SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(√) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

– OR –

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-3183

TXU Gas Company

A Texas Corporation

I.R.S. Employer Identification No. 75-0399066

ENERGY PLAZA, 1601 BRYAN STREET, DALLAS, TEXAS 75201-3411
(214) 812-4600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes √ No ___

Common Stock outstanding at November 10, 2000: 451,000 shares, par value $0.01 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TXU GAS COMPANY AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
	Millions of Dollars			
OPERATING REVENUES	$ 1,622	$ 952	$ 4,310	$ 2,738
OPERATING EXPENSES				
Energy purchased for resale	1,534	856	3,921	2,368
Operation and maintenance	81	92	263	276
Depreciation and other amortization	15	17	47	49
Goodwill amortization	5	5	16	16
Taxes other than income	14	13	49	49
Total operating expenses	1,649	983	4,296	2,758
OPERATING INCOME (LOSS)	(27)	(31)	14	(20)
OTHER INCOME (DEDUCTIONS) - NET	1	10	53	9
INCOME (LOSS) BEFORE INTEREST, OTHER CHARGES AND INCOME TAXES	(26)	(21)	67	(11)
INTEREST INCOME	4	—	4	1
INTEREST EXPENSE AND OTHER CHARGES	(21)	(19)	(58)	(57)
INCOME (LOSS) BEFORE INCOME TAXES	(43)	(40)	13	(67)
INCOME TAX EXPENSE (BENEFIT)	(14)	(14)	9	(20)
NET INCOME (LOSS)	(29)	(26)	4	(47)
PREFERRED STOCK DIVIDENDS	1	1	3	3
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	$ (30)	$ (27)	$ 1	$ (50)

See Notes to Financial Statements.

TXU GAS COMPANY AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2000	Nine Months Ended September 30, 1999
	Millions of Dollars	
CASH FLOWS – OPERATING ACTIVITIES		
Net income (loss)	$ 4	$ (47)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation and amortization	67	67
Deferred income taxes – net	29	2
Gain from the sale of assets	(53)	(10)
Changes in operating assets and liabilities:		
Accounts receivable	(437)	128
Inventories	(12)	(7)
Accounts payable:		
Parent and affiliates	(10)	7
Other	424	(66)
Interest and taxes accrued	(57)	(11)
Other working capital	(132)	26
Energy marketing risk management assets and liabilities – net	(25)	(93)
Other – net	(7)	(16)
Cash used in operating activities	(209)	(20)
CASH FLOWS – FINANCING ACTIVITIES		
Issuance of common stock	—	250
Retirement of long-term debt	—	(150)
Change in notes payable:		
Banks	—	(2)
Parent	203	1
Cash dividends paid	(3)	(2)
Cash provided by financing activities	200	97
CASH FLOWS – INVESTING ACTIVITIES		
Construction expenditures	(123)	(113)
Proceeds from sale of assets	110	41
Other investments	(5)	(3)
Cash used in investing activities	(18)	(75)
CASH PROVIDED BY DISCONTINUED OPERATIONS	29	6
NET CHANGE IN CASH AND CASH EQUIVALENTS	2	8
CASH AND CASH EQUIVALENTS – BEGINNING BALANCE	6	—
CASH AND CASH EQUIVALENTS – ENDING BALANCE	$ 8	$ 8

See Notes to Financial Statements.

TXU GAS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS

	September 30, 2000 (Unaudited)	December 31, 1999
	Millions of Dollars	
PROPERTY, PLANT AND EQUIPMENT		
Gas distribution and pipeline	$ 1,479	$ 1,378
Other	27	68
Total	1,506	1,446
Less accumulated depreciation	190	142
Net of accumulated depreciation	1,316	1,304
Construction work in progress	65	47
Net property, plant and equipment	1,381	1,351
INVESTMENTS	41	38
GOODWILL (net of accumulated amortization: 2000 – $66; 1999 – $50)	793	809
CURRENT ASSETS		
Cash and cash equivalents	8	6
Accounts receivable (net of allowance for uncollectible accounts: 2000 – $14; 1999 – $8)	785	391
Energy marketing risk management assets	1,035	581
Inventories – at average cost:		
Materials and supplies	9	12
Gas stored underground	104	93
Deferred income taxes	28	29
Other current assets	149	16
Total current assets	2,118	1,128
OTHER ASSETS		
Energy marketing risk management assets	126	27
Regulatory assets	48	45
Deferred income taxes	—	19
Deferred debits	8	16
Total other assets	182	107
Total	$ 4,515	$ 3,433

See Notes to Financial Statements.

