
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 1-11668

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

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: 79,749,600 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)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2000	1999	2000	1999
	Millions of Dollars			
OPERATING REVENUES	<u>\$2,444</u>	<u>\$2,059</u>	<u>\$5,479</u>	<u>\$4,847</u>
OPERATING EXPENSES				
Energy purchased for resale and fuel consumed	1,071	709	2,189	1,635
Operation and maintenance	383	313	1,021	929
Depreciation and amortization	153	138	456	492
Income taxes	194	225	346	334
Taxes other than income	<u>134</u>	<u>131</u>	<u>398</u>	<u>391</u>
Total operating expenses	<u>1,935</u>	<u>1,516</u>	<u>4,410</u>	<u>3,781</u>
OPERATING INCOME	509	543	1,069	1,066
OTHER INCOME (DEDUCTIONS)				
Allowance for equity funds used during construction	3	5	6	7
Other income (deductions) — net	(4)	(3)	(12)	(13)
Income tax benefit (expense)	<u>1</u>	<u>—</u>	<u>—</u>	<u>10</u>
Total other income (deductions)	<u>—</u>	<u>2</u>	<u>(6)</u>	<u>4</u>
INCOME BEFORE INTEREST AND OTHER CHARGES	<u>509</u>	<u>545</u>	<u>1,063</u>	<u>1,070</u>
INTEREST INCOME	1	—	2	2
INTEREST EXPENSE AND OTHER CHARGES				
Interest	100	95	289	325
Distributions on TXU Electric Company obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely junior subordinated debentures of TXU Electric Company	17	17	51	51
Allowance for borrowed funds used during construction and capitalized interest	<u>(2)</u>	<u>(1)</u>	<u>(6)</u>	<u>(6)</u>
Total interest expense and other charges	<u>115</u>	<u>111</u>	<u>334</u>	<u>370</u>
NET INCOME	395	434	731	702
PREFERRED STOCK DIVIDENDS	<u>2</u>	<u>2</u>	<u>7</u>	<u>7</u>
NET INCOME AVAILABLE FOR COMMON STOCK	<u>\$ 393</u>	<u>\$ 432</u>	<u>\$ 724</u>	<u>\$ 695</u>

See Notes to Financial Statements.

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

Nine Months Ended
September 30,
2000 1999
Millions of Dollars

CASH FLOWS — OPERATING ACTIVITIES

Net income.....	\$ 731	\$ 702
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization.....	597	600
Deferred income taxes and investment tax credits — net	(102)	53
Allowance for equity funds used during construction	(6)	(7)
Reduction in revenues for earnings in excess of earnings cap.....	247	59
Changes in operating assets and liabilities:		
Accounts receivable.....	(300)	(95)
Inventories	5	8
Accounts payable:		
Affiliates	97	15
Other	80	(5)
Interest and taxes accrued	283	135
Other working capital	19	44
Over/(under)-recovered fuel revenue — net of deferred taxes	(326)	(71)
Other — net	(20)	7
Cash provided by operating activities.....	<u>1,305</u>	<u>1,445</u>

CASH FLOWS — FINANCING ACTIVITIES

Issuances of long-term debt	65	127
Retirements/repurchases of securities:		
Long-term debt	(161)	(557)
Common stock	(588)	(445)
Change in notes payable — affiliates	(78)	(21)
Preferred stock dividends paid.....	(7)	(8)
Debt premium, discount, financing and reacquisition expenses	(5)	(26)
Cash used in financing activities	<u>(774)</u>	<u>(930)</u>

CASH FLOWS — INVESTING ACTIVITIES

Construction expenditures	(458)	(401)
Nuclear fuel	(47)	(55)
Other investments	(15)	(17)
Cash used in investing activities.....	<u>(520)</u>	<u>(473)</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS	11	42
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CASH AND CASH EQUIVALENTS — BEGINNING BALANCE	<u>4</u>	<u>5</u>
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CASH AND CASH EQUIVALENTS — ENDING BALANCE.....	<u>\$ 15</u>	<u>\$ 47</u>
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See Notes to Financial Statements.

