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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2000**

— OR —

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

Commission File Number 1-11668

**TXU Electric Company**

A Texas Corporation

I.R.S. Employer Identification  
No. 75-1837355

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

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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 August 9, 2000:** 94,083,000 shares, without par value.

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# **PART I. FINANCIAL INFORMATION**

## **Item 1. Financial Statements**

### **TXU ELECTRIC COMPANY AND SUBSIDIARIES** **CONDENSED STATEMENTS OF CONSOLIDATED INCOME** **(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
	<b>Millions of Dollars</b>			
OPERATING REVENUES .....	<u>\$1,684</u>	<u>\$1,503</u>	<u>\$3,035</u>	<u>\$2,788</u>
OPERATING EXPENSES				
Energy purchased for resale and fuel consumed.....	684	513	1,118	926
Operation and maintenance .....	327	301	638	616
Depreciation and amortization.....	151	207	303	354
Income taxes .....	94	64	152	109
Taxes other than income.....	<u>130</u>	<u>128</u>	<u>264</u>	<u>260</u>
Total operating expenses .....	<u>1,386</u>	<u>1,213</u>	<u>2,475</u>	<u>2,265</u>
OPERATING INCOME .....	298	290	560	523
OTHER INCOME (DEDUCTIONS)				
Allowance for equity funds used during construction .....	2	1	3	2
Other income (deductions) — net.....	(5)	(6)	(8)	(10)
Income tax benefit (expense).....	<u>7</u>	<u>9</u>	<u>(1)</u>	<u>10</u>
Total other income (deductions) .....	<u>4</u>	<u>4</u>	<u>(6)</u>	<u>2</u>
INCOME BEFORE INTEREST AND OTHER CHARGES.....	<u>302</u>	<u>294</u>	<u>554</u>	<u>525</u>
INTEREST INCOME .....	—	1	1	2
INTEREST EXPENSE AND OTHER CHARGES				
Interest .....	99	118	189	230
Distributions on TXU Electric Company obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely junior subordinated debentures of TXU Electric Company .....	17	17	34	34
Allowance for borrowed funds used during construction and capitalized interest .....	<u>(2)</u>	<u>(2)</u>	<u>(4)</u>	<u>(5)</u>
Total interest expense and other charges .....	<u>114</u>	<u>133</u>	<u>219</u>	<u>259</u>
NET INCOME .....	188	162	336	268
PREFERRED STOCK DIVIDENDS.....	<u>2</u>	<u>2</u>	<u>5</u>	<u>5</u>
NET INCOME AVAILABLE FOR COMMON STOCK.....	<u>\$ 186</u>	<u>\$ 160</u>	<u>\$ 331</u>	<u>\$ 263</u>

See Notes to Financial Statements.

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

	Six Months Ended June 30,	
	<u>2000</u>	<u>1999</u>
	Millions of Dollars	
<b>CASH FLOWS — OPERATING ACTIVITIES</b>		
Net income.....	\$ 336	\$ 268
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization.....	363	430
Deferred income taxes and investment tax credits — net .....	5	60
Allowance for equity funds used during construction .....	(3)	(2)
Reduction in revenues for earnings in excess of earnings cap.....	100	—
Changes in operating assets and liabilities:		
Accounts receivable.....	(85)	(11)
Inventories .....	3	4
Accounts payable:		
Affiliates .....	103	29
Other .....	49	(20)
Interest and taxes accrued .....	91	(21)
Other working capital .....	2	38
Over/(under)-recovered fuel revenue — net of deferred taxes .....	(81)	(38)
Other — net .....	<u>2</u>	<u>59</u>
Cash provided by operating activities.....	<u>885</u>	<u>796</u>
<b>CASH FLOWS — FINANCING ACTIVITIES</b>		
Issuances of long-term debt.....	14	111
Retirements/repurchases of securities:		
Long-term debt .....	(110)	(341)
Common stock.....	(372)	(297)
Change in notes payable — affiliates .....	(32)	95
Preferred stock dividends paid.....	(5)	(5)
Debt premium, discount, financing and reacquisition expenses.....	<u>(3)</u>	<u>(23)</u>
Cash used in financing activities .....	<u>(508)</u>	<u>(460)</u>
<b>CASH FLOWS — INVESTING ACTIVITIES</b>		
Construction expenditures .....	(318)	(275)
Nuclear fuel .....	(38)	(45)
Other investments .....	<u>(10)</u>	<u>(13)</u>
Cash used in investing activities.....	<u>(366)</u>	<u>(333)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS .....</b>	<b>11</b>	<b>3</b>
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See Notes to Financial Statements.