TXU GAS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
CAPITALIZATION AND LIABILITIES

	September 30, 2000 (Unaudited)	December 31, 1999
	Millions of Dollars	
CAPITALIZATION		
Common stock (par value – $.01 per share):		
Authorized shares – 100,000,000		
Outstanding shares - 451,000	$ —	$ —
Paid in capital	1,013	1,016
Deficit	(47)	(51)
Total common stock equity	966	965
Preferred stock	75	75
TXU Gas Company obligated, mandatorily redeemable, preferred securities of subsidiary trust holding solely junior subordinated debentures of TXU Gas Company	147	147
Advances from parent	602	385
Long-term debt, less amounts due currently	551	551
Total capitalization	2,341	2,123
CURRENT LIABILITIES		
Notes payable – banks	1	1
Accounts payable:		
Parent and affiliates	26	36
Other	704	280
Energy marketing risk management liabilities	951	525
Interest and taxes accrued	26	86
Other current liabilities	74	80
Total current liabilities	1,782	1,008
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES		
Accumulated deferred income taxes and investment tax credits	19	13
Pensions and other postretirement benefits	147	153
Energy marketing risk management liabilities	114	12
Other deferred credits and noncurrent liabilities	112	124
Total deferred credits and other noncurrent liabilities	392	302
CONTINGENCIES (Note 5)		
Total	$ 4,515	$ 3,433

See Notes to Financial Statements.

TXU GAS COMPANY AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS

TXU Gas Company (TXU Gas) is an integrated natural gas company engaged in the purchase, transmission, distribution and sale of natural gas and energy marketing. TXU Gas is a wholly-owned subsidiary of TXU Corp., a Texas corporation. TXU Corp. is engaged in the generation, purchase, transmission, distribution and sale of electricity; the purchase, transmission, distribution and sale of natural gas; energy services; and telecommunications and other businesses primarily in the United States (US), Europe and Australia.

TXU Gas has sold certain assets that no longer align with its long-term strategy. In May 2000, TXU Gas sold substantially all of the assets of its natural gas processing subsidiary, TXU Processing Company, for $105 million resulting in a pre-tax gain of $53 million ($34 million after-tax).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The condensed consolidated financial statements of TXU Gas and its subsidiaries have been prepared on the same basis as those in its 1999 Form 10-K and, in the opinion of management, all adjustments (constituting only normal recurring accruals) necessary for a fair presentation of the results of operations and financial position have been included therein. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. Certain previously reported amounts have been reclassified to conform to current classifications. All dollar amounts in the condensed consolidated financial statements and tables in the notes are stated in millions of dollars unless otherwise indicated.

There were no items impacting comprehensive income for the periods reported; therefore, comprehensive income is the same as net income.

Changes in Accounting Standards – Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", as extended by SFAS No. 137 (June 1999) and amended by SFAS No. 138 (June 2000), is effective for TXU Gas beginning January 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires the recognition of derivatives as either assets or liabilities in the statement of financial position and the measurement of those instruments at fair value.

The process relating to implementation of SFAS No. 133 has been ongoing since July 1999. To date, all derivatives within TXU Gas have been identified pursuant to SFAS No. 133 requirements. TXU Gas is in the process of designating, documenting and assessing hedging relationships, the majority of which are expected to result in cash-flow hedges, which will require TXU Gas to record derivative assets or liabilities at fair value on its statement of financial position with an offset in Other Comprehensive Income to the extent the hedge is effective. Hedge ineffectiveness will be recorded in earnings. TXU Gas accounts for its trading activities on a mark-to-market basis, which, for the most part, will not be affected by the implementation of SFAS No. 133.

TXU Gas continues to evaluate the impact of SFAS No. 133, as well as the ongoing implementation issues currently being addressed by the Derivatives Implementation Group. As a result, the direct financial impact of the application of hedge accounting and the transition adjustment on TXU Gas' financial position and results of operations has yet to be determined.