TXU ELECTRIC COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS

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

ELECTRIC PLANT

In service:		
Production	\$15,569	\$15,533
Transmission.....	1,697	1,681
Distribution	5,616	5,390
General	<u>505</u>	<u>498</u>
Total	23,387	23,102
Less accumulated depreciation.....	<u>7,827</u>	<u>7,409</u>
Electric plant in service, less accumulated depreciation	15,560	15,693
Construction work in progress.....	324	191
Nuclear fuel (net of accumulated amortization: 2000 — \$700; 1999 — \$635).....	155	171
Held for future use.....	<u>22</u>	<u>24</u>
Electric plant, less accumulated depreciation and amortization	16,061	16,079
Reserve for regulatory disallowances	<u>(836)</u>	<u>(836)</u>
Net electric plant	<u>15,225</u>	<u>15,243</u>
INVESTMENTS.....	<u>643</u>	<u>612</u>

CURRENT ASSETS

Cash and cash equivalents	15	4
Accounts receivable (net of allowance for uncollectible accounts: 2000 — \$7; 1999 — \$4)	462	162
Inventories — at average cost:		
Materials and supplies	158	158
Fuel stock	79	84
Deferred income taxes	—	21
Prepayments and other current assets	<u>58</u>	<u>38</u>
Total current assets	<u>772</u>	<u>467</u>

OTHER ASSETS

Regulatory assets	1,392	1,680
Under-recovered fuel revenue	541	39
Deferred debits	<u>86</u>	<u>67</u>
Total other assets	<u>2,019</u>	<u>1,786</u>
 Total	 <u>\$18,659</u>	 <u>\$18,108</u>

See Notes to Financial Statements.

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

	September 30, 2000 (Unaudited)	December 31, 1999
	Millions of Dollars	
CAPITALIZATION		
Common stock without par value:		
Authorized shares: 180,000,000		
Outstanding shares: 2000 — 86,916,300 and 1999 — 103,874,700	\$ 2,636	\$ 3,145
Stock of parent held for long-term incentive plan trust	—	(10)
Retained earnings	<u>4,182</u>	<u>3,536</u>
Total common stock equity	6,818	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.....	<u>4,508</u>	<u>4,684</u>
Total capitalization	<u>12,291</u>	<u>12,315</u>
CURRENT LIABILITIES		
Notes payable – affiliates	243	321
Long-term debt due currently	593	509
Accounts payable:		
Affiliates.....	213	116
Other.....	199	119
Customers' deposits.....	78	79
Taxes accrued	426	139
Interest accrued.....	109	113
Deferred income taxes	170	—
Other current liabilities.....	<u>165</u>	<u>130</u>
Total current liabilities	<u>2,196</u>	<u>1,526</u>
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES		
Accumulated deferred income taxes.....	3,264	3,340
Investment tax credits.....	498	515
Other deferred credits and noncurrent liabilities	<u>410</u>	<u>412</u>
Total deferred credits and other noncurrent liabilities.....	<u>4,172</u>	<u>4,267</u>
CONTINGENCIES (Note 5)		

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 engages 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. 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.

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 Electric 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 Electric have been identified pursuant to SFAS No. 133 requirements. TXU Electric 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 Electric to record the 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 Electric 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 Electric's financial position and results of operations has yet to be determined.

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 nine months ended September 30, 2000, TXU Electric purchased and retired 17 million shares of its issued and outstanding common stock from TXU Corp. at a cost of \$588 million. In November 2000, TXU Electric purchased and retired 7.2 million shares of its issued and outstanding common stock from TXU Corp. at a cost of \$215 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) — The statutory business trust subsidiaries had Trust Securities and Trust Assets outstanding as follows:

	Trust Securities				Trust Assets		Maturity
	Units (000's)		Amount		Amount		
	September 30, 2000	December 31, 1999	September 30, 2000	December 31, 1999	September 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.

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 legislation passed in 1999 to restructure the electric utility industry in Texas (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 filed an appeal on May 2, 2000 with the Travis County, Texas District Court.

On September 7, 2000, the Travis County, Texas District Court issued a final judgment reversing that part of the PUC's financing order that utilized regulated asset life (up to 40 years) for purposes of present-valuing the benefits of securitization. Instead, the District Court ruled that a present-value period based upon stranded cost and regulatory asset recovery periods authorized under the 1999 Restructuring Legislation should have been used by the PUC. The District Court also ruled that the PUC statements in its financing order concerning the future impact of securitization of loss on reacquired debt were only an advisory opinion. The judgment affirmed other aspects of the PUC's financing order and ordered the case remanded to the PUC for further proceedings consistent with the judgment. TXU Electric and various other parties have appealed this judgement directly to the Texas Supreme 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. In July 2000, the Travis County, Texas District Court issued its judgment denying this appeal and finding that the securitization provisions are constitutional. This judgment has been appealed directly to the Texas Supreme Court. 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 described how TXU Electric proposed 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 proposed 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. In April 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. In that March 2000 filing, TXU Electric's stranded costs were 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 filed an updated stranded cost estimate on August 28, 2000 to reflect various PUC decisions made since Docket No. 22350 was filed. In the August 28, 2000 filing, TXU Electric's stranded costs were estimated to be \$2.8 billion. Subsequent to the August 2000 filing, the PUC has required TXU Electric to revise the stranded cost estimate to remove amounts related to regulatory assets, certain environmental expenditures, and the remand of Docket No. 9300, which resulted in a revised stranded cost estimate of \$14 million. TXU Electric has appealed certain of the PUC's decisions related to this matter to the Travis County, Texas District Court. Various parties to Docket No. 22350 have presented stranded cost estimates ranging from negative \$1.5 billion to negative \$3.5 billion along with recommendations that these amounts be returned to customers beginning in 2002. The estimate established in Docket No. 22350 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. Pursuant to an order entered on August 31, 2000, this docket will be held in abeyance until March 20, 2001. TXU Electric cannot predict the outcome of the reconsideration of the Order on remand by the PUC.

