts | (84) | (64) |
| Trade accounts receivable — reported in balance sheet | $ 751 | $ 994 |

Gross trade accounts receivable at September 30, 2009 and December 31, 2008 included unbilled revenues of $449 million and $427 million, respectively.

***Allowance for Uncollectible Accounts Receivable***

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2009 | 2008 |
| Allowance for uncollectible accounts receivable as of beginning of period | $ 64 | $ 24 |
| Increase for bad debt expense | 87 | 57 |
| Decrease for account write-offs | (67) | (46) |
| Charge related to Lehman bankruptcy | — | 26 |
| Allowance for uncollectible accounts receivable as of end of period | $ 84 | $ 61 |

## 4. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

### *Short-Term Borrowings*

At September 30, 2009, TCEH had outstanding short-term borrowings of $900 million at a weighted average interest rate of 3.79%, excluding certain customary fees, at the end of the period. At December 31, 2008, TCEH had outstanding short-term borrowings of $900 million at a weighted average interest rate of 3.95%, excluding certain customary fees, at the end of the period. All short-term borrowings were under the TCEH Revolving Credit Facility.

### *Credit Facilities*

TCEH's credit facilities with cash borrowing and/or letter of credit availability at September 30, 2009 are presented below. The facilities are all senior secured facilities.

| | | At September 30, 2009 | | | |
|---|---|---|---|---|---|
| Authorized Borrowers and Facility | Maturity Date | Facility Limit | Letters of Credit | Cash Borrowings | Availability |
| TCEH Delayed Draw Term Loan Facility (a) | October 2014 | $ 4,100 | $ — | $ 4,085 | $ — |
| TCEH Revolving Credit Facility (b) | October 2013 | 2,700 | 38 | 900 | 1,736 |
| TCEH Letter of Credit Facility (c) | October 2014 | 1,250 | — | 1,250 | — |
| Subtotal TCEH (d) | | $ 8,050 | $ 38 | $ 6,235 | $ 1,736 |
| TCEH Commodity Collateral Posting Facility (e) | December 2012 | Unlimited | $ — | $ — | Unlimited |

(a) Facility was used to fund expenditures for constructing certain new generation facilities and environmental upgrades of existing generation facilities. Availability amount excludes $15 million of commitments from a subsidiary of Lehman Brothers Holding Inc. (such subsidiary, Lehman) that has filed bankruptcy under Chapter 11 of the US Bankruptcy Code. Borrowings are classified as long-term debt.

(b) Facility used for letters of credit and borrowings for general corporate purposes. Borrowings are classified as short-term borrowings. Availability amount includes $141 million of commitments from Lehman that are only available from the fronting banks and the swingline lender and excludes $26 million of requested cash draws that have not been funded by Lehman. All outstanding borrowings under this facility at September 30, 2009 bear interest at LIBOR plus 3.5%, and a commitment fee is payable quarterly in arrears at a rate per annum equal to 0.50% of the average daily unused portion of the facility.

(c) Facility used for issuing letters of credit for general corporate purposes, including, but not limited to, providing collateral support under hedging arrangements and other commodity transactions that are not eligible for funding under the TCEH Commodity Collateral Posting Facility. The borrowings under this facility were drawn at the inception of the facility, are classified as long-term debt, and except for $115 million related to a letter of credit drawn in June 2009, have been retained as restricted cash. Letters of credit totaling $676 million issued as of September 30, 2009 are supported by the restricted cash, and the remaining letter of credit availability totals $459 million.

(d) Pursuant to PUCT rules, TCEH is required to maintain available capacity under its credit facilities to assure adequate credit worthiness of TCEH's REP subsidiaries, including the ability to return retail customer deposits, if necessary. As a result, at September 30, 2009, the total availability under the TCEH credit facilities should be further reduced by $237 million.

(e) Revolving facility used to fund cash collateral posting requirements for specified volumes of natural gas hedges totaling approximately 650 million MMBtu as of September 30, 2009. As of September 30, 2009, there were no borrowings under this facility. See "TCEH Senior Secured Facilities" below for additional information.

***Long-Term Debt***

At September 30, 2009 and December 31, 2008, long-term debt consisted of the following:

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| 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 |
| 8.250% Fixed Series 2001A due October 1, 2030 | 71 | 71 |
| 5.750% Fixed Series 2001C due May 1, 2036, remarketing date November 1, 2011 (a) | 217 | 217 |
| 8.250% Fixed Series 2001D-1 due May 1, 2033 | 171 | 171 |
| 0.450% Floating Series 2001D-2 due May 1, 2033 (b) | 97 | 97 |
| 0.340% Floating Taxable Series 2001I due December 1, 2036 (c) | 62 | 62 |
| 0.450% 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 |
| Trinity River Authority of Texas: | | |
| 6.250% Fixed Series 2000A due May 1, 2028 | 14 | 14 |
| Unamortized fair value discount related to pollution control revenue bonds (d) | (150) | (161) |
| Senior Secured Facilities: | | |
| 3.754% TCEH Initial Term Loan Facility maturing October 10, 2014 (e)(f) | 16,121 | 16,244 |
| 3.754% TCEH Delayed Draw Term Loan Facility maturing October 10, 2014 (e)(f) | 4,085 | 3,562 |
| 3.754% TCEH Letter of Credit Facility maturing October 10, 2014 (f) | 1,250 | 1,250 |
| 0.243% TCEH Commodity Collateral Posting Facility maturing December 31, 2012 (g) | — | — |
| Other: | | |
| 10.25% Fixed Senior Notes due November 1, 2015 | 3,000 | 3,000 |
| 10.25% Fixed Senior Notes Series B due November 1, 2015 | 2,000 | 2,000 |
| 10.50 / 11.25% Senior Toggle Notes due November 1, 2016 | 1,848 | 1,750 |
| 7.000% Fixed Senior Notes due March 15, 2013 | 5 | 5 |
| 7.100% Promissory Note due January 5, 2009 | — | 65 |
| 7.460% Fixed Secured Facility Bonds with amortizing payments through January 2015 | 55 | 67 |
| Capital lease obligations | 158 | 159 |
| Unamortized fair value discount (d) | (5) | (6) |
| Total | 29,902 | 29,470 |
| Less amount due currently | (200) | (261) |
| Total long-term debt | $ 29,702 | $ 29,209 |

(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, 2009. These series are in a daily interest rate mode and are classified as long-term as they are supported by long-term irrevocable letters of credit.

(c) Interest rate in effect at September 30, 2009. This series is in a weekly interest rate mode and is classified as long-term as it is supported by long-term irrevocable letters of credit.

(d) Amount represents unamortized fair value adjustments recorded under purchase accounting.

(e) Interest rate swapped to fixed on $17.55 billion principal amount.

(f) Interest rates in effect at September 30, 2009.

(g) Interest rates in effect at September 30, 2009, excluding quarterly maintenance fee of approximately $11 million. See "Credit Facilities" above for more information.

***Debt-Related Activity in 2009*** — Repayments of long-term debt in 2009 totaling $215 million represented principal payments at scheduled maturity dates as well as other repayments totaling $27 million, principally related to capitalized leases. Payments at scheduled amortization or maturity dates included $123 million repaid under the TCEH Initial Term Loan Facility and $65 million of a TCEH promissory note.

Increases in long-term debt during 2009 totaling $522 million consisted of borrowings under the TCEH Delayed Draw Term Loan Facility, which was fully drawn as of July 2009, to fund expenditures related to construction of new generation facilities and environmental upgrades of existing lignite/coal-fueled generation facilities. In addition, long-term debt increased as a result of the issuance of $98 million of TCEH's 10.50/11.25% Senior Toggle Notes due November 1, 2016 (TCEH Toggle Notes) in lieu of cash interest payments as discussed below.