3. CAPITALIZATION

TXU Gas Obligated, Mandatorily Redeemable, Preferred Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of TXU Gas (Trust Securities) - At September 30, 2000, a statutory business trust, TXU Gas Capital I, had $147 million of floating rate Trust Securities outstanding. Distributions on these Trust Securities are payable quarterly at an annual floating rate determined quarterly with reference to a three-month LIBOR rate plus a margin. The only assets held by the trust are $155 million principal amount of Floating Rate Junior Subordinated Debentures Series A (Series A Debentures) of TXU Gas. The interest on the Series A Debentures matches the distributions on the Trust Securities. The Series A Debentures will mature on July 1, 2028. TXU Gas has the right to redeem the Series A Debentures and cause the redemption of the Trust Securities in whole or in part on or after July 1, 2003. TXU Gas owns the common securities issued by its subsidiary trust and has effectively issued a full and unconditional guarantee of the trust's securities. At September 30, 2000, TXU Gas had two interest rate swap agreements with respect to floating rate Trust Securities of TXU Gas Capital I, with notional principal amounts of $100 million and $50 million, respectively, that effectively fixed the rate at 6.629% and 6.444%, respectively, per annum to July 1, 2003.

Long-Term Debt - On October 17, 2000, TXU Gas issued $200 million aggregate principal amount of Putable Asset Term Securities due October 15, 2012. The securities have a fixed rate of 7-5/8% from the date of issuance through October 14, 2002. TXU Gas also assigned to a third party the right to call the securities. On October 15, 2002, the securities will be either mandatorily tendered to and purchased by the callholder or mandatorily redeemed by TXU Gas. If the callholder chooses to purchase the securities, TXU Gas may elect to have the securities remarketed for a floating rate period of up to one year, in which case the callholder must purchase the securities at the end of the floating rate period. If the callholder exercises its right to call the securities on October 15, 2002, or at the end of the floating rate period if applicable, the securities will be remarketed at a fixed rate for a ten year period. If the callholder does not purchase the securities on October 15, 2002, TXU Gas will be required to redeem all of the securities for 100% of the aggregate principal amount outstanding plus accrued interest, if any. Proceeds from the debt issuance and the assignment of the call option were used for general corporate purposes, including among other things the repayment of advances from TXU Corp.

4. REGULATION AND RATES

TXU Gas employs a continuing program of rate review for all classes of customers in its regulatory jurisdictions. Rate relief amounting to about $3.5 million in annualized revenue increases, exclusive of changes in gas costs, has been granted in 2000 in addition to about $7.5 million granted in 1999. Rate cases supporting $15.4 million in annualized revenue increases were pending in 52 cities as of September 30, 2000. Additionally, an appeal to the Railroad Commission of Texas (RRC) of actions taken by three cities in the Dallas Distribution System seeks to recover $8 million in annualized revenue deficiencies. A proposal for decision in this matter would grant $5.1 million of this request. A final decision on this matter is expected in the fourth quarter of 2000.

In October 1999, TXU Lone Star Pipeline filed with the RRC a Statement of Intent to change the city gate rate for gas transported for subsequent distribution to residential and commercial customers. The filing requested a general increase in annual revenues of approximately $20 million. In June 2000, the RRC issued a final ruling on TXU Lone Star Pipeline's requested gate rate increase that denied the increase and resulted in a $1.5 million reduction in the city gate rate, but granted certain changes to its tariff structure between demand and commodity rates which should stabilize its revenues. TXU Lone Star Pipeline and the intervenors in the proceeding filed with the RRC motions for rehearing concerning the final ruling. All motions for rehearing have been denied, and no appeals will be filed seeking further review of the RRC final ruling.

