
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 JUNE 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 August 8, 2000: 451,000 shares, par value \$0.01 per share.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	<u>Page</u>
Item 1. Financial Statements	
Condensed Statements of Consolidated Operations — Three and Six Months Ended June 30, 2000 and 1999.....	3
Condensed Statements of Consolidated Cash Flows — Six Months Ended June 30, 2000 and 1999.....	4
Condensed Consolidated Balance Sheets — June 30, 2000 and December 31, 1999.....	5
Notes to Financial Statements.....	7
Independent Accountants' Report.....	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures About Market Risk	14
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	14
Item 6. Exhibits and Reports on Form 8-K	15
SIGNATURES	16

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2000	1999	2000	1999
	Millions of Dollars			
OPERATING REVENUES.....	\$ 1,338	\$ 690	\$ 2,688	\$ 1,786
OPERATING EXPENSES				
Energy purchased for resale	1,230	588	2,387	1,512
Operation and maintenance	88	91	182	184
Depreciation and other amortization	16	17	32	32
Goodwill amortization.....	5	5	11	11
Taxes other than income.....	20	19	35	36
Total operating expenses.....	<u>1,359</u>	<u>720</u>	<u>2,647</u>	<u>1,775</u>
OPERATING INCOME (LOSS).....	(21)	(30)	41	11
OTHER INCOME (DEDUCTIONS) - NET.....	<u>52</u>	<u>—</u>	<u>52</u>	<u>(1)</u>
INCOME (LOSS) BEFORE INTEREST, OTHER CHARGES AND INCOME TAXES.....	31	(30)	93	10
INTEREST INCOME	—	1	—	1
INTEREST EXPENSE AND OTHER CHARGES	<u>(19)</u>	<u>(18)</u>	<u>(37)</u>	<u>(38)</u>
INCOME (LOSS) BEFORE INCOME TAXES	12	(47)	56	(27)
INCOME TAX EXPENSE (BENEFIT).....	<u>5</u>	<u>(14)</u>	<u>23</u>	<u>(6)</u>
NET INCOME (LOSS)	7	(33)	33	(21)
PREFERRED STOCK DIVIDENDS.....	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK.....	<u>\$ 6</u>	<u>\$ (34)</u>	<u>\$ 31</u>	<u>\$ (23)</u>

See Notes to Financial Statements.

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

	Six Months Ended	
	June 30.	
	<u>2000</u>	<u>1999</u>
	Millions of Dollars	
CASH FLOWS – OPERATING ACTIVITIES		
Net income (loss)	\$ 33	\$ (21)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation and amortization	45	45
Deferred income taxes – net	13	11
Gain from the sale of assets	(53)	—
Changes in operating assets and liabilities:		
Accounts receivable	(257)	293
Inventories	(11)	11
Accounts payable:		
Parent and affiliates	(22)	(9)
Other	286	(249)
Interest and taxes accrued	(49)	(8)
Other working capital	(29)	23
Energy marketing risk management assets and liabilities – net	18	(76)
Other – net	—	(25)
Cash used in operating activities	<u>(26)</u>	<u>(5)</u>
CASH FLOWS – FINANCING ACTIVITIES		
Issuance of common stock	—	250
Change in notes payable:		
Banks	—	3
Parent	(3)	(177)
Cash dividends paid	<u>(2)</u>	<u>(1)</u>
Cash provided by (used in) financing activities	<u>(5)</u>	<u>75</u>
CASH FLOWS – INVESTING ACTIVITIES		
Construction expenditures	(64)	(71)
Proceeds from sale of assets	105	—
Other investments	<u>(2)</u>	<u>—</u>
Cash provided by (used in) investing activities	<u>39</u>	<u>(71)</u>
CASH PROVIDED BY (USED IN) DISCONTINUED OPERATIONS	<u>(11)</u>	<u>7</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3)	6
CASH AND CASH EQUIVALENTS – BEGINNING BALANCE	<u>6</u>	<u>—</u>
CASH AND CASH EQUIVALENTS – ENDING BALANCE	<u>\$ 3</u>	<u>\$ 6</u>

See Notes to Financial Statements.