TCEH has the option every six months at its discretion, ending with the payment due November 1, 2012, to use the payment-in-kind (PIK) feature of its toggle notes in lieu of making cash interest payments. Once TCEH makes a PIK election, the election is valid for each succeeding interest payment period until TCEH revokes the election.

TCEH made its May 2009 interest payment and will make its November 2009 and May 2010 interest payments by using the PIK feature of the TCEH Toggle Notes. During the applicable interest periods, the interest rate on the toggle notes is increased from 10.50% to 11.25%. TCEH increased the aggregate principal amount of the TCEH Toggle Notes by $98 million on May 1, 2009 and will further increase the aggregate principal amount of the TCEH Toggle Notes by approximately $104 million on November 1, 2009 and $110 million on May 1, 2010. The elections increased liquidity as of May 1, 2009 by an amount equal to approximately $92 million and will further increase liquidity as of November 1, 2009 and May 1, 2010 by an amount equal to approximately $97 million and approximately $103 million, respectively, with such amounts constituting the amount of cash interest that otherwise would have been payable on the respective dates, and will increase the expected annual cash interest expense by approximately $33 million, constituting the additional cash interest that will be payable with respect to the $312 million of additional toggle notes.

***TCEH Senior Secured Facilities*** — The applicable rate on borrowings under the TCEH Initial Term Loan Facility, the TCEH Delayed Draw Term Loan Facility, the TCEH Revolving Credit Facility and the TCEH Letter of Credit Facility as of September 30, 2009 is provided in the long-term debt table above and reflects LIBOR-based borrowings.

In August 2009, the Credit Agreement governing the TCEH Senior Secured Facilities was amended to reduce the existing first lien capacity under the TCEH Senior Secured Facilities by $1.25 billion in exchange for the ability for TCEH to issue up to an additional $4 billion of secured notes or loans ranking junior to TCEH's first lien obligations, provided that:

- such notes or loans mature later than the latest maturity date of any of the initial term loans under the TCEH Senior Secured Facilities, and
- any net cash proceeds from any such issuances are used (i) in exchange for, or to refinance, repay, retire, refund or replace indebtedness of TCEH or (ii) to acquire, directly or indirectly, all or substantially all of the property and assets or business of another person or to finance the purchase price, cost of design, acquisition, construction, repair, restoration, replacement, expansion, installation or improvement of certain fixed or capital assets.

In addition, the amended Credit Agreement permits TCEH to, among other things:

- issue new secured notes or loans, which may include, in each case, indebtedness secured on a pari passu basis with the obligations under the TCEH Senior Secured Facilities, so long as, in each case, among other things, the net cash proceeds from any such issuance are used to prepay certain loans under the TCEH Senior Secured Facilities at par;
- agree with individual lenders to extend the maturity of their term loans or extend or refinance their revolving credit commitments under the TCEH Senior Secured Facilities, and pay increased interest rates or otherwise modify the terms of their loans or revolving commitments in connection with such an extension, and
- exclude from the financial maintenance covenant under the TCEH Senior Secured Facilities any new debt issued that ranks junior to TCEH's first lien obligations under the TCEH Senior Secured Facilities.

The TCEH Senior Secured Facilities are unconditionally guaranteed jointly and severally on a senior secured basis by EFC Holdings and subject to certain exceptions, each existing and future direct or indirect wholly-owned US restricted subsidiary of TCEH. The TCEH Senior Secured Facilities, including the guarantees thereof, certain commodity hedging transactions and the interest rate swaps described under "TCEH Interest Rate Hedges" below are secured by (a) substantially all of the current and future assets of TCEH and TCEH's subsidiaries who are guarantors of such facilities and (b) pledges of the capital stock of TCEH and certain current and future direct or indirect subsidiaries of TCEH.

The TCEH Initial Term Loan Facility is required to be repaid in equal quarterly installments in an aggregate annual amount equal to 1% of the original principal amount of such facility (approximately $41 million quarterly), with the balance payable in October 2014. The TCEH Delayed Draw Term Loan Facility is required to be repaid in equal quarterly installments beginning in December 2009 in an aggregate annual amount equal to 1% of the actual principal outstanding under such facility as of such date, with the balance payable in October 2014. Amounts borrowed under the TCEH Revolving Facility may be reborrowed from time to time until October 2013. The TCEH Letter of Credit Facility and TCEH Commodity Collateral Posting Facility will mature in October 2014 and December 2012, respectively.

***TCEH Senior Notes*** — Borrowings under TCEH's and TCEH Finance's (collectively, the Co-Issuers) 10.25% Senior Notes due November 1, 2015 and 10.25% Senior Notes Series B due November 1, 2015 (collectively, TCEH Cash-Pay Notes) bear interest semiannually in arrears on May 1 and November 1 of each year at a fixed rate of 10.25% per annum. Borrowings under the TCEH Toggle Notes bear interest semiannually in arrears on May 1 and November 1 of each year at a fixed rate of 10.50% per annum for cash interest and at a fixed rate of 11.25% per annum for PIK Interest (as defined below). For any interest period until November 1, 2012, the Co-Issuers may elect to pay interest on the notes (i) entirely in cash; (ii) by increasing the principal amount of the notes or by issuing new TCEH Toggle Notes (Payment-in-Kind or PIK Interest); or (iii) 50% in cash and 50% in PIK Interest.

The TCEH Cash-Pay Notes and the TCEH Toggle Notes (collectively, the TCEH Senior Notes) are fully and unconditionally guaranteed on a joint and several basis by TCEH's direct parent, EFC Holdings (which owns 100% of TCEH and its subsidiary guarantors), and by each subsidiary that guarantees the TCEH Senior Secured Facilities.

The Co-Issuers may redeem the TCEH Cash-Pay Notes, in whole or in part, at any time on or after November 1, 2011, or the TCEH Toggle Notes, in whole or in part, at any time on or after November 1, 2012, at specified redemption prices, plus accrued and unpaid interest, if any. In addition, before November 1, 2010, the Co-Issuers may redeem with the cash proceeds of certain equity offerings up to 35% of the aggregate principal amount of TCEH Cash-Pay Notes and TCEH Toggle Notes from time to time at a redemption price of 110.250% and 110.500%, respectively, of their respective aggregate principal amount plus accrued and unpaid interest, if any. The Co-Issuers may also redeem the TCEH Cash-Pay Notes at any time prior to November 1, 2011 or the TCEH Toggle Notes at any time prior to November 1, 2012 at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a "make-whole" premium. Upon the occurrence of a change in control of TCEH, the Co-Issuers must offer to repurchase the TCEH Senior Notes at 101% of their principal amount, plus accrued and unpaid interest, if any.

***TCEH Interest Rate Swap Transactions*** — As of September 30, 2009, TCEH has entered into interest rate swap transactions pursuant to which payment of the floating interest rates on an aggregate of $17.55 billion of senior secured term loans of TCEH were exchanged for interest payments at fixed rates of between 7.3% and 8.3% on debt maturing from 2009 to 2014. Interest rate swaps on an aggregate of $15.05 billion were being accounted for as cash flow hedges related to variable interest rate cash flows until August 29, 2008, at which time these swaps were dedesignated as cash flow hedges as a result of the intent to change the variable interest rate terms of the hedged debt (from three-month LIBOR to one-month LIBOR) in connection with the planned execution of interest rate basis swaps (discussed immediately below) to further reduce the fixed borrowing costs. Based on the fair value of the positions, the cumulative unrealized mark-to-market net losses related to these interest rate swaps totaled $431 million (pre-tax) at the dedesignation date and was recorded in accumulated other comprehensive income. This balance will be reclassified into net income as interest on the hedged debt is reflected in net income. No ineffectiveness gains or losses were recorded.