Docket No. 22344 — In a generic issues docket held in August 2000, the PUC issued orders that impacted TXU Electric's recovery of restructuring expenses and certain other regulatory assets. Accordingly, in September 2000, such unrecovered regulatory assets totaling \$50 million were written off. This reduced earnings in excess of the earnings cap by an equal amount. As a result, there was no impact to net income.

Docket No. 22880 — On August 4, 2000, TXU Electric filed a request with the PUC to surcharge the cumulative under-collection of fuel cost revenues that existed 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%. On August 31, 2000, the Administrative Law Judge entered an Interim Order, implementing an agreement of the parties, providing for an interim increase in fuel factors of 13.8%, effective September 6, 2000, and a surcharge of TXU Electric's cumulative under-recovery of fuel cost revenues that existed as of July 31, 2000, together with the interest through November 2000, in the amount of \$315 million to be collected over the fourteen-month period beginning November 2000. On October 13, 2000, TXU Electric filed a Supplemental Application with the PUC requesting its initial 27.6% fuel factor increase instead of the interim increase.

Docket No. 23153 — On October 13, 2000, TXU Electric filed with the PUC a request for a surcharge to recover a \$230 million under-collection of fuel cost revenues for the months of August and September, 2000. The proposed surcharge would be collected from January 2001 through December 2001. 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, \$23 million at September 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 outstanding at September 30, 2000, that had been issued for similar purposes and previously 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 September 30, 2000, and the related condensed statements of consolidated income for the three-month and nine-month periods ended September 30, 2000 and 1999 and of consolidated cash flows for the nine-month periods ended September 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
November 10, 2000

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

BUSINESS

TXU Electric has announced plans to sell six of its eighteen natural gas-fired electricity generating plants in Texas. Due to 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 September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Revenues (millions):				
Base rate	\$1,542	\$1,456	\$3,622	\$3,437
Transmission service.....	42	34	126	102
Fuel	990	610	1,928	1,319
Fuel reconciliation settlement.....	—	—	—	(52)
Earnings in excess of earnings cap	(147)	(59)	(247)	(59)
Other	17	18	50	100
Total operating revenues.....	<u>\$2,444</u>	<u>\$2,059</u>	<u>\$5,479</u>	<u>\$4,847</u>
Electric energy sales (gigawatt-hours).....	33,138	31,021	80,698	77,160
Degree days (% of normal):				
Cooling	119%	115%	118%	113%
Heating.....	—	—	66%	73%

Three Months Ended September 30, 2000

Net income of \$395 million for the three months ended September 30, 2000 was 9% lower than the same period of 1999. Comparisons of net income were impacted by 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 \$95 million in the third quarter of 2000 and \$32 million in the third 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 \$1.9 billion.

In a generic issues docket held in August 2000, the PUC issued orders that impacted TXU Electric's recovery of restructuring expenses and certain other regulatory assets. Accordingly, in September 2000, such unrecovered regulatory assets totaling \$50 million were written off. This reduced earnings in excess of the earnings cap by an equal amount. As a result, there was no impact to net income.

Excluding the decrease in revenues as a result of the earnings cap, operating revenues for the third quarter of 2000 were up 22% from the third quarter of 1999 primarily due to an increase in fuel revenues as a result of higher gas prices, a 7% increase in sales volumes resulting from a 2.5% growth in customers and a positive impact from weather on the service area.

Energy purchased for resale and fuel consumed in the current quarter increased \$362 million (51%) from the third 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 third quarter were 22% higher than in the 1999 third quarter, primarily due to a write-off of certain regulatory assets and increased PUC third-party transmission tariffs.

The 4% increase in interest expense and other charges in the third quarter of 2000 compared with the prior-year third quarter was primarily due to increased interest rates on floating-rate debt instruments.