TXU GAS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 2000 (Unaudited)	December 31, 1999
	<u>Millions of Dollars</u>	
PROPERTY, PLANT AND EQUIPMENT		
Gas distribution and pipeline.....	\$ 1,436	\$ 1,378
Other.....	<u>26</u>	<u>68</u>
Total.....	1,462	1,446
Less accumulated depreciation.....	<u>175</u>	<u>142</u>
Net of accumulated depreciation.....	1,287	1,304
Construction work in progress.....	<u>51</u>	<u>47</u>
Net property, plant and equipment.....	<u>1,338</u>	<u>1,351</u>
 INVESTMENTS.....	 <u>39</u>	 <u>38</u>
 GOODWILL (net of accumulated amortization: 2000 - \$61; 1999 - \$50).....	 <u>798</u>	 <u>809</u>
 CURRENT ASSETS		
Cash and cash equivalents.....	3	6
Accounts receivable (net of allowance for uncollectible accounts: 2000 - \$7; 1999 - \$8).....	648	391
Energy marketing risk management assets.....	1,141	581
Inventories - at average cost:		
Materials and supplies.....	11	12
Gas stored underground.....	102	93
Deferred income taxes.....	27	29
Other current assets.....	<u>61</u>	<u>16</u>
Total current assets.....	<u>1,993</u>	<u>1,128</u>
 OTHER ASSETS		
Energy marketing risk management assets.....	139	27
Regulatory assets.....	49	45
Deferred income taxes.....	10	19
Deferred debits.....	<u>8</u>	<u>16</u>
Total other assets.....	<u>206</u>	<u>107</u>
 Total.....	 <u>\$ 4,374</u>	 <u>\$ 3,433</u>

See Notes to Financial Statements.

**TXU GAS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

CAPITALIZATION AND LIABILITIES

	June 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	1,014	1,016
Deficit	<u>(18)</u>	<u>(51)</u>
Total common stock equity	996	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	396	385
Long-term debt, less amounts due currently	<u>551</u>	<u>551</u>
Total capitalization	<u>2,165</u>	<u>2,123</u>
CURRENT LIABILITIES		
Notes payable – banks	1	1
Accounts payable:		
Parent and affiliates	14	36
Other	566	280
Energy marketing risk management liabilities	1,076	525
Interest and taxes accrued	34	86
Other current liabilities	<u>83</u>	<u>80</u>
Total current liabilities	<u>1,774</u>	<u>1,008</u>
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES		
Accumulated deferred income taxes and investment tax credits	13	13
Pensions and other postretirement benefits	150	153
Energy marketing risk management liabilities	151	12
Other deferred credits and noncurrent liabilities	<u>121</u>	<u>124</u>
Total deferred credits and other noncurrent liabilities	<u>435</u>	<u>302</u>
CONTINGENCIES (Note 5)		
	—	—
Total	<u>\$ 4,374</u>	<u>\$ 3,433</u>

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 and distribution of natural gas and energy marketing. TXU Gas 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.

TXU Gas recently sold or is selling 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.

3. CAPITALIZATION

TXU Gas Obligated, Mandatorily Redeemable, Preferred Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures of TXU Gas (Trust Securities) - At June 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 June 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.