**TXU ELECTRIC COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**ASSETS**

	June 30, 2000 (Unaudited)	December 31, 1999
	Millions of Dollars	
<b>ELECTRIC PLANT</b>		
In service:		
Production .....	\$15,564	\$15,533
Transmission.....	1,686	1,681
Distribution .....	5,544	5,390
General .....	<u>505</u>	<u>498</u>
Total .....	23,299	23,102
Less accumulated depreciation.....	<u>7,687</u>	<u>7,409</u>
Electric plant in service, less accumulated depreciation .....	15,612	15,693
Construction work in progress.....	286	191
Nuclear fuel (net of accumulated amortization: 2000 — \$679; 1999 — \$635).....	165	171
Held for future use.....	<u>22</u>	<u>24</u>
Electric plant, less accumulated depreciation and amortization.....	16,085	16,079
Reserve for regulatory disallowances .....	<u>(836)</u>	<u>(836)</u>
Net electric plant .....	<u>15,249</u>	<u>15,243</u>
INVESTMENTS.....	<u>634</u>	<u>612</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents .....	15	4
Accounts receivable (net of allowance for uncollectible accounts: 2000 — \$4; 1999 — \$4) .....	247	162
Inventories — at average cost:		
Materials and supplies .....	156	158
Fuel stock .....	83	84
Deferred income taxes .....	—	21
Prepayments and other current assets .....	<u>51</u>	<u>38</u>
Total current assets .....	<u>552</u>	<u>467</u>
<b>OTHER ASSETS</b>		
Regulatory assets.....	1,579	1,680
Under-recovered fuel revenue .....	164	39
Deferred debits .....	<u>68</u>	<u>67</u>
Total other assets .....	<u>1,811</u>	<u>1,786</u>
Total .....	<u>\$18,246</u>	<u>\$18,108</u>

See Notes to Financial Statements.

**TXU ELECTRIC COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**CAPITALIZATION AND LIABILITIES**

June 30,  
2000  
(Unaudited)      December 31,  
1999  
Millions of Dollars

**CAPITALIZATION**

Common stock without par value:

Authorized shares: 180,000,000

Outstanding shares: 2000 — 94,083,000 and 1999 — 103,874,700 ..... \$ 2,851      \$ 3,145

Stock of parent held for long-term incentive plan trust ..... (8)      (10)

Retained earnings ..... 3,789      3,536

Total common stock equity ..... 6,632      6,671

Preferred stock:

Not subject to mandatory redemption ..... 115      115

Subject to mandatory redemption ..... 21      21

TXU Electric Company obligated, mandatorily redeemable, preferred securities of subsidiary  
trusts holding solely junior subordinated debentures of TXU Electric Company ..... 829      824

Long-term debt, less amounts due currently ..... 4,658      4,684

Total capitalization ..... 12,255      12,315

**CURRENT LIABILITIES**

Notes payable — affiliates ..... 289      321

Long-term debt due currently ..... 442      509

Accounts payable:

Affiliates ..... 219      116

Other ..... 168      119

Customers' deposits ..... 79      79

Taxes accrued ..... 240      139

Interest accrued ..... 103      113

Deferred income taxes ..... 55      —

Other current liabilities ..... 141      130

Total current liabilities ..... 1,736      1,526

**DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES**

Accumulated deferred income taxes ..... 3,337      3,340

Investment tax credits ..... 504      515

Other deferred credits and noncurrent liabilities ..... 414      412

Total deferred credits and other noncurrent liabilities ..... 4,255      4,267

**CONTINGENCIES (Note 5)**

Total ..... \$18,246      \$18,108

See Notes to Financial Statements.