As of September 30, 2009, TCEH has entered into interest rate basis swap transactions pursuant to which payments at floating interest rates of three-month LIBOR on an aggregate of $18.0 billion principal amount of senior secured term loans of TCEH were exchanged for floating interest rates of one-month LIBOR plus spreads ranging from 0.0625% to 0.353%. These transactions include swaps entered into in the nine months ended September 30, 2009 related to an aggregate $9.55 billion principal amount of senior secured term loans of TCEH and reflect the expiration of swaps in the nine months ended September 30, 2009 that related to an aggregate $4.595 billion principal amount of senior secured term loans of TCEH.

The interest rate swap counterparties are secured by the same collateral package granted to the lenders under the TCEH Senior Secured Facilities. Subsequent to the dedesignation in August 2008 discussed above, changes in the fair value of such swaps are being reported in the income statement in interest expense and related charges, and such unrealized mark-to-market value changes totaled $138 million in net losses and $36 million in net gains in the three months ended September 30, 2009 and 2008, respectively, and $527 million and $36 million in net gains in the nine months ended September 30, 2009 and 2008, respectively. The cumulative unrealized mark-to-market net liability related to the swaps totaled $1.4 billion at September 30, 2009, of which $238 million (pre-tax) was reported in accumulated other comprehensive income.

See Note 7 for discussion of collateral investments related to certain of these interest rate swaps.

## 5. COMMITMENTS AND CONTINGENCIES

### *Generation Development*

Construction of three lignite-fueled generation units in Texas, two units at Oak Grove and one unit at Sandow, is nearing completion. The Sandow unit achieved substantial completion (as defined in the EPC Agreement for the unit) on September 30, 2009, and one Oak Grove unit is in the commissioning and start-up phase.

In connection with the acquisition of the development rights to the Sandow unit, a subsidiary of TCEH (Sandow Power Company LLC, or Sandow Power) became a party to a federal consent decree with, among others, the US Department of Justice in August 2007 (the Consent Decree). A 2007 federal court order that was merged into the Consent Decree requires that, among other things, the Sandow unit commence commercial operation (as defined in the Consent Decree) and achieve and maintain certain emission-related deadlines by August 31, 2009. The Sandow unit met the commercial operation deadline by synchronizing to the ERCOT grid in early July 2009. However, due to unforeseen weather events and equipment malfunctions experienced during commissioning and start-up activities, the Sandow unit was not able to meet the emission-related deadlines by August 31, 2009. Under the terms of the Consent Decree, Sandow Power may request an extension to these deadlines from the federal district court that presides over the Consent Decree for certain force majeure events (including such events as the weather events and equipment malfunctions described above). In September 2009, the federal district court granted Sandow Power's request for force majeure relief and gave Sandow Power an additional sixty-one days from August 31, 2009 to begin achieving compliance with the applicable Consent Decree deadlines.

TCEH has received the air permits for the Sandow and Oak Grove units. However, the issuances of the air permits have been challenged as discussed below under "Litigation Related to Generation Facilities."

Construction work-in-process asset balances for the Oak Grove units totaled approximately \$3.3 billion as of September 30, 2009, which includes the effects of the fair value adjustments related to purchase accounting and capitalized interest. In the unexpected event the development of the Oak Grove units was cancelled due to air permit challenges, the cancellation exposure as of September 30, 2009 totaled \$3.4 billion, which includes the carrying value of the project and up to approximately \$100 million of termination obligations. This estimated exposure amount excludes any potential recovery values for assets acquired to date and for assets already owned prior to executing such agreements that are being utilized in these projects.

*Litigation Related to Generation Facilities*

In September 2007, 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 was filed in the State District Court of Travis County, Texas. Plaintiffs asked that the District Court reverse the TCEQ's approval of the Oak Grove air permit and the 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 the 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 filed a third, joint petition claiming insufficiencies in the Oak Grove application, permit, and process and seeking party status and remand to the SOAH for further proceedings. One of the plaintiffs has asked the District Court to consolidate all these proceedings, and the Attorney General of Texas, on behalf of TCEQ, filed pleas to the jurisdiction seeking dismissal of all but the administrative appeal. In May 2009, the District Court dismissed the claims that contest the merits of the TCEQ's permitting decision, but declined to dismiss the claims that contest the process by which the TCEQ handled the permit application. Oak Grove Management Company LLC (a subsidiary of TCEH) has subsequently intervened in these proceedings and has filed its own pleas to the jurisdiction asking the court to dismiss the remaining collateral attack claims. In October 2009, one of the plaintiffs ended its legal challenge to the permit. TCEH believes the Oak Grove air permit granted by the TCEQ was issued in accordance with applicable law. There can be no assurance that the outcome of these matters will not adversely impact the Oak Grove project.

In June and September 2008, administrative appeals were filed in the State District Court of Travis County, Texas to challenge the administrative action of the TCEQ Executive Director in issuing an air permit alteration for the previously-permitted construction and operation of the Sandow 5 generation facility in Milam County, Texas, and the failure of the TCEQ to overturn that administrative action. Plaintiffs asked that the District Court reverse the issuance of the permit alteration. The Attorney General of Texas, on behalf of TCEQ, is defending the issuance of the permit alteration. Sandow Power has intervened in support of the TCEQ. The plaintiff's brief was filed in late August 2009, and the Attorney General of Texas and Sandow Power have filed responsive briefs. TCEH believes the Sandow 5 air permit alteration administratively issued by the Executive Director of the TCEQ was issued in accordance with applicable law. There can be no assurance that the outcome of these matters will not adversely impact the Sandow 5 project.

In July 2008, the Sierra Club announced that it may sue Luminant, after the expiration of a 60-day waiting period, for violating federal Clean Air Act provisions in connection with Luminant's Martin Lake generation facility. TCEH cannot predict whether the Sierra Club will actually file suit relating to Martin Lake or the outcome of any such proceeding.

*Other Litigation*

In July 2008, Alcoa Inc. filed a lawsuit in Milam County, Texas district court against Luminant Generation and Luminant Mining (wholly-owned subsidiaries of TCEH), later adding EFH Corp., a number of TCEH's subsidiaries, Texas Holdings and Texas Energy Future Capital Holdings LLC as parties to the suit.. The lawsuit makes various claims concerning the operation of the Sandow Unit 4 generation facility and the Three Oaks lignite mine, including claims for breach of contract, breach of fiduciary duty, fraud, tortious interference, civil conspiracy and conversion. The plaintiff requests money damages of no less than $500 million, declaratory judgment, rescission and other forms of equitable relief. An agreed scheduling order is currently in place setting trial for May 2010. While TCEH is unable to estimate any possible loss or predict the outcome of this litigation, it believes the plaintiff's claims made in this litigation are without merit and, accordingly, intends to vigorously defend this litigation.

*Regulatory Investigations and Reviews*

In June 2008, the EPA issued a request for information to TCEH under EPA's authority under Section 114 of the Clean Air Act. The stated purpose of the request is to obtain information necessary to determine compliance with the Clean Air Act, including New Source Review Standards and air permits issued by the TCEQ for the Big Brown, Monticello and Martin Lake generation facilities. The company is cooperating with the EPA and is responding in good faith to the EPA's request, but is unable to predict the outcome of this matter.

*Other Proceedings*

In addition to the above, TCEH is 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*

TCEH has entered into contracts that contain guarantees to outside parties that could require performance or payment under certain conditions. Material guarantees are discussed below.