4. REGULATION AND RATES

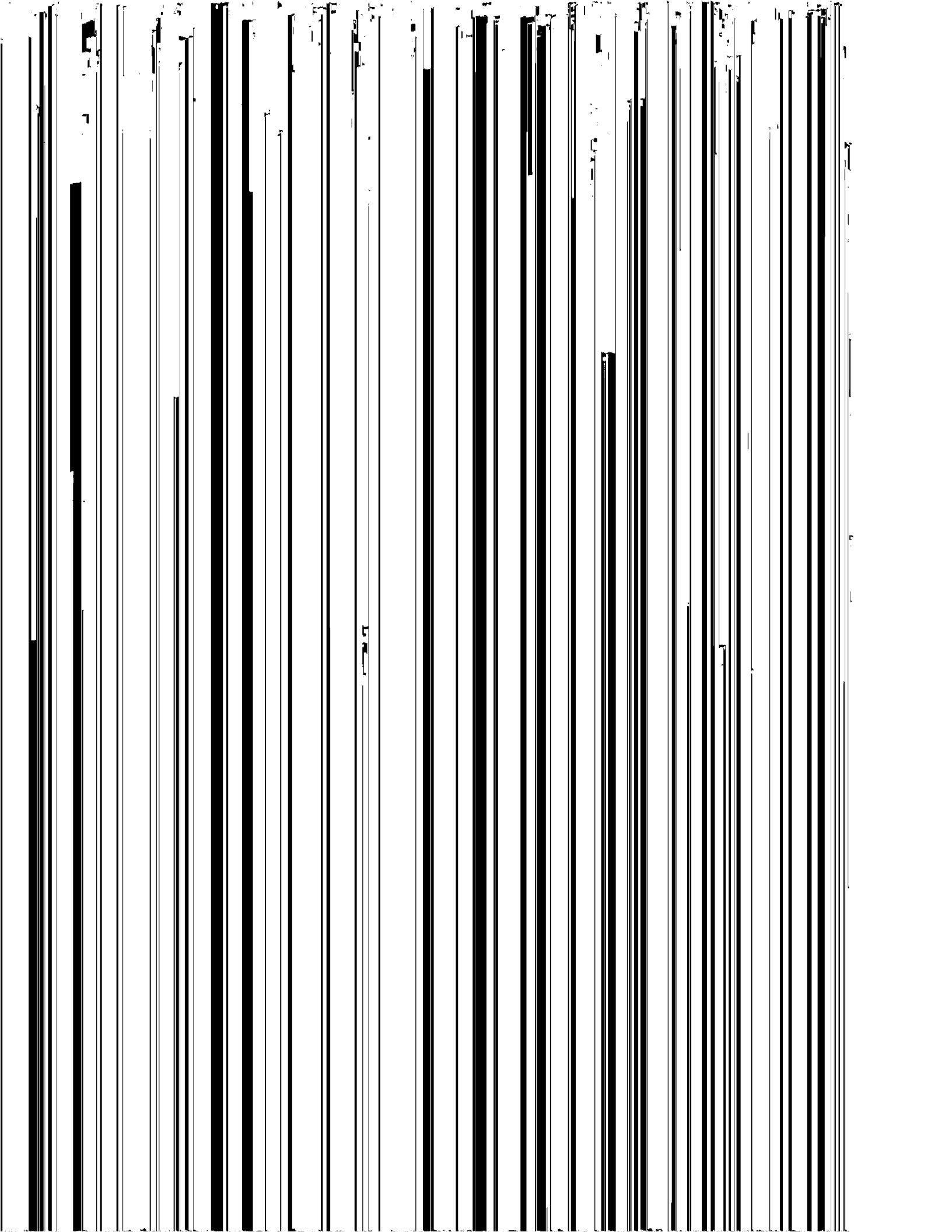
TXU Gas employs a continuing program of rate review for all classes of customers in its regulatory jurisdictions. Rate relief amounting to about \$1 million in annualized revenue increases, exclusive of changes in gas costs, has been granted in 2000 in addition to about \$7.5 million granted in 1999. Rate cases supporting \$9 million in annualized revenue increases were pending in 39 cities as of June 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 \$9 million in annualized revenue deficiencies. A decision on this matter is expected in the fourth quarter of 2000. Additional rate cases have been filed subsequent to June 30, 2000 seeking to recover \$8 million in revenue deficiencies.

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 results 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. On July 12, 2000, TXU Lone Star Pipeline filed with the RRC a motion for rehearing concerning its final ruling. TXU Lone Star Pipeline is unable to predict the outcome of the motion for rehearing.

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.



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 June 30, 2000, and the related condensed statements of consolidated operations for the three-month and six-month periods ended June 30, 2000 and 1999, and the condensed statements of consolidated cash flows for the six-month periods ended June 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
August 7, 2000

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

BUSINESS

TXU Gas Company (TXU Gas) recently sold or is selling 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 June 30, 2000

For the three months ended June 30, 2000, TXU Gas had net income of \$7 million compared with a net loss of \$33 million for the three months ended June 30, 1999. Results for the second quarter of 2000 reflect the \$34 million after-tax gain related to the sale of substantially all of the gas processing assets and improved gas distribution and energy marketing results.

Operating revenues for the second quarter of 2000 increased by \$648 million and energy purchased for resale increased by \$642 million from the 1999 period as a result of trading activities in the Energy Marketing segment. Trading revenues and energy purchased for resale costs reflect somewhat higher volumes, but the increases were primarily the result of a significant increase in the price for 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 other corporate operation and maintenance expenses, reduced gas processing expenses following the sale and favorable resolution of several outstanding claims. The effective income tax rate for both periods was affected by non-deductible amortization of goodwill.

Six Months Ended June 30, 2000

For the six months ended June 30, 2000, TXU Gas had net income of \$33 million compared to a net loss of \$21 million for the six months ended June 30, 1999. The better results for the first six months of 2000 were attributable to the \$34 million gain on the sale of the processing assets as well as improved gas distribution and energy marketing results.