## **TXU ELECTRIC COMPANY AND SUBSIDIARIES**

### **NOTES TO FINANCIAL STATEMENTS**

#### **1. BUSINESS**

TXU Electric Company (TXU Electric) is an electric utility engaged in the generation, purchase, transmission, distribution and sale of electric energy solely within the State of Texas. TXU Electric is a wholly-owned subsidiary of TXU Corp., a Texas corporation. TXU Corp. is a holding company that, through its subsidiaries, is engaged in the generation, purchase, transmission, distribution and sale of electricity; the purchase, transmission and distribution of natural gas; energy services; and telecommunications and other businesses primarily in the United States (US), Europe and Australia. As an integrated electric utility, TXU Electric currently has only one reportable segment.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** — The condensed consolidated financial statements of TXU Electric 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 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.

#### **3. CAPITALIZATION**

**Common Stock** — During the six months ended June 30, 2000, TXU Electric purchased and retired 9.8 million shares of its issued and outstanding common stock from TXU Corp. at a cost of \$372 million. The cost of the repurchased shares, to the extent it exceeded the amount received upon issuance, has been charged to retained earnings.

***TXU Electric Obligated, Mandatorily Redeemable, Preferred Securities of Subsidiary Trusts, Holding Solely Junior Subordinated Debentures of TXU Electric (Trust Securities)*** — At June 30, 2000 and December 31, 1999, the statutory business trust subsidiaries had Trust Securities outstanding as follows:

	Trust Securities				Trust Assets		Maturity
	Units (000's)		Amount		Amount		
	June 30, 2000	December 31, 1999	June 30, 2000	December 31, 1999	June 30, 2000	December 31, 1999	
TXU Electric Capital I (8.25% Series).....	5,871	5,871	\$ 141	\$ 141	\$ 155	\$ 155	2030
TXU Electric Capital III (8.00% Series).....	8,000	8,000	194	194	206	206	2035
TXU Electric Capital IV (Floating Rate Trust Securities)(a).....	100	100	98	97	103	103	2037
TXU Electric Capital V (8.175% Trust Securities) .....	400	400	396	392	412	412	2037
Total.....	14,371	14,371	\$ 829	\$ 824	\$ 876	\$ 876	

(a) Floating rate is determined quarterly based on LIBOR. A related interest rate swap, expiring in May 2002, effectively fixes the rate at 7.183%.

TXU Electric owns the common securities issued by its subsidiary trusts and has effectively issued a full and unconditional guarantee of each such trust's securities.

***Long-term Debt*** — Certain variable rate debt of TXU Electric requires periodic remarketing. Because TXU Electric intends to remarket these obligations, and has the ability to refinance if necessary, they have been classified as long-term debt. TXU Electric's first mortgage bonds are secured by a mortgage and deed of trust with a major financial institution. Electric plant of TXU Electric is generally subject to the lien of its mortgage.

***Other*** — In April 2000, the holders of \$340 million of TXU Electric's Floating Rate Debentures due April 24, 2000 agreed to extend the maturity date of those debentures to December 1, 2000. In connection with the extension, the quarterly interest rate formula, based on LIBOR plus a margin, was changed. The interest rate through July 23, 2000 was 6.68%, and was then reset at 7.11%.