***Residual value guarantees in operating leases*** — Subsidiaries of TCEH are the lessee under various operating leases that guarantee the residual values of the leased assets. At September 30, 2009, the aggregate maximum amount of residual values guaranteed was approximately $41 million with an estimated residual recovery of approximately $46 million. These leased assets consist primarily of mining equipment and rail cars. The average life of the residual value guarantees under the lease portfolio is approximately four years.

See Note 4 above and Note 12 to Financial Statements in the 2008 Audited Financial Statements for discussion of guarantees and security for certain TCEH indebtedness.

*Letters of Credit*

At September 30, 2009, TCEH had outstanding letters of credit under its credit facilities totaling $714 million as follows:

- $360 million to support risk management and trading margin requirements in the normal course of business, including over-the-counter hedging transactions;
- $208 million to support floating rate pollution control revenue bond debt with an aggregate principal amount of $204 million (the letters of credit are available to fund the payment of such debt obligations and expire in 2014);
- $65 million for collateral funding transactions with counterparties to interest rate swap agreements related to TCEH debt (see Note 7), and
- $81 million for miscellaneous credit support requirements.

***Long-Term Contractual Obligations and Commitments*** — In the nine months ended September 30, 2009, TCEH entered into contractual obligations for fuel for its generation facilities totaling approximately $320 million to purchase nuclear fuel in periods between 2010 and 2020 and totaling approximately $153 million to purchase coal in periods between 2010 and 2012.

## 6. MEMBERSHIP INTERESTS

***Dividend Restrictions*** — The TCEH Senior Secured Facilities and Indenture include covenants that, among other things and subject to certain exceptions, generally restrict TCEH's ability to pay dividends or make other distributions in respect of its membership interests. Thus, all of TCEH's net income is restricted from being used to make distributions or loans to its parent companies, EFC Holdings or EFH Corp., unless such distributions or loans are expressly permitted under the TCEH Senior Secured Facilities and Indenture. Those agreements generally permit TCEH to make unlimited distributions or loans to its parent companies for corporate overhead costs, SG&A expenses, taxes and principal and interest payments and contain certain investment and dividend baskets that would allow TCEH to make additional distributions and/or loans to its parent companies up to the amount of such baskets. The TCEH Senior Secured Facilities generally restrict TCEH from making any distribution to any of its parent companies for the ultimate purpose of making a distribution to Texas Holdings unless at the time, and after giving effect to such distribution, its consolidated total debt (as defined in the TCEH Senior Secured Facilities) to Adjusted EBITDA would be equal to or less than 6.5 to 1.0.

In addition, under applicable law, TCEH would be prohibited from paying any distributions to EFC Holdings to the extent that immediately following payment of such distribution, TCEH's liabilities would exceed the fair value of its assets.

TCEH has not paid any cash distributions subsequent to the Merger.

***Noncontrolling Interests***

In connection with the filing of a combined operating license application with the NRC for two new nuclear generation units, in January 2009, TCEH and Mitsubishi Heavy Industries Ltd. (MHI) formed a joint venture, known as Comanche Peak Nuclear Power Company LLC, to further the development of the two new nuclear generation units using MHI's US–Advanced Pressurized Water Reactor technology. Under the terms of the joint venture agreement, a subsidiary of TCEH owns an 88% interest in the venture and a subsidiary of MHI owns a 12% interest. This joint venture is a variable interest entity, and a subsidiary of TCEH is considered the primary beneficiary under consolidations accounting standards.

***Membership Interests***

The following table presents the changes in membership interests for the nine months ended September 30, 2009:

| | TCEH Membership Interests | | | |
|---|---|---|---|---|
| | Capital Accounts | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interests (a) | Total Membership Interests |
| Balance at December 31, 2008 | $ (2,418) | $ (236) | $ — | $(2,654) |
| Net income | 493 | — | — | 493 |
| Net effect of cash flow hedges (net of tax) | — | 79 | — | 79 |
| Effects of employee stock-based incentive compensation plans | 5 | — | — | 5 |
| Investment in subsidiary by noncontrolling interests | — | — | 42 | 42 |
| Other | — | (1) | — | (1) |
| Balance at September 30, 2009 | $ (1,920) | $ (158) | $ 42 | $(2,036) |

(a) See Note 1 for discussion of adoption of amended guidance for accounting for noncontrolling interests in consolidated financial statements.

## 7. COMMODITY AND OTHER DERIVATIVE CONTRACTUAL ASSETS AND LIABILITIES

***Risk Management Hedging Strategy***

TCEH enters into physical and financial derivative instruments, such as options, swaps, futures and forward contracts, primarily to manage commodity price risk and interest rate risk exposure. TCEH's principal activities involving derivatives consist of a long-term hedging program and the hedging of interest costs on its long-term debt. See Note 8 for a discussion of the fair value of all derivatives.

***Long-Term Hedging Program*** — TCEH has a long-term hedging program designed to reduce exposure to changes in future electricity prices due to changes in the price of natural gas, thereby hedging future revenues from electricity sales and related cash flows. In ERCOT, the wholesale price of electricity is correlated to the price of natural gas. Under the program, TCEH has entered into market transactions involving natural gas-related financial instruments and has sold forward natural gas over the next five years. These transactions are intended to hedge a majority of electricity price exposure related to expected baseload generation for this period. Changes in the fair value of the instruments under the long-term hedging program are reported in the income statement in net gain (loss) from commodity hedging and trading activities.

***Interest Rate Swap Transactions*** — Interest rate swap agreements are used to reduce exposure to interest rate changes by converting floating-rate debt to a fixed basis, thereby hedging future interest costs and related cash flows. Interest rate basis swaps are used to effectively reduce the hedged borrowing costs. Changes in the fair value of the swaps are recorded as unrealized gains and losses in interest expense and related charges. See Note 4 for additional information about these and other interest rate swap agreements.

***Other Commodity Hedging and Trading Activity*** — In addition to the long-term hedging program, TCEH enters into derivatives, including electricity, natural gas, fuel oil and coal instruments, generally for shorter-term hedging purposes. To a limited extent, TCEH also enters into derivative transactions for proprietary trading purposes, principally in natural gas and electricity markets.

As of September 30, 2009, 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 through 2009.

The following table provides detail of commodity and other derivative contractual assets and liabilities as presented in the balance sheet at September 30, 2009:

| | Derivatives not under hedge accounting | | | | Cash flow hedges | |
|---|---|---|---|---|---|---|
| | Derivative assets | | Derivative liabilities | | Derivative liabilities | |
| | Commodity contracts | Interest rate swaps | Commodity contracts | Interest rate swaps | Commodity contracts | Total |
| Current assets | $2,517 | $ 9 | $ 11 | $ — | $ — | $ 2,537 |
| Noncurrent assets | 1,118 | 5 | 30 | — | — | 1,153 |
| Current liabilities | (28) | — | (1,910) | (595) | (2) | (2,535) |
| Noncurrent liabilities | (19) | — | (524) | (800) | — | (1,343) |
| Net assets (liabilities) | $3,588 | $ 14 | $ (2,393) | $ (1,395) | $ (2) | $ (188) |

Margin deposits that contractually offset these derivative instruments are reported separately in the balance sheet and totaled $396 million and $190 million in net liabilities at September 30, 2009 and December 31, 2008, respectively, which do not include the collateral investments related to certain interest rate swaps and commodity positions discussed immediately below. Amounts presented in the above table do not reflect netting of assets and liabilities with the same counterparties under existing netting arrangements. This presentation can result in significant volatility in derivative assets and liabilities because TCEH may enter into offsetting positions with the same counterparties, resulting in both assets and liabilities, and the underlying commodity prices can change significantly from period to period.