5. CONTINGENCIES

In August 1998, the Gracy Fund, L.P. (Gracy Fund) filed suit in the United States District Court for the Northern District of Texas against EEX Corporation (EEX), formerly Enserch Exploration, Inc., TXU Corp., David W. Biegler, Gary J. Junco, Erle Nye, Thomas Hamilton and J. Phillip McCormick. The Gracy Fund sought to represent a class of certain purchasers of the common stock of ENSERCH Corporation (now TXU Gas) and EEX based upon claims of various violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. Also in August 1998, Stan C. Thorne (Thorne) filed suit in the United States District Court for the Southern District of Texas against EEX, TXU Gas, DeGolyer & MacNaughton, David W. Biegler, Gary J. Junco, Fredrick S. Addy and B. K. Irani and sought to represent a certain class of purchasers of common stock of EEX. In December 1998, the United States District Court for the Northern District of Texas issued an Order consolidating the Gracy Fund and the Thorne suits (Consolidated Action). In January 1999, the Gracy Fund *et al.* filed an amended class action complaint in the Consolidated Action against EEX, TXU Gas, David W. Biegler, Gary J. Junco, Thomas Hamilton, J. Philip McCormick, Fredrick S. Addy and B. K. Irani. TXU Corp. and Erle Nye were omitted as defendants pursuant to a tolling agreement. The individual named defendants are current or former officers and/or directors of EEX, and Mr. Biegler has been an officer and director of TXU Gas. The amended complaint alleges violations of provisions of the Securities Act and the Exchange Act. The plaintiff in the Consolidated Action represents a class of persons acquiring stock of ENSERCH Corporation and/or EEX between August 3, 1995 and August 5, 1997, inclusive. The parties to the Consolidated Action entered into an agreement that TXU Gas expects to form the basis of the settlement of this litigation, subject to the completion of confirmatory discovery by the plaintiffs and approval of the Court. The terms of this agreement required TXU Gas to pay $5 million into escrow.

In July 1999, the City of Gatesville, Texas filed suit in the State District Court of Coryell County, Texas, 52nd Judicial District, against TXU Gas Distribution, TXU Gas and other TXU companies, and sought to represent a class of plaintiffs consisting of approximately 490 Texas cities, towns and other municipalities to whom TXU Gas Distribution had paid municipal franchise fees over a period of twenty-five years. The complaint alleges that TXU Gas Distribution concealed information from the cities regarding its revenue data, gross receipts and related charges and fees that were subject to, but not used as a basis for determining, municipal franchise fees owed to the plaintiffs. No amount of damages has been specified in the complaint. While TXU Gas is unable to estimate any possible loss or predict the outcome of this case, TXU Gas Distribution believes the claims are without merit and intends to vigorously defend this suit.

In September 1999, Quinque Operating Company (Quinque) filed suit in the State District Court of Stevens County, Kansas against over 200 gas companies, including TXU Gas and TXU Energy Trading Company, a wholly-owned subsidiary (TXU Energy Trading). Quinque and the other named plaintiffs sought to represent a class of plaintiffs consisting of all similarly situated gas producers, overriding royalty owners, working interest owners and state taxing authorities either from whom defendants had purchased natural gas or who received economic benefit from the sale of such gas since January 1, 1974. The complaint alleges that the defendants have mismeasured both the volume and heat content of natural gas delivered into their pipelines resulting in underpayments to plaintiffs. No amount of damages has been specified in the complaint. While TXU Gas and TXU Energy Trading are unable to estimate any possible loss or predict the outcome of this case, TXU Gas and TXU Energy Trading believe these claims are without merit and intend to vigorously defend this suit.

Financial Guarantees - TXU Gas and/or its subsidiaries are the guarantor on various commitments and obligations of others in an aggregate amount of $9 million at September 30, 2000. TXU Gas is exposed to loss in the event of nonperformance by other parties. However, TXU Gas does not anticipate nonperformance by the counterparties.

General - In addition to the above, TXU Gas and its subsidiaries are involved in various other legal and administrative proceedings the ultimate resolution of which, in the opinion of management, should not have a material effect upon its financial position, results of operations or cash flows.

6. SEGMENT INFORMATION

TXU Gas has two reportable operating segments:

(1) **Gas Pipeline and Distribution** - operations involving the purchase, transmission, distribution and sale of natural gas in Texas; and