#### 4. REGULATION AND RATES

***Docket No. 21527*** — In October 1999, TXU Electric filed a petition with the Public Utility Commission of Texas (PUC) for a financing order (Docket No. 21527) to permit the issuance by a special purpose entity of \$1.65 billion of transition bonds secured by payments designed to enable TXU Electric to recover its generation-related regulatory assets and other qualified costs in accordance with the 1999 Restructuring Legislation. The proceeds received by TXU Electric are to be used solely for the purpose of retiring utility debt and equity. On May 1, 2000, the PUC signed a final order rejecting TXU Electric's request for the \$1.65 billion and authorized only \$363 million. TXU Electric believes this final order is inconsistent with the 1999 Restructuring Legislation and filed an appeal on May 2, 2000 with the Travis County, Texas District Court. TXU Electric expects that any difference between the \$1.65 billion and the amount finally authorized will continue to be deferred until recovery of generation-related assets is again addressed by the PUC, most likely in 2001. TXU Electric is unable to predict the outcome of these proceedings.

The constitutionality of the securitization provisions of the 1999 Restructuring Legislation under the Texas constitution has been challenged in connection with a securitization request made by Central Power and Light Company. On July 21, 2000, the Travis County, Texas District Court issued its judgment denying this appeal and finding that the securitization provisions are constitutional. Notice of appeal of this judgement to the Texas Supreme Court has been filed. TXU Electric is unable to predict the outcome of such proceedings.



*Docket No. 21950* — In January 2000, TXU Electric filed with the PUC its business separation plan as required by the 1999 Restructuring Legislation. The plan describes how TXU Electric proposes to separate, by September 1, 2000, the provision of competitive energy services from its regulated business activities, and how it proposes to unbundle its business by January 1, 2002 in accordance with the 1999 Restructuring Legislation. Only the transmission and distribution (T&D) functions will continue to be regulated. An independent organization certified by the PUC will oversee transmission system planning and reliability in the State of Texas. Beginning January 1, 2002, retail electric customers in Texas will be able to select their electricity providers. The portion of this plan that describes how TXU Electric proposes to separate the provision of competitive energy services from its regulated business activities has been severed by the PUC from Docket No. 21950 and assigned Docket No. 21987. On April 3, 2000, TXU Electric and certain other parties to Docket No. 21987 filed with the PUC a nonunanimous stipulation concerning matters at issue in that proceeding. In June 2000, the PUC issued an order in Docket No. 21987 approving this stipulation and the TXU Electric plan, as modified by this stipulation. The remainder of Docket No. 21950 has been merged with Docket No. 22350 described below.

*Docket No. 22350* — As required by the 1999 Restructuring Legislation, in March 2000, TXU Electric filed its transition to competition plan with the PUC. This plan lays the foundation for retail competition to begin in the Texas electricity market. Under the plan as filed, the generation business unit and the retail business unit of TXU Electric will become unregulated entities and will be allowed to compete for customers. The T&D business units of TXU Electric will be separated into regulated entities and will together represent the regulated part of the business. The filing also includes proposed T&D delivery rates to be charged to retail electric providers. In addition to the actual T&D charges for delivering electricity, these rates include nuclear decommissioning fund charges, system benefit fund charges and stranded cost recovery charges. TXU Electric's stranded costs are estimated to be approximately \$3.7 billion, including the regulatory assets that were part of the Docket No. 21527 proceedings and amounts related to the remand of Docket No. 9300, addressed below. TXU Electric will be filing an updated stranded cost estimate on or before August 28, 2000 to reflect various PUC decisions made since Docket No. 22350 was filed. This estimate is subject to a future "true-up" in 2004. TXU Electric is unable to predict the outcome of these proceedings.