Operating revenues for the first six months of 2000 increased by \$902 million and energy purchased for resale increased by \$875 million from the 1999 period as a result of trading activities in the Energy Marketing segment. Trading revenues and energy purchased for resale costs increased for the same reasons mentioned above for the second quarter. Higher operation and maintenance expenses in the Energy Marketing segment were more than offset by cost reductions for gas distribution and other corporate operation and maintenance expenses and the favorable resolution of several outstanding claims. 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		Six Months Ended	
	June 30,		June 30,	
	2000	1999	2000	1999
Gas distribution:				
Sales volumes (billion cubic feet – Bcf)	19	17	68	69
Margin (millions)	\$ 57	\$ 56	\$ 179	\$ 169
Pipeline transportation:				
Transportation volumes (Bcf)	133	131	274	271
Revenues (millions)	\$ 24	\$ 24	\$ 59	\$ 62
Heating degree days (% of normal)	79%	53%	64%	73%

For the three months ended June 30, 2000, the Gas Pipeline and Distribution segment had net income of \$19 million compared with a net loss of \$17 million for the three months ended June 30, 1999. Improved results for the 2000 period were due to the \$34 million after-tax gain related to the sale of the processing assets and cost reductions in gas distribution operations.

For the six months ended June 30, 2000, the segment had net income of \$57 million compared with net income of \$9 million for the comparable 1999 six-month period. Results for the 2000 six-month period reflect the gain on sale of gas processing assets, improved margins and cost reductions in gas distribution operations and higher gas processing margins.

Energy Marketing

Segment Highlights

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2000	1999	2000	1999
Trading and marketing volumes:				
Gas (Bcf).....	306	241	626	592
Electric (gigawatt-hours-GWh)	6,836	773	10,540	1,830

The Energy Marketing segment had a net loss of \$7 million for three months ended June 30, 2000 compared with a net loss of \$9 million for the three months ended June 30, 1999. The improvement in results was primarily due to improved margins which more than offset increased operation and maintenance expenses. Energy Marketing segment margins increased from \$1 million in the 1999 period to \$21 million in the 2000 period while operation and maintenance expenses increased from \$14 million in the 1999 period to \$28 million in the 2000 period. The increase in operation and maintenance expenses reflects costs of developing infrastructure capabilities in preparation for the opening of the Texas electricity market to competition in 2002 and severance and other costs in connection with the relocation of energy trading operations to Dallas.

For the six months ended June 30, 2000, the segment had a net loss of \$12 million, reflecting improvement from the net loss of \$16 million for the prior six-month period. Energy Marketing segment margins increased from \$6 million in the 1999 period to \$30 million in the 2000 period. Operation and maintenance expenses increased from \$28 million in the 1999 period to \$44 million in the 2000 period for the reasons discussed above.

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 \$38 million compared with \$35 million for the same period last year. Changes in operating assets and liabilities required \$64 million for the first six months of 2000 compared with \$40 million for the same period in 1999.

Cash flows of \$5 million were used in financing activities in the first six months of 2000 compared with cash flows provided by financing activities of \$75 million for the first six months of 1999.

Cash flows provided by investing activities for the six months ended June 30, 2000 were \$39 million compared with cash flows used of \$71 million for the six months ended June 30, 1999. The sale of substantially all of TXU Gas' natural gas processing assets provided \$105 million in the second quarter of 2000. Construction expenditures were \$64 million and \$71 million for the first six months of 2000 and 1999, respectively.

Cash flows required by discontinued operations were \$11 million in the first six months of 2000 compared with cash flows provided of \$7 million during the first six months of 1999.

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 and amended, is effective for TXU Gas 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 Gas 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 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 1. LEGAL PROCEEDINGS

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. Phillip 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.

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 Schedules

99 Condensed Statements of Consolidated Operations – 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 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: August 10, 2000

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

	Twelve Months Ended	
	June 30,	
	<u>2000</u>	<u>1999</u>
OPERATING REVENUES	<u>\$ 4,737</u>	<u>\$ 3,931</u>
OPERATING EXPENSES		
Energy purchased for resale.....	4,182	3,404
Operation and maintenance	355	358
Depreciation and other amortization.....	63	60
Goodwill amortization	21	21
Taxes other than income	<u>60</u>	<u>64</u>
Total operating expenses.....	<u>4,681</u>	<u>3,907</u>
OPERATING INCOME	56	24
OTHER INCOME (DEDUCTIONS) - NET	<u>69</u>	<u>3</u>
INCOME BEFORE INTEREST, OTHER CHARGES AND INCOME TAXES.....	125	27
INTEREST INCOME.....	—	1
INTEREST EXPENSE AND OTHER CHARGES	<u>(76)</u>	<u>(77)</u>
INCOME (LOSS) BEFORE INCOME TAXES.....	49	(49)
INCOME TAX EXPENSE (BENEFIT)	<u>13</u>	<u>(11)</u>
NET INCOME (LOSS)	36	(38)
PREFERRED STOCK DIVIDENDS	<u>4</u>	<u>4</u>
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	<u>\$ 32</u>	<u>\$ (42)</u>