In early 2009, EFH Corp. and TCEH entered into collateral funding transactions with counterparties to certain interest rate swap agreements related to TCEH debt. Under the terms of these transactions, which the companies elected to enter into as a cash management measure, as of September 30, 2009 EFH Corp. (parent) has posted $400 million in cash and TCEH has posted $65 million in letters of credit to the counterparties, with the outstanding balance of such collateral earning interest. TCEH had also entered into commodity hedging transactions with one of these counterparties, and under an arrangement effective August 2009, both the interest rate swaps and certain of the commodity hedging transactions with the counterparty are under the same derivative agreement, which continues to be secured by a first-lien interest in the assets of TCEH. At September 30, 2009, the net mark-to-market liability under the derivative agreements exceeded the collateral posted under such agreements. In particular, the net commodity and interest rate swap mark-to-market liability related to the $400 million cash posting totaled $685 million at September 30, 2009. The companies are not required to post any additional collateral to these counterparties, regardless of the net mark-to-market liability under the applicable derivative agreement, and the applicable counterparty will return the cash collateral to the extent the mark-to-market liability under the applicable derivative agreement falls below the funded amount, subject to a $50 million minimum transfer amount. The counterparties are required to return any remaining collateral, along with accrued and unpaid interest, on March 31, 2010.

The following table presents the pre-tax effect of derivatives not under hedge accounting on net income, including realized and unrealized effects, for the three and nine months ended September 30, 2009:

| Derivative (Income statement presentation) | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2009 |
|---|---|---|
| Commodity contracts (Net gain (loss) from commodity hedging and trading activities) | $ 136 | $ 1,026 |
| Interest rate swaps (Interest expense and related charges) | (317) | 16 |
| Net gain (loss) | $ (181) | $ 1,042 |

Results for the three and nine months ended September 30, 2008 include net "day one" losses totaling $10 million and $68 million, respectively, primarily associated with commodity contracts entered into at below market prices. Substantially all of these amounts represent losses associated with related series of transactions involving natural gas financial instruments intended to hedge exposure to future changes in electricity prices. The losses are reported in the income statement in net gain (loss) from commodity hedging and trading activities, consistent with other mark-to-market hedging and trading gains and losses.

The following tables present the pre-tax effect of derivative instruments accounted for as cash flow hedges on net income (loss) and other comprehensive income (loss) (OCI) for the three and nine months ended September 30, 2009:

| Three Months Ended September 30, 2009 | | | |
|---|---|---|---|
| Derivative | Amount of (loss) recognized in OCI (effective portion) | Income statement presentation of gain (loss) reclassified from accumulated OCI into income (effective portion) | Amount |
| Interest rate swaps | $ — | Interest expense and related charges | $ (56) |
| Commodity contracts | (6) | Fuel, purchased power costs and delivery fees | (6) |
| | | Operating revenues | — |
| Total | $ (6) | | $ (62) |

| Nine Months Ended September 30, 2009 | | | |
|---|---|---|---|
| **Derivative** | **Amount of (loss) recognized in OCI (effective portion)** | **Income statement presentation of gain (loss) reclassified from accumulated OCI into income (effective portion)** | **Amount** |
| Interest rate swaps......... | $ — | Interest expense and related charges........................... | $ (140) |
| Commodity contracts.... | (31) | Fuel, purchased power costs and delivery fees........... | (10) |
| | | Operating revenues................................................... | (2) |
| Total.................... | $ (31) | | $ (152) |

There were no ineffectiveness net gains or losses related to transactions currently designated as cash flow hedges in the three and nine months ended September 30, 2009.

Accumulated other comprehensive income related to cash flow hedges at September 30, 2009 totaled $158 million in net losses (after-tax), substantially all of which relates to interest rate swaps. TCEH expects that $81 million of net losses related to cash flow hedges included in accumulated other comprehensive income as of September 30, 2009 will be reclassified into net income during the next twelve months as the related hedged transactions affect net income.

The following table presents the gross notional amounts of derivative volumes at September 30, 2009:

| Derivative type | Notional Volume | Unit of Measure |
|---|---|---|
| Interest rate swaps: | | |
| Floating/fixed ........................................................... | $ 17,550 | Million US dollars |
| Basis ......................................................................... | $ 18,000 | Million US dollars |
| Natural gas: | | |
| Long-term hedge forward sales and purchases (a)...... | 3,522 | Million MMBtu |
| Locational basis swaps............................................... | 909 | Million MMBtu |
| All other..................................................................... | 1,366 | Million MMBtu |
| Electricity...................................................................... | 190,431 | GWh |
| Coal............................................................................... | 7 | Million tons |
| Fuel oil.......................................................................... | 166 | Million gallons |

(a) Represents gross notional forward sales, purchases and options of fixed and basis (price point) transactions in the long-term hedging program. The net amount of these transactions, excluding basis transactions, is 1.7 billion MMBtu.

***Credit Risk-Related Contingent Features***

The agreements that govern TCEH's derivative instrument transactions may contain certain credit risk-related contingent features that could trigger liquidity requirements in the form of cash collateral, letters of credit or some other form of credit enhancement. Certain of those agreements require the posting of collateral if TCEH's credit rating is downgraded by one or more of the credit rating agencies; however, due to TCEH's below investment grade ratings, substantially all of such collateral posting requirements are already effective.

As of September 30, 2009, the fair value of liabilities related to derivative instruments under agreements with credit risk-related contingent features that were not fully cash collateralized totaled $850 million. The liquidity exposure associated with these liabilities was reduced by cash and letter of credit postings with the counterparties totaling $162 million as of September 30, 2009. If all the credit risk-related contingent features related to these derivatives had been triggered, including cross default provisions, as of September 30, 2009, the remaining related liquidity requirement would have totaled $28 million after reduction for net accounts receivable and derivative assets under netting arrangements.

In addition, certain derivative agreements that are collateralized primarily with asset liens include indebtedness cross-default provisions that could result in the settlement of such contracts if there were a failure under other financing arrangements to meet payment terms or to comply with other covenants that could result in the acceleration of such indebtedness. As of September 30, 2009, the fair value of derivative liabilities subject to such cross-default provisions, largely related to interest rate swaps, totaled $1.602 billion (before consideration of the amount of assets under the liens). The liquidity exposure associated with these liabilities was reduced by cash collateral and letters of credit posted with counterparties totaling $483 million (including $417 million posted by EFH Corp.) as of September 30, 2009. If all the credit risk-related contingent features related to these derivatives, including amounts related to cross-default provisions, had been triggered as of September 30, 2009, the remaining related liquidity requirement would have totaled $779 million after reduction for derivative assets under netting arrangements (before consideration of the amount of assets under the liens). See Note 12 of TCEH's 2008 Audited Financial Statements for a description of other obligations that are supported by asset liens.

As discussed immediately above, the aggregate fair values of liabilities under derivative agreements with credit risk-related contingent features, including cross-default provisions, totaled $2.452 billion at September 30, 2009. This amount is before consideration of cash and letter of credit collateral posted, net accounts receivable and derivative assets under netting arrangements and assets under related liens.

Some commodity derivative contracts contain credit risk-related contingent features that do not provide for specific amounts to be posted if the features are triggered. These provisions include material adverse change, performance assurance, and other clauses that generally provide counterparties with the right to request additional credit enhancements. The amounts disclosed above exclude credit risk-related contingent features that do not provide for specific amounts or exposure calculations.

While the disclosures above address TCEH's derivative liabilities, TCEH also manages its counterparty credit exposure with respect to derivative assets.

## 8. FAIR VALUE MEASUREMENTS

Accounting standards related to the determination of fair value define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. TCEH uses a "mid-market" valuation convention (the mid-point price between bid and ask prices) as a practical expedient to measure fair value for the majority of its assets and liabilities subject to fair value measurement on a recurring basis. TCEH primarily uses the market approach for recurring fair value measurements and use valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs.