*Docket No. 9300/Docket No. 22652* — The PUC's final order (Order) in connection with TXU Electric's January 1990 rate increase request (Docket No. 9300) was ultimately reviewed by the Texas Supreme Court. As a result, an aggregate of \$909 million of disallowances with respect to TXU Electric's reacquisitions of minority owners' interests in Comanche Peak, which had previously been recorded as a charge to TXU Electric's earnings, was remanded to the District Court with instructions that it be remanded to the PUC for reconsideration on the basis of a prudent investment standard. On remand, the PUC also was required to reevaluate the appropriate level of TXU Electric's construction work in progress included in rate base in light of its financial condition at the time of the initial hearing. In connection with the settlement of Docket No. 18490, proceedings in the remand of Docket No. 9300 had been stayed through December 31, 1999. In April 2000, TXU Electric requested that the District Court enter an order remanding Docket No. 9300 to the PUC. On June 9, 2000, the District Court's order of remand was filed with the PUC, and the PUC has assigned the remand proceeding Docket No. 22652. TXU Electric cannot predict the outcome of the reconsideration of the Order on remand by the PUC.

*Docket No. 22880* — On August 4, 2000, TXU Electric filed with the PUC a request to surcharge the cumulative undercollection of fuel cost revenues that exists as of June 30, 2000, together with interest through November 2000, in the amount of \$167 million, and to increase its current fuel factors by 27.6%. TXU Electric proposes that the surcharge be collected over a six-month period, beginning in November 2000. TXU Electric proposes to increase its current fuel factors, solely to reflect the projected increase in the commodity cost of natural gas for the period July 1, 2000 through June 30, 2001, on an interim basis effective September 4, 2000. TXU Electric cannot predict the outcome of this proceeding.

## 5. CONTINGENCIES

*Financial Guarantees* —TXU Electric has entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy and has agreed, in effect, to guarantee the principal, \$25 million at June 30, 2000, and interest on bonds issued to finance the reservoirs from which the water is supplied. The bonds mature at various dates through 2011 and have interest rates ranging from 5-1/2% to 7%. TXU Electric has assigned to a municipality all contract rights and obligations of TXU Electric in connection with \$53 million principal amount of bonds remaining at June 30, 2000, issued for similar purposes which had previously been guaranteed by TXU Electric. TXU Electric is, however, contingently liable in the unlikely event of default by the municipality.

*General* — TXU Electric is involved in various 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.

## INDEPENDENT ACCOUNTANTS' REPORT

TXU Electric Company:

We have reviewed the accompanying condensed consolidated balance sheet of TXU Electric Company and subsidiaries (TXU Electric) as of June 30, 2000, and the related condensed statements of consolidated income for the three-month and six-month periods ended June 30, 2000 and 1999 and of consolidated cash flows for the six-month periods ended June 30, 2000 and 1999. These financial statements are the responsibility of TXU Electric's 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 Electric as of December 31, 1999, and the related statements of consolidated income, comprehensive income, 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  
August 7, 2000

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

### BUSINESS

In October 1999, TXU Electric announced plans to sell six of its eighteen natural gas-fired electricity generating plants in Texas. Due to recent action by the Texas Natural Resource Conservation Commission, which would require emission reductions for TXU Electric's power plants, TXU Electric has extended the bid process to allow prospective buyers time to evaluate this action. TXU Electric anticipates completion of the plant sales in 2001.

### RESULTS OF OPERATIONS

#### Significant Highlights

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Revenues (millions):				
Base rate .....	\$1,145	\$1,082	\$2,081	\$1,981
Transmission service.....	41	34	84	68
Fuel.....	580	425	938	761
Fuel reconciliation settlement.....	—	(52)	—	(52)
Earnings in excess of earnings cap .....	(100)	—	(100)	—
Other .....	18	14	32	30
Total operating revenues.....	<u>\$1,684</u>	<u>\$1,503</u>	<u>\$3,035</u>	<u>\$2,788</u>
Electric energy sales (gigawatt-hours).....	25,245	24,755	47,560	46,139
Degree days (% of normal):				
Cooling .....	115%	112%	121%	110%
Heating.....	79%	53%	64%	73%

#### Three Months Ended June 30, 2000

Net income of \$188 million for the three months ended June 30, 2000 was 16% higher than the same period of 1999. Comparisons of net income were impacted by both a fuel reconciliation settlement that reduced net income in the 1999 period by \$31 million and a rate settlement agreement that became effective in 1998 and was modified by the 1999 Restructuring Legislation, which reduced customer rates and introduced an earnings cap.

