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Research Note

Intra-day

Dow Jones Industrials 12,572

Philadelphia Electric Index 549

TXU Corp (TXU-\$64-Hold)
Exelon Corp. (EXC-\$72-Hold)
NRG Energy (NRG-\$77-Not Rated)

TEXAS NUCLEAR RUSH - DOUBT IT

Announcements versus Probability

The April 10, 2007 Wall Street Journal article (TXU Sheds Coal Plan. Charts Nuclear Path) indicated that TXU has plans to build additional nuclear generation, possibly two to five reactors averaging 1,700 megawatts each with a average cost of \$1,500 per kilowatt (\$2,550 million a unit). NRG Energy (\$77-not rated) plans two 1,350 megawatt units at STP at \$3,500 million (\$2,592 a kilowatt) each. Other potential players are Exelon Corporation (\$72-hold) and Amarillo Power. We place little or no reliance as to the number of units or cost estimates. For example, should KKR/TPG acquire TXU, it would in all likelihood look to partner rather than absorb the entire risk of building nuclear generation.

Also, the cost of raising capital for competitive nuclear generation could prove prohibitive without all sorts of protective caveats. Economics of nuclear generation are based on high capital and low variable costs. Delays in completion would cause investment and break-even points to skyrocket. For example, delays associated with construction of Texas Utilities' 2,300 megawatt Comanche Peak facility resulted in a gross investment of \$10,595 million (\$4,606 per kilowatt) and a 2006 year-end net book of \$7,400 million or (\$3,217 a kilowatt). For comparison, in May 2005, 25% of the South Texas Plant (STP) was sold for \$498 a kilowatt and in January 2006, 70% of the Duane Arnold nuclear plant sold for \$890 a kilowatt. On balance, the bulk of well-publicized profits generated by nuclear operators such as Exelon and Constellation (\$89-hold) represent returns on investment that have been written down or purchased at depressed prices.

Table 1
Recent Nuclear Plant Sales

	Date	Sold KW	Sold %	Price	
				\$-mil	Per Kw
Duane Arnold	Jan-06	419	70%	373	890
Kewaunee	Jul-05	568	100%	220	387
STP 1& 2	May-05	631	25.2%	314	498
Ginna	Jun-04	480	100%	408	850
Total		2,098		1,315	627

Source: Nuclear Energy Institute

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See page 3 of report for Analyst's Certification, pages 3-4 for Important Disclosures and page 5 for Other Disclosures and Disclaimers

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Comanche Peak Market Value

According to the Texas Energy 10K, the market value of Comanche Peak is less than book, despite a capacity factor of 98.8% in 2006 and natural gas prices that have tripled since 1999.

Texas Electric 2006 10K page U-12

TXU Energy Company's most significant long-lived asset in terms of carrying value is its Comanche Peak nuclear generation facility. The net book value of the facility was \$7.4 billion at December 31, 2006. TXU Energy Company believes that the net book value of the facility significantly exceeds the estimated current market value. However, in applying the provision of SFAS 144, TXU Energy Company estimates that future undiscounted cash flows from the facility significantly exceed net book value. Significant assumptions used in this analysis are forward price curves for natural gas and electricity, market heat rates and production estimates. TXU Energy Company has conservatively estimated that a sustained structural decline in natural gas prices of at least 60% from current levels would need to occur before any risk of impairment of the facility would arise, assuming market heat rates remain unchanged.

Capital and Operating Costs of Production: Table 2 estimates Comanche Peak operating and capital costs for 2006. This exercise excludes costs to serve the ultimate customer such as delivery fees and related operating expenses. Column 1 allocates net investment as per the capital structure. The interest rate is the embedded rate for Texas Energy. Cost of common is our estimate of a minimum return required for non-regulated generation where investors bear all the risk. Depreciation charges are our estimates after adjusting for life extension to 60 years. Operating expenses are taken from 2005 industry results as per the Nuclear Energy Institute. Other taxes are the 2006 average per kwh for TXU Energy as a percent of total net plant.

Our assumptions work out to fully allocated production costs for Comanche peak of 11.29 cents a kilowatt-hour. Delivery fees, alone (excluding other operating expenses to serve the ultimate customer) would raise costs by 2.00 cents a kwh to 13.39 cents. The difference between average system rates of 2.61 cents kwh (10.68 cents less production costs of 13.39 cents) reduces implied earnings to \$595 million and the return from 20% to 13%. We would have to assume the KKR/TPG attraction for TXU Corporation is low-cost lignite generation and continued escalation in natural gas prices.