TCEH categorizes its assets and liabilities recorded at fair value based upon the following fair value hierarchy:

- Level 1 valuations use quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. TCEH's Level 1 assets and liabilities include exchange traded commodity contracts. For example, a significant number of TCEH's derivatives are NYMEX futures and swaps transacted through clearing brokers for which prices are actively quoted.

- Level 2 valuations use inputs, in the absence of actively quoted market prices, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: (a) quoted prices for similar assets or liabilities in active markets, (b) quoted prices for identical or similar assets or liabilities in markets that are not active, (c) inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves observable at commonly quoted intervals and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. TCEH's Level 2 valuations utilize over-the-counter broker quotes, quoted prices for similar assets or liabilities that are corroborated by correlations or other mathematical means and other valuation inputs. For example, TCEH's Level 2 assets and liabilities include forward commodity positions at locations for which over-the-counter broker quotes are available.

- Level 3 valuations use unobservable inputs for the asset or liability. Unobservable inputs are used to the extent observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. TCEH uses the most meaningful information available from the market combined with internally developed valuation methodologies to develop its best estimate of fair value. For example, TCEH's Level 3 assets and liabilities include certain derivatives whose values are derived from pricing models that utilize multiple inputs to the valuations, including inputs that are not observable or easily corroborated through other means.

TCEH utilizes several different valuation techniques to measure the fair value of assets and liabilities, relying primarily on the market approach of using prices and other market information for identical and/or comparable assets and liabilities for those items that are measured on a recurring basis. These methods include, among others, the use of broker quotes and statistical relationships between different price curves.

In utilizing broker quotes, TCEH attempts to obtain multiple quotes from brokers that are active in the commodity markets in which it participates (and requires at least one quote from two brokers to determine a pricing input as observable); however, not all pricing inputs are quoted by brokers. The number of broker quotes received for certain pricing inputs varies depending on the depth of the trading market, each individual broker's publication policy, recent trading volume trends and various other factors. In addition, for valuation of interest rate swaps, TCEH uses a combination of dealer provided market valuations (generally non-binding) and Bloomberg valuations based on month-end interest rate curves and standard rate swap valuation models.

Certain derivatives and financial instruments are valued utilizing option pricing models that take into consideration multiple inputs including commodity prices, volatility factors, discount rates and other inputs. Additionally, when there is not a sufficient amount of observable market data, valuation models are developed that incorporate proprietary views of market factors. Those valuation models are generally used in developing long-term forward price curves for certain commodities. TCEH believes the development of such curves is consistent with industry practice; however, the fair value measurements resulting from such curves are classified as Level 3.

With respect to amounts presented in the following fair value hierarchy table, the fair value measurement of an asset or liability (e.g. a contract) is required to fall in its entirety in one level, based on the lowest level input that is significant to the fair value measurement. Certain assets and liabilities would be classified in Level 2 instead of Level 3 of the hierarchy except for the effects of credit reserves and non-performance risk adjustments, respectively. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability being measured.

At September 30, 2009, assets and liabilities measured at fair value on a recurring basis consisted of the following:

| | Level 1 | Level 2 | Level 3 (a) | Reclassification (b) | Total |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Commodity contracts | $ 1,035 | $ 2,276 | $ 277 | $ 88 | $ 3,676 |
| Interest rate swaps | — | 14 | — | — | 14 |
| Nuclear decommissioning trust – equity securities (c) | 142 | 99 | — | — | 241 |
| Nuclear decommissioning trust – debt securities (c) | — | 216 | — | — | 216 |
| Total assets | $ 1,177 | $ 2,605 | $ 277 | $ 88 | $ 4,147 |
| Liabilities: | | | | | |
| Commodity contracts | $ 1,133 | $ 944 | $ 318 | $ 88 | $ 2,483 |
| Interest rate swaps | — | 1,395 | — | — | 1,395 |
| Total liabilities | $ 1,133 | $ 2,339 | $ 318 | $ 88 | $ 3,878 |

(a) Level 3 assets and liabilities consist primarily of more complex long-term power purchase and sales agreements, including longer-term wind generation purchase contracts and certain natural gas positions (collars) in the long-term hedging program.

(b) Represents the effects of reclassification of the assets and liabilities to conform to the balance sheet presentation of current and long-term assets and liabilities.

(c) The nuclear decommissioning trust investment is included in the Investments line on the balance sheet. See Note 12.

At December 31, 2008, assets and liabilities measured at fair value on a recurring basis consisted of the following:

| | Level 1 | Level 2 | Level 3 (a) | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Commodity contracts | $ 1,010 | $ 2,061 | $ 283 | $ 3,354 |
| Interest rate swaps | — | (1) | — | (1) |
| Nuclear decommissioning trust – equity securities (b) | 109 | 83 | — | 192 |
| Nuclear decommissioning trust – debt securities (b) | — | 193 | — | 193 |
| Total assets | $ 1,119 | $ 2,336 | $ 283 | $ 3,738 |
| Liabilities: | | | | |
| Commodity contracts | $ 1,288 | $ 1,274 | $ 355 | $ 2,917 |
| Interest rate swaps | — | 1,908 | — | 1,908 |
| Total liabilities | $ 1,288 | $ 3,182 | $ 355 | $ 4,825 |

(a) Level 3 assets and liabilities consist primarily of more complex long-term power purchase and sales agreements, including longer-term wind generation purchase contracts and certain natural gas positions (collars) in the long-term hedging program.

(b) The nuclear decommissioning trust investment is included in the Investments line on the balance sheet.

Commodity contracts consist primarily of natural gas, electricity, fuel oil and coal derivative instruments entered into for hedging purposes and include physical contracts that have not been designated "normal" purchases or sales. See Note 7 for further discussion regarding the company's use of derivative instruments.

Interest rate swaps include variable-to-fixed rate swap instruments that are economic hedges of interest on long-term debt as well as interest rate basis swaps designed to effectively reduce the hedged borrowing costs. See Note 4 for discussion of interest rate swaps.

Nuclear decommissioning trust assets represent securities held for the purpose of funding the future retirement and decommissioning of the nuclear generation units. These investments include equity, debt and other fixed-income securities consistent with investment rules established by the NRC and the PUCT.

The following table presents the changes in fair value of the Level 3 assets and liabilities (all related to commodity contracts) for the three and nine months ended September 30, 2009 and 2008:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Balance at beginning of period | $ (72) | $(539) | $ (72) | $(173) |
| Total realized and unrealized gains (losses) (a): | | | | |
| Included in net income (loss) | 42 | 297 | 57 | (48) |
| Included in other comprehensive income (loss) | (6) | (12) | (31) | 3 |
| Purchases, sales, issuances and settlements (net) (b) | (6) | (42) | (15) | (45) |
| Net transfers in and/or out of Level 3 (c) | 1 | 104 | 20 | 71 |
| Balance at end of period | $ (41) | $ (192) | $ (41) | $(192) |
| Net change in unrealized gains (losses) included in net income relating to instruments held at end of period (d) | $ 44 | $213 | $ 61 | $ (33) |

(a) Substantially all changes in values of commodity contracts are reported in the income statement in net gain (loss) from commodity hedging and trading activities.

(b) Settlements represent reversals of unrealized mark-to-market valuations of these positions previously recognized in net income. Purchases and issuances reflect option premiums paid or received.

(c) Includes transfers due to changes in the observability of significant inputs used in valuing derivatives. Transfers in are assumed to transfer in at the beginning of the quarter and transfers out at the end of the quarter, which is when the assessments are performed. Any changes in value during the period are reported as unrealized gains and losses in net gain (loss) from commodity hedging and trading activities.