From January 1, 1998 through June 30, 1999, earnings in excess of the earnings cap were recorded as additional depreciation of nuclear production assets. Effective July 1, 1999, following the 1999 Restructuring Legislation, earnings in excess of the earnings cap were recorded as a reduction of revenues, with a corresponding regulatory liability recorded. Mitigation as a result of the earnings cap reduced net income by \$65 million in the second quarter of 2000 and \$33 million in the second quarter of 1999.

Additionally, from January 1, 1998 through June 30, 1999, depreciation expense was reclassified from transmission and distribution (T&D) to nuclear production assets. Effective July 1, 1999, following the 1999 Restructuring Legislation, T&D depreciation expense was no longer transferred to nuclear production assets; instead an amount equivalent to T&D depreciation was recorded as a regulatory asset, with an offsetting amount recorded as a regulatory liability. The regulatory asset will be amortized as it is recovered through the distribution portion of the business, while the regulatory liability will be applied against stranded generation assets. Since January 1998, regular nuclear depreciation and additional nuclear mitigation total approximately \$1.6 billion.

Excluding the decrease in revenues as a result of the earnings cap and fuel reconciliation settlement, operating revenues for the second quarter of 2000 were up 15% from the second quarter of 1999 primarily due to higher fuel revenues as a result of higher gas prices and a 2% increase in sales volumes resulting primarily from customer growth.

Energy purchased for resale and fuel consumed in the current quarter increased \$171 million (33%) from the second quarter of last year primarily due to both higher fuel gas prices and growth in electric energy sales.

Operation and maintenance expenses for the current second quarter were 9% higher than in the 1999 second quarter primarily due to increased PUC third-party transmission tariffs. Depreciation and amortization expense was \$56 million lower in the 2000 second quarter versus the 1999 second quarter, which included mitigation depreciation of \$61 million.

The 14% decrease in interest expense and other charges in the second quarter of 2000 compared with the prior-year second quarter was primarily due to the reacquisition of long-term debt and remarketing of certain debt to lower interest rates.

The effective income tax rate for the 2000 three-month period was 32% versus 25% for the prior-year period. Both periods benefited from the discontinuation of amortization of prior period flow-through amounts and other tax-related regulatory assets and liabilities resulting from the impact of the 1999 Restructuring Legislation.

#### **Six Months Ended June 30, 2000**

Net income for the six months ended June 30, 2000 of \$336 million increased 25% from the same period of 1999, which included the \$31 million fuel reconciliation settlement. Mitigation as a result of the earnings cap reduced net income by \$65 million in the 2000 period and \$33 million in the 1999 period.

Excluding the reduction in revenues as a result of the earnings cap and fuel reconciliation settlement, operating revenues for the second quarter of 2000 were up 10% from the corresponding 1999 period, reflecting a 23% increase in fuel revenues and a 3% increase in sales volumes.

Energy purchased for resale and fuel consumed in the first six months of 2000 increased \$192 million (21%) from the first six months of 1999 primarily due to both higher fuel gas prices and growth in electric energy sales.

Operation and maintenance expenses for the current six-month period were 4% higher than the same period in 1999 primarily due to increased PUC third-party transmission tariffs. Depreciation and amortization expense was \$51 million lower in the current period compared with the prior-year period, which included mitigation depreciation of \$61 million.

Interest expense and other charges of \$219 million for the first half of 2000 was 15% lower than in the same period of 1999 due to the reacquisition of long-term debt and remarketing of certain debt to lower interest rates.

