It's a done deal. TXU Corp. finished selling itself to private equity investors on Wednesday.

It took chief executive John Wilder less than a year to complete the $45 billion sale to Kohlberg Kravis Roberts & Co. and TPG - the biggest leveraged buyout in history. Now he'll leave the company.

"It's just remarkable it closed in eight months," said George Bilicic, a managing director with Lazard Freres & Co., which advised TXU on the deal.

What happens now? That's anyone's guess.

The new TXU owners, who are calling themselves Texas Energy Future Holdings Limited Partnership, made some promises to make the sale palatable for lawmakers. They'll cut some rates, and they won't build some coal-burning power plants.

There aren't long-term assurances. The buyers won't say exactly how they plan to make money off the deal, or how they plan to pay off the $24.5 billion in debt they placed on the company to finance the deal.

If consumers get hurt, it could jeopardize the fundamental structure of Texas' deregulated electricity market.

Come this morning, TXU will no longer trade on the New York Stock Exchange. Stockholders can cash in their TXU shares for $69.25 apiece. The company will be private and will be called Energy Future Holdings.

The new holding company will operate as three separate businesses: TXU Energy is the retail company; Luminant is the power generation company, and Oncor Electric Delivery operates power lines.