(d) Includes unrealized gains and losses of instruments held at the end of the period only related to the periods in which the instrument was classified as a Level 3 asset or liability.

## 9. FAIR VALUE OF NONDERIVATIVE FINANCIAL INSTRUMENTS

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

| | September 30, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value (a) | Carrying Amount | Fair Value (a) |
| **On balance sheet assets (liabilities):** | | | | |
| Long-term debt (including current maturities) (b) | $ (29,744) | $ (22,814) | $ (31,666) | $ (21,724) |
| **Off balance sheet assets (liabilities):** | | | | |
| Financial guarantees | $ — | $ (8) | $ — | $ (3) |

(a) Fair value determined in accordance with accounting standards related to the determination of fair value.
(b) Excludes capital leases.

See Notes 7 and 8 for discussion of accounting for financial instruments that are derivatives.

## 10. PENSION AND OTHER POSTRETIREMENT EMPLOYEE BENEFITS

TCEH is a participating employer in the EFH Retirement Plan, a defined benefit pension plan sponsored by EFH Corp. TCEH also participates with EFH Corp. and certain other affiliated subsidiaries of EFH Corp. to offer certain health care and life insurance benefits to eligible employees and their eligible dependents upon the retirement of such employees. The net allocated pension and other postretirement employee benefits (OPEB) costs applicable to TCEH totaled $7 million and $4 million for the three months ended September 30, 2009 and 2008, respectively, and $17 million and $11 million for the nine months ended September 30, 2009 and 2008, respectively.

The discount rates reflected in net pension and OPEB costs in 2009 are 6.90% and 6.85%, respectively. The expected rates of return on pension and OPEB plan assets reflected in the 2009 cost amounts are 8.25% and 7.64%, respectively.

TCEH provided cash contributions totaling $883 thousand to the pension plan and $464 thousand to the OPEB plan in the nine months ended September 30, 2009, and expects to make additional contributions of approximately $287 thousand and $136 thousand, respectively, in the remainder of 2009.

## 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 $308 million and $783 million for the three and nine month periods ended September 30, 2009, respectively, and $292 million and $778 million for the three and nine month periods ended September 30, 2008, 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 $263 million ($36 million reported as trade accounts and other payable to affiliates) at September 30, 2009 and $289 million ($35 million reported as trade accounts and other payable to affiliates) at December 31, 2008.

- TCEH reimburses Oncor for interest expense on Oncor's bankruptcy-remote financing subsidiary's securitization bonds. This interest expense totaled $10 million and $32 million for the three and nine month periods ended September 30, 2009, respectively, and $11 million and $35 million for the three and nine month periods ended September 30, 2008, 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 $17 million and $53 million for the three and nine month periods ended September 30, 2009, respectively, and $15 million and $46 million for the three and nine month periods ended September 30, 2008, respectively.

- Notes receivable from EFH Corp. are payable to TCEH on demand and arise from borrowings used for the working capital and general corporate purposes of EFH Corp. The notes totaled $1.112 billion at September 30, 2009 and $584 million at December 31, 2008. The average daily balance of the notes for the three and nine month periods ended September 30, 2009 was $1.061 billion and $801 million, respectively, and was $480 million and $365 million for the three and nine month periods ended September 30, 2008, respectively. The notes carry interest at a rate based on the one-month LIBOR rate plus 5.00%, and interest income totaled $14 million and $33 million for the three and nine month periods ended September 30, 2009, respectively, and $9 million and $22 million for the three and nine month periods ended September 30, 2008, respectively. TCEH also receives notes from EFC Holdings in exchange for cash to be used for working capital and general corporate purposes of EFC Holdings. The notes totaled $18 million and $14 million at September 30, 2009 and December 31, 2008, respectively, and the average daily balance of the notes for the three and nine month periods ended September 30, 2009 was $19 million and $16 million, respectively, and was $3 million for the three months ended September 30, 2008 and $3 million from the February 2008 issuance date until September 30, 2008. The notes carry interest at a rate based on the one-month LIBOR rate plus 5.00%; interest income totaled $257 thousand and $665 thousand for the three and nine month periods ended September 30, 2009, respectively, and was $91 thousand for the three months ended September 30, 2008 and $155 thousand from the issuance date until September 30, 2008.

- 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 Oncor's net regulatory asset/liability. At September 30, 2009 and December 31, 2008, the excess of the net decommissioning liability over the trust fund balance resulted in a regulatory asset at Oncor of $90 million and $127 million, respectively.

- TCEH had posted cash collateral of $15 million at both September 30, 2009 and December 31, 2008 to Oncor related to interconnection agreements for three generation units being developed by TCEH. The collateral is reported in TCEH's balance sheet in other current assets.

- TCEH has a 53.1% limited partnership interest, with a carrying value of $12 million and $17 million at September 30, 2009 and December 31, 2008, respectively, in an EFH Corp. subsidiary holding software and other computer-related assets. Equity losses related to this interest totaled $1 million and $5 million for the three and nine month periods ended September 30, 2009, respectively, and totaled $2 million and $7 million for the three and nine month periods ended September 30, 2008, 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; however, TCEH's federal income tax and Texas margin tax expense and related balance sheet amounts, including income taxes payable to or receivable from EFH Corp., are recorded as if TCEH files its own income tax returns. As a result, TCEH had income taxes payable to EFH Corp. of $146 million and $33 million at September 30, 2009 and December 31, 2008, respectively.

- 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 TCEH's credit rating being below investment grade, TCEH is required to post collateral support in an amount equal to estimated transition charges over specified time periods. Accordingly, as of September 30, 2009 and December 31, 2008, TCEH had posted letters of credit in the amount of $16 million and $13 million, respectively, for the benefit of Oncor.

- Oncor and Texas Holdings agreed to the terms of a stipulation with major interested parties to resolve all outstanding issues in the PUCT review related to the Merger. As part of this stipulation, TCEH will post a letter of credit in an amount equal to $170 million to secure retail payment obligations to Oncor if two or more of Oncor's credit ratings are below investment grade.

- At the closing of the Merger, TCEH entered into the TCEH Senior Secured Facilities with a syndicate of financial institutions and other lenders. This syndicate included affiliates of GS Capital Partners (a member of the Sponsor Group). In November and December 2007, TCEH offered the TCEH Notes. Affiliates of GS Capital Partners served as initial purchasers in such offerings. Affiliates of GS Capital Partners have from time to time engaged in commercial banking and financial advisory transactions with TCEH in the normal course of business.

- Affiliates of GS Capital Partners are parties to certain commodity and interest rate hedging transactions with TCEH in the normal course of business.

- Affiliates of the Sponsor Group may sell or acquire debt or debt securities issued by TCEH in open market transactions or through loan syndications.

See Note 3 for information regarding the accounts receivable securitization program and related subordinated notes receivable from TXU Receivables Company and Note 4 for guarantees.