The effective income tax rate for the 2000 six-month period was 31% versus 27% for the prior-year period. Both periods benefited from the discontinuation of amortization of prior period flow-through amounts and other tax-related regulatory assets and liabilities resulting from the impact of the 1999 Restructuring Legislation.

## **FINANCIAL CONDITION**

### ***Liquidity and Capital Resources***

Cash flows provided by operating activities before changes in operating assets and liabilities for the six months ended June 30, 2000 were \$801 million compared with \$756 million for the same period in 1999 year. Changes in operating assets and liabilities in the first six months of 2000 provided \$84 million versus \$40 million in the prior-year period.

Cash flows used in financing activities were \$508 million in the first half of 2000 compared with \$460 million for the first six months of 1999. Financing activities in the first half of 2000 included the retirement of \$110 million of long-term debt and the repurchase of \$372 million of common stock from TXU Corp.

Cash flows used in investing activities for the first six months of 2000 totaled \$366 million versus \$333 million for the same period last year. Construction expenditures were \$318 million and \$275 million for the six months of 2000 and 1999, respectively.

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 Electric 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 and amended, is effective for TXU Electric beginning January 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, 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. TXU Electric is currently evaluating the impact the adoption of this standard will have on its financial position and results of operations.

## **FORWARD-LOOKING STATEMENTS**

This report and other presentations made by TXU Electric contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Although TXU Electric 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 Electric's 1999 Form 10-K, as well as general industry trends; implementation of the 1999 Restructuring Legislation; 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 demands, among others, that could cause the actual results of TXU Electric 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 Electric 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 Electric 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 Electric's 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:

15 Letter from independent accountants as to unaudited interim financial information

27 Financial Data Schedule

99 Condensed Statements of Consolidated Income — Twelve Months Ended June 30, 2000 and 1999.

(b) Reports on Form 8-K filed since March 31, 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 ELECTRIC COMPANY**

By           /s/ Jerry W. Pinkerton          

Jerry W. Pinkerton  
Vice President,  
Principal Accounting Officer

By           /s/ Gaylene M. McMahon          

Gaylene M. McMahon  
Controller

Date: August 10, 2000



**TXU ELECTRIC COMPANY AND SUBSIDIARIES**  
**CONDENSED STATEMENTS OF CONSOLIDATED INCOME**  
**(Unaudited)**

	Twelve Months Ended June 30,	
	<u>2000</u>	<u>1999</u>
	Millions of Dollars	
OPERATING REVENUES .....	<u>\$6,454</u>	<u>\$6,278</u>
OPERATING EXPENSES		
Energy purchased for resale and fuel consumed .....	2,273	2,040
Operation and maintenance .....	1,355	1,281
Depreciation and amortization .....	590	775
Income taxes .....	405	401
Taxes other than income .....	545	540
Total operating expenses .....	<u>5,168</u>	<u>5,037</u>
OPERATING INCOME .....	1,286	1,241
OTHER INCOME (DEDUCTIONS)		
Allowance for equity funds used during construction .....	9	5
Other income (deductions) — net .....	(1)	(24)
Income tax benefit (expense) .....	(5)	16
Total other income (deductions) .....	<u>3</u>	<u>(3)</u>
INCOME BEFORE INTEREST AND OTHER CHARGES .....	<u>1,289</u>	<u>1,238</u>
INTEREST INCOME .....	2	3
INTEREST EXPENSE AND OTHER CHARGES		
Interest .....	384	459
Distributions on TXU Electric Company obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely junior subordinated debentures of TXU Electric Company .....	68	68
Allowance for borrowed funds used during construction and capitalized interest .....	(8)	(9)
Total interest expense and other charges .....	<u>444</u>	<u>518</u>
NET INCOME .....	847	723
PREFERRED STOCK DIVIDENDS .....	<u>10</u>	<u>11</u>
NET INCOME AVAILABLE FOR COMMON STOCK .....	<u>\$ 837</u>	<u>\$ 712</u>