(2) **Energy Marketing** - operations involving the purchasing and selling of natural gas and electricity and providing risk management services for the energy industry throughout the US and parts of Canada.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Trade Revenues —				
Gas Pipeline and Distribution	$ 148	$ 146	$ 629	$ 584
Energy Marketing	1,474	804	3,681	2,149
Other	—	2	—	5
Consolidated	$1,622	$ 952	$4,310	$2,738
Affiliated Revenues —				
Gas Pipeline and Distribution	$ 1	$ 7	$ 9	$ 17
Energy Marketing	2	(1)	—	—
Eliminations	(3)	(6)	(9)	(17)
Consolidated	$ —	$ —	$ —	$ —
Net Income (Loss) —				
Gas Pipeline and Distribution	$ (1)	$ (12)	$ 56	$ (3)
Energy Marketing	(19)	(14)	(31)	(30)
Other	(9)	—	(21)	(14)
Consolidated	$ (29)	$ (26)	$ 4	$ (47)

INDEPENDENT ACCOUNTANTS' REPORT

TXU Gas Company:

We have reviewed the accompanying condensed consolidated balance sheet of TXU Gas Company and subsidiaries (TXU Gas) as of September 30, 2000, and the related condensed statements of consolidated operations for the three-month and nine-month periods ended September 30, 2000 and 1999, and the condensed statements of consolidated cash flows for the nine-month periods ended September 30, 2000 and 1999. These financial statements are the responsibility of TXU Gas management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of TXU Gas as of December 31, 1999, and the related statements of consolidated operations, comprehensive loss, cash flows and common stock equity for the year then ended (not presented herein); and in our report dated February 16, 2000, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1999, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

Dallas, Texas
November 10, 2000

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

BUSINESS

TXU Gas Company (TXU Gas) has sold certain assets that no longer align with its long-term strategy. In May 2000, TXU Gas sold substantially all of the assets of its natural gas processing subsidiary, TXU Processing Company, for $105 million resulting in a pre-tax gain of $53 million ($34 million after-tax).

Although the price of natural gas has increased significantly in 2000, the city gate rate for the cost of gas TXU Gas Distribution ultimately delivers to residential and commercial customers is established by the Railroad Commission of Texas and provides for full recovery of the actual cost of gas delivered.

RESULTS OF OPERATIONS

OVERVIEW

Three Months Ended September 30, 2000

For the three months ended September 30, 2000, TXU Gas had a net loss of $29 million compared with a net loss of $26 million for the three months ended September 30, 1999. Results for the third quarter of 2000 reflect improved gas distribution and pipeline results partially offset by less favorable energy marketing results. Third quarter 1999 results included a $3 million contribution to earnings from the gas processing business sold in May 2000 and an after-tax gain of $6 million from the sale of assets.

Operating revenues for the third quarter of 2000 increased by $670 million and energy purchased for resale increased by $678 million from the 1999 period primarily as a result of trading activities in the Energy Marketing segment. Trading revenues and energy purchased for resale reflect somewhat higher volumes, but the increases were primarily the result of a significant increase in the price of natural gas over the prior-year period. Higher operation and maintenance expenses in the Energy Marketing segment were more than offset by cost reductions for gas distribution and pipeline operations and the elimination of gas processing expenses. Gains of $10 million from the sale of assets were included in other income in the 1999 period. The effective income tax rate for both periods was affected by non-deductible amortization of goodwill.

Nine Months Ended September 30, 2000

For the nine months ended September 30, 2000, TXU Gas had net income of $4 million compared to a net loss of $47 million for the nine months ended September 30, 1999. The better results for the first nine months of 2000 were attributable to significantly improved gas distribution results and the $34 million after-tax gain related to the sale of substantially all of the gas processing assets.

Operating revenues for the first nine months of 2000 increased by $1.6 billion and energy purchased for resale increased by $1.6 billion from the 1999 period primarily as a result of trading activities in the Energy Marketing segment. Trading revenues and energy purchased for resale increased for the same reasons mentioned above for the three-month period. Higher operation and maintenance expenses in the Energy Marketing segment were more than offset by cost reductions for gas distribution operations and reduced gas processing expenses as a result of the sale. Other income for the 2000 period included a pre-tax gain of $53 million from the sale of the gas processing assets, while other income for the 1999 period included a pre-tax gain of $10 million from the sale of other assets. The effective income tax rate for both periods was affected by non-deductible amortization of goodwill.

SEGMENTS

Revenues and net income by operating segment are shown in Note 6 to the Financial Statements.