## 12. SUPPLEMENTARY FINANCIAL INFORMATION

### *Other Income and Deductions*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Other income: | | | | |
| Reversal of reserve recorded in purchase accounting (a) | $ 23 | $ — | $ 23 | $ — |
| Fee received related to interest rate swap commodity hedge derivative agreement (Note 7) | 6 | — | 6 | — |
| Sales tax refund | 3 | — | 3 | — |
| Mineral rights royalty income | 1 | 1 | 2 | 3 |
| Other | — | 1 | 4 | 5 |
| Total other income | $ 33 | $ 2 | $ 38 | $ 8 |
| Other deductions: | | | | |
| Impairment of emission allowances intangible assets | $ — | $ 499 | $ — | $ 501 |
| Charge related to Lehman bankruptcy (b) | — | 26 | — | 26 |
| Severance charges | — | — | 6 | — |
| Litigation/regulatory settlements | — | — | — | 7 |
| Equity losses - unconsolidated affiliates | 1 | 3 | 5 | 8 |
| Other | 5 | 3 | 8 | 8 |
| Total other deductions | $ 6 | $ 531 | $ 19 | $ 550 |

(a) Reversal of use tax accrual, related to periods prior to the Merger, due to state ruling in the third quarter of 2009.
(b) Reserve established against amounts due (excluding termination related costs) from subsidiaries of Lehman Brothers Holdings Inc. arising from commodity hedging and trading activities.

### *Interest Expense and Related Charges*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Interest (including net amounts settled/ accrued under interest rate swaps) | $ 624 | $ 629 | $ 1,874 | $ 1,893 |
| Unrealized mark-to-market net (gain) loss on interest rate swaps | 138 | (36) | (527) | (36) |
| Amortization of interest rate swap losses at dedesignation of hedge accounting | 56 | 17 | 140 | 17 |
| Amortization of fair value debt discounts resulting from purchase accounting | 4 | 4 | 12 | 11 |
| Amortization of debt issuance costs and discounts | 28 | 41 | 84 | 91 |
| Capitalized interest | (80) | (74) | (252) | (220) |
| Total interest expense and related charges | $ 770 | $ 581 | $ 1,331 | $ 1,756 |

### *Restricted Cash*

| | At September 30, 2009 | | At December 31, 2008 | |
|---|---|---|---|---|
| | Current Assets | Noncurrent Assets | Current Assets | Noncurrent Assets |
| Amounts related to the TCEH Letter of Credit Facility (See Note 4) | $ — | $1,135 | $ — | $1,250 |
| Amounts related to margin deposits held | 1 | — | 4 | — |
| Total restricted cash | $ 1 | $1,135 | $ 4 | $1,250 |

### *Inventories by Major Category*

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Materials and supplies | $ 153 | $ 134 |
| Fuel stock | 222 | 162 |
| Natural gas in storage | 28 | 65 |
| Total inventories | $ 403 | $ 361 |

### *Investments*

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Nuclear decommissioning trust | $ 457 | $ 385 |
| Assets related to employee benefit plans, including employee savings programs, net of distributions | 36 | 35 |
| Land | 42 | 42 |
| Investment in natural gas gathering pipeline business (a) | 31 | — |
| Investment in unconsolidated affiliate | 12 | 17 |
| Miscellaneous other | 2 | 4 |
| Total investments | $ 580 | $ 483 |

(a) A controlling interest in this previously consolidated subsidiary was sold in August 2009.

*Nuclear Decommissioning Trust* — Investments in a trust that will be used to fund the costs to decommission the Comanche Peak nuclear generation plant are carried at fair value. Decommissioning costs are being recovered from Oncor's customers as a delivery fee surcharge over the life of the plant and deposited in the trust fund. Net gains and losses on investments in the trust fund are offset by a corresponding adjustment to a regulatory asset/liability. A summary of investments in the fund follows:

| | September 30, 2009 | | | |
|---|---|---|---|---|
| | Cost (a) | Unrealized gain | Unrealized loss | Fair market value |
| Debt securities (b) | $ 210 | $ 9 | $ (3) | $ 216 |
| Equity securities (c) | 191 | 71 | (21) | 241 |
| Total | $ 401 | $ 80 | $ (24) | $ 457 |

| | December 31, 2008 | | | |
|---|---|---|---|---|
| | Cost (a) | Unrealized gain | Unrealized loss | Fair market value |
| Debt securities (b) | $ 203 | $ 4 | $ (14) | $ 193 |
| Equity securities (c) | 181 | 46 | (35) | 192 |
| Total | $ 384 | $ 50 | $ (49) | $ 385 |

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

(b) The investment objective for debt securities is to invest in a diversified tax efficient portfolio with an overall portfolio rating of AA or above as graded by S&P or Aa2 by Moody's. The debt securities are heavily weighted with municipal bonds. The debt securities had an average coupon rate of 4.15% and 3.77% and an average maturity of 8.3 years and 8.0 years at September 30, 2009 and December 31, 2008, respectively.

(c) The investment objective for equity securities is to invest tax efficiently and to match the performance of the S&P 500 Index.

Debt securities held at September 30, 2009 mature as follows: $79 million in one to five years, $33 million in five to ten years and $104 million after ten years.

### *Property, Plant and Equipment*

As of September 30, 2009 and December 31, 2008, property, plant and equipment of $21.0 billion and $20.9 billion, respectively, was stated net of accumulated depreciation and amortization of $2.4 billion and $1.5 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 rates.

The following table summarizes the changes to the asset retirement liability, reported in other noncurrent liabilities and deferred credits in the balance sheet, during the nine months ended September 30, 2009:

| | |
|---|---|
| Asset retirement liability at January 1, 2009 | $ 859 |
| Additions: | |
| Accretion | 45 |
| Reductions: | |
| Payments, essentially all mining reclamation | (21) |
| Asset retirement liability at September 30, 2009 | $ 883 |

*Exit Liabilities*

As part of purchase accounting, TCEH accrued $38 million in costs expected to be incurred related to the termination and transition of outsourcing arrangements. TCEH incurred $7 million and $16 million of the exit liabilities in the three and nine months ended September 30, 2009, respectively, and the remaining accrual is expected to be settled no later than June 30, 2010, the targeted date of completion of transition of outsourced activities back to TCEH or to service providers.

***Other Noncurrent Liabilities and Deferred Credits***

The balance of other noncurrent liabilities and deferred credits consists of the following:

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Uncertain tax positions (including accrued interest) | $ 980 | $ 864 |
| Asset retirement obligations | 883 | 859 |
| Unfavorable purchase and sales contracts | 707 | 727 |
| Retirement plan and other employee benefits | 57 | 56 |
| Other | 15 | 21 |
| Total other noncurrent liabilities and deferred credits | $ 2,642 | $ 2,527 |

TCEH does not expect the total amount of liabilities recorded related to uncertain tax positions to significantly increase or decrease within the next 12 months. As of September 30, 2009, the federal income tax benefit on the interest accrued on uncertain tax positions is recorded as accumulated deferred income taxes.

*Unfavorable Purchase and Sales Contracts* — The amortization of unfavorable purchase and sales contracts totaled $7 million and $6 million in the three months ended September 30, 2009 and 2008, respectively, and $21 million and $23 million in the nine months ended September 30, 2009 and 2008, respectively. Favorable purchase and sales contracts are recorded as intangible assets (see Note 2).

The estimated amortization of unfavorable purchase and sales contracts for each of the five succeeding fiscal years from December 31, 2008 is as follows:

| Year | Amount |
|---|---|
| 2009 | $27 |
| 2010 | 27 |
| 2011 | 27 |
| 2012 | 27 |
| 2013 | 26 |

### *Supplemental Cash Flow Information*

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2009 | 2008 |
| Cash payments (receipts) related to: | | |
| Interest paid (a) | $ 1,595 | $ 1,731 |
| Capitalized interest | (252) | (220) |
| Interest paid (net of capitalized interest) (a) | 1,343 | 1,511 |
| Income taxes | 39 | 34 |
| Noncash investing and financing activities: | | |
| Issuance of Toggle Notes in lieu of cash interest | 98 | — |
| Noncash construction expenditures (b) | 72 | 155 |
| Capital leases | 15 | 13 |
| Purchase accounting adjustments | — | 26 |

(a) Net of interest received on interest rate swaps.
(b) Represents end of period accruals.