Under our scenario, profits of 7.24 cents kwh represent 64% of total costs, and break-even 4.05 cents (36%). Interest coverage totals 6.85 times and cash flow coverage of interest, 7.35 times.

Table 2
Comanche Peak
Estimated Capital & Operating Costs
2006

Column	(1)	(2)	(3)	(4)	(5)
	Capitalization	Rates	Costs	Pretax Revenue	Revenue
	\$-Mil	%	\$-Mil	\$-Mil	Per kwh
			(1x2)	35%	
Investment Per Capital Structure					
Debt	2,744	8.9%	245	245	1.24
Equity	4,656	20.0%	931	1,433	7.24
Depreciation				124	0.62
Total Capital Costs				1,801	9.10
Operation				255	1.29
Fuel				85	0.43
Other Taxes (1.3% Avg.Net Plant)				94	0.47
Total Operating & Carrying Costs				2,236	11.29

Source: Shields Estimates-Excludes costs to serve ultimate customers including Delivery Fees of 2.00 cents on average.

Analyst's Certification

I Raymond E. Moore certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other TXU Corporation reports issued by me are: 4/4/07 (\$64) – Hold; 5/4/06 (\$56) – Hold; 2/28/06 (\$52) – Hold; 11/18/05 (\$50) – Hold; 6/8/05 (\$81) – Hold; 2/2/05 (\$72.62) – Hold. Other Exelon reports issued by me are: 1/12/07 (\$61) – Hold; 8/30/06 (\$60) - Hold; 8/2/06 (\$59) -Hold; 4/27/06 (\$58) - Hold; 3/23/06 (\$55) - Hold; 3/15/06 (\$56) - Hold; 1/26/06 (\$58) - Hold; 10/4/05 (\$53) - Sell; 8/4/05 (\$54) - Sell; 3/8/05 (\$47) – Sell. Other Constellation Energy reports issued by me are: 1/26/07 (\$71) – Hold; 2/24/06 (\$58) - Hold; 1/9/06 (\$58) - Hold; 9/13/05 (\$60) - Hold; 5/12/05 (\$54) - Hold.

Important Disclosures

Guide to Investment Ratings:

Buy Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

Market Perform & Hold Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

Sell Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.

Analyst's Ratings Distribution

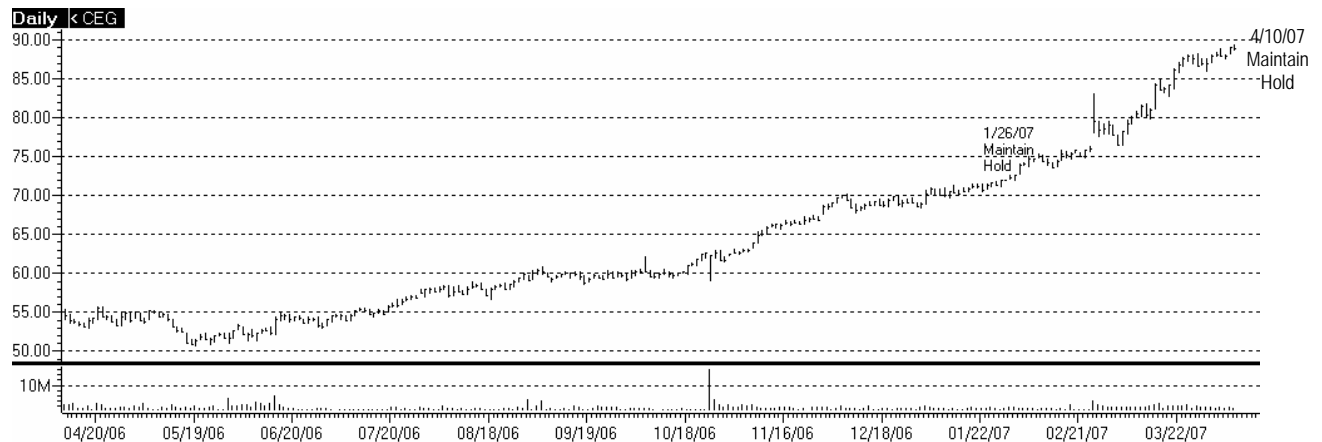
		% Investment Banking
Buy	12%	0%
Hold	82%	0%
Sell	6%	0%

The principal risks to the achievement of our price targets include general market trends, disappointing earnings and lower energy prices and adverse regulatory developments

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.



Important Disclosures, continued



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