The effective income tax rate for the 2000 three-month period was 33% versus 34% 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.

Nine Months Ended September 30, 2000

Net income for the nine months ended September 30, 2000 of \$731 million increased 4% from the same period of 1999, which included a \$31 million fuel reconciliation settlement. Mitigation as a result of the earnings cap reduced net income by \$161 million in the 2000 period and \$69 million in the 1999 period.

Excluding the reduction in revenues as a result of the earnings cap and fuel reconciliation settlement, operating revenues for year-to-date 2000 were up 15% from the corresponding 1999 period, reflecting a 46% increase in fuel revenues and a 5% increase in sales volumes as a result of continued customer and usage growth and warmer than normal weather.

Energy purchased for resale and fuel consumed in the first nine months of 2000 increased \$554 million (34%) from the first nine months of 1999 primarily due to both higher fuel gas prices and growth in electric energy sales.

Operation and maintenance expenses for the current nine-month period were 10% higher than the same period in 1999 primarily due to a write-off of certain regulatory assets and increased PUC third-party transmission tariffs. Depreciation and amortization expense was \$36 million lower in the current period compared with the prior-year period, which included mitigation depreciation of \$52 million.

Interest expense and other charges of \$334 million for the nine-month period of 2000 was 10% 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 nine-month period and for the prior-year period was 32%. 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 nine months ended September 30, 2000 were \$1.5 billion compared with \$1.4 billion for the same period in 1999. Changes in operating assets and liabilities in the first nine months of 2000 used \$162 million of cash versus \$38 million of cash provided in the prior-year period. For the 2000 period, this is primarily due to an increase in under-recovered fuel revenue of \$501 million. A surcharge has been approved by the PUC for recovery of \$315 million of under-collections through July 2000 to be collected over a fourteen-month period beginning November 2000. A second surcharge totaling \$230 million for August and September under-collections is pending approval from the PUC. See Note 4 to Financial Statements.

Cash flows used in financing activities were \$774 million in the first nine months of 2000 compared with \$930 million for the first nine months of 1999. Financing activities in the first nine months of 2000 included a \$174 million net reduction in debt and notes payable and the repurchase of \$588 million of common stock from TXU Corp.

Cash flows used in investing activities for the first nine months of 2000 totaled \$520 million versus \$473 million for the same period last year. Construction expenditures were \$458 million and \$401 million for the nine 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.

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 by SFAS No. 137 (June 1999) and amended by SFAS No. 138 (June 2000), is effective for TXU Electric 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 Electric have been identified pursuant to SFAS No. 133 requirements. TXU Electric 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 Electric to record the 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 Electric 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 Electric's financial position and results of operations has yet to be determined.

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 September 30, 2000 and 1999.

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

<u>Date of Report</u>	<u>Item Reported</u>
September 7, 2000	Item 5. Other Events

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: November 10, 2000

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

	Twelve Months Ended September 30,	
	<u>2000</u>	<u>1999</u>
	Millions of Dollars	
OPERATING REVENUES	<u>\$6,839</u>	<u>\$6,215</u>
OPERATING EXPENSES		
Energy purchased for resale and fuel consumed	2,635	2,075
Operation and maintenance	1,425	1,292
Depreciation and amortization	605	627
Income taxes	374	395
Taxes other than income	<u>548</u>	<u>538</u>
Total operating expenses	<u>5,587</u>	<u>4,927</u>
OPERATING INCOME	1,252	1,288
OTHER INCOME (DEDUCTIONS)		
Allowance for equity funds used during construction	7	9
Other income (deductions) — net	(2)	(21)
Income tax benefit (expense)	<u>(4)</u>	<u>13</u>
Total other income (deductions)	<u>1</u>	<u>1</u>
INCOME BEFORE INTEREST AND OTHER CHARGES	<u>1,253</u>	<u>1,289</u>
INTEREST INCOME	3	3
INTEREST EXPENSE AND OTHER CHARGES		
Interest	389	438
Distributions on TXU Electric Company obligated, mandatorily redeemable, preferred securities of subsidiary trusts holding solely junior subordinated debentures of TXU Electric Company	68	69
Allowance for borrowed funds used during construction and capitalized interest	<u>(9)</u>	<u>(9)</u>
Total interest expense and other charges	<u>448</u>	<u>498</u>
NET INCOME	808	794
PREFERRED STOCK DIVIDENDS	<u>10</u>	<u>11</u>
NET INCOME AVAILABLE FOR COMMON STOCK	<u>\$ 798</u>	<u>\$ 783</u>