Gas Pipeline and Distribution

Segment Highlights

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Gas distribution:				
Sales volumes (billion cubic feet – Bcf)	14	13	82	82
Margin (millions)	$ 66	$ 49	$ 245	$ 218
Pipeline transportation:				
Transportation volumes (Bcf)	168	155	442	426
Revenues (millions)	$ 28	$ 24	$ 87	$ 86
Heating degree days (% of normal)	—	—	66%	73%

For the three months ended September 30, 2000, the Gas Pipeline and Distribution segment had a net loss of $1 million compared with a net loss of $12 million for the three months ended September 30, 1999. Results for the 2000 period reflected improved gas distribution and pipeline margins combined with operating cost reductions.

For the nine months ended September 30, 2000, the segment had net income of $56 million compared with a net loss of $3 million for the comparable 1999 nine-month period. Results for the 2000 nine-month period reflect improved margin and cost reductions in gas distribution operations and the gain on sale of gas processing assets.

Energy Marketing

Segment Highlights

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Trading and marketing volumes:				
Gas (Bcf)	327	213	953	805
Electric (gigawatt-hours-GWh)	4,358	3,522	14,898	5,352

The Energy Marketing segment had a net loss of $19 million for the three months ended September 30, 2000 compared with a net loss of $14 million for the three months ended September 30, 1999. Results were negatively impacted by an $8 million increase in operation and maintenance expenses which more than offset a $3 million improvement in margin. The increase in operation and maintenance expenses reflects costs to prepare the trading and portfolio management operation for the opening of the Texas electricity market to competition in 2002.

For the nine months ended September 30, 2000, the segment had a net loss of $31 million compared with a net loss of $30 million for the nine months ended September 30, 1999. A $27 million increase in margin was for the most part offset by higher operation and maintenance expenses. The increase in operation and maintenance expenses reflects costs associated with the relocation of energy trading operations to Dallas, as well as the trading and portfolio management development costs discussed above.

FINANCIAL CONDITION

Liquidity and Capital Resources

Cash flows provided by operating activities before changes in operating assets and liabilities for the nine months ended September 30, 2000 were $47 million compared with $12 million for the same period last year. Changes in operating assets and liabilities required $256 million for the nine months of 2000 compared with $32 million for the same period in 1999. The current year amount reflects the impact of higher fuel costs in accounts receivable and $110 million of deposits required on over-the-counter and exchange trading margin accounts.

Cash flows of $200 million were provided by financing activities in the first nine months of 2000 compared with cash flows provided by financing activities of $97 million for the first nine months of 1999. Advances from TXU Corp. totaled $203 million during the first nine months of 2000.

Cash flows used by investing activities for the nine months ended September 30, 2000 were $18 million compared with cash flows used by investing activities of $75 million for the nine months ended September 30, 1999. The sale of substantially all of TXU Gas' natural gas processing assets along with the sale of other assets provided $110 million in the first nine months of 2000. Construction expenditures were $123 million and $113 million for the first nine months of 2000 and 1999, respectively.

Cash flows provided by discontinued operations were $29 million in the first nine months of 2000 compared with $6 million during the first nine months of 1999. Cash flows for the current nine-month period reflect the collection of a $42 million outstanding receivable following favorable settlement of related litigation.

On October 17, 2000, TXU Gas issued $200 million aggregate principal amount of Putable Asset Term Securities due October 15, 2012. The securities have a fixed rate of 7-5/8% from the date of issuance through October 14, 2002. TXU Gas also assigned to a third party the right to call the securities. On October 15, 2002, the securities will be either mandatorily tendered to and purchased by the callholder or mandatorily redeemed by TXU Gas. If the callholder chooses to purchase the securities, TXU Gas may elect to have the securities remarketed for a floating rate period of up to one year, in which case the callholder must purchase the securities at the end of the floating rate period. If the callholder exercises its right to call the securities on October 15, 2002, or at the end of the floating rate period if applicable, the securities will be remarketed at a fixed rate for a ten year period. If the callholder does not purchase the securities on October 15, 2002, TXU Gas will be required to redeem all of the securities for 100% of the aggregate principal amount outstanding plus accrued interest, if any. Proceeds from the debt issuance and the assignment of the call option were used for general corporate purposes, including among other things the repayment of advances from TXU Corp.

No other substantive changes to financing arrangements have occurred subsequent to December 31, 1999. Early redemptions of preferred stock, long-term debt and trust securities may occur from time to time in amounts presently undetermined.

Regulation and Rates

Although TXU Gas cannot predict future regulatory or legislative actions or any changes in economic and securities market conditions, no changes are expected in trends or commitments, other than those discussed in the 1999 Form 10-K and this Form 10-Q, which might significantly alter its financial position, results of operations or cash flows. See Note 4 to Financial Statements.

CHANGES IN ACCOUNTING STANDARDS

Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", as extended by SFAS No. 137 (June 1999) and amended by SFAS No. 138 (June 2000), is effective for TXU Gas beginning January 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires the recognition of derivatives as either assets or liabilities in the statement of financial position and the measurement of those instruments at fair value.

The process relating to implementation of SFAS No. 133 has been ongoing since July 1999. To date, all derivatives within TXU Gas have been identified pursuant to SFAS No. 133 requirements. TXU Gas is in the process of designating, documenting and assessing hedging relationships, the majority of which are expected to result in cash-flow hedges, which will require TXU Gas to record derivative assets or liabilities at fair value on its statement of financial position with an offset in Other Comprehensive Income to the extent the hedge is effective. Hedge ineffectiveness will be recorded in earnings. TXU Gas accounts for its trading activities on a mark-to-market basis, which, for the most part, will not be affected by the implementation of SFAS No. 133.

TXU Gas continues to evaluate the impact of SFAS No. 133, as well as the ongoing implementation issues currently being addressed by the Derivatives Implementation Group. As a result, the direct financial impact of the application of hedge accounting and the transition adjustment on TXU Gas' financial position and results of operations has yet to be determined.

FORWARD-LOOKING STATEMENTS

This report and other presentations made by TXU Gas contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Although TXU Gas believes that in making any such statement its expectations are based on reasonable assumptions, any such statement involves uncertainties and is qualified in its entirety by reference to factors contained in the Forward-Looking Statements section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in TXU Gas' 1999 Form 10-K, as well as general industry trends; power costs and availability; changes in business strategy, development plans or vendor relationships; availability of qualified personnel; changes in, or the failure or inability to comply with, governmental regulations, including, without limitation, environmental regulations; changes in tax laws; and access to adequate transmission facilities to meet changing demand, among others, that could cause the actual results of TXU Gas to differ materially from those projected in such forward-looking statements.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required hereunder is not significantly different from the information set forth in Item 7A. Quantitative and Qualitative Disclosures About Market Risk included in TXU Gas' 1999 Form 10-K and is, therefore, not presented herein.

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits filed as a part of Part II are:

4 Officer's Certificate dated as of October 17, 2000, establishing the terms of the Putable Asset Term Securities.

15 Letter from independent accountants as to unaudited interim financial information

27 Financial Data Schedules

99 Condensed Statements of Consolidated Operations – Twelve Months Ended September 30, 2000 and 1999

(b) Reports on Form 8-K filed since June 30, 2000:

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TXU GAS COMPANY

By /s/ Jerry W. Pinkerton
Jerry W. Pinkerton
Vice President,
Principal Accounting Officer

By /s/ Gaylene M. McMahon
Gaylene M. McMahon
Controller

Date: November 10, 2000

EXHIBIT 99

TXU GAS COMPANY AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS
(Unaudited)

	Twelve Months Ended September 30, 2000	1999
OPERATING REVENUES	$ 5,407	$ 3,793
OPERATING EXPENSES		
Energy purchased for resale	4,860	3,277
Operation and maintenance	344	372
Depreciation and other amortization	61	62
Goodwill amortization	21	21
Taxes other than income	61	64
Total operating expenses	5,347	3,796
OPERATING INCOME (LOSS)	60	(3)
OTHER INCOME (DEDUCTIONS) – NET	60	13
INCOME BEFORE INTEREST, OTHER CHARGES AND INCOME TAXES	120	10
INTEREST INCOME	4	1
INTEREST EXPENSE AND OTHER CHARGES	(78)	(77)
INCOME (LOSS) BEFORE INCOME TAXES	46	(66)
INCOME TAX EXPENSE (BENEFIT)	13	(18)
NET INCOME (LOSS)	33	(48)
PREFERRED STOCK DIVIDENDS	4	4
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	$ 29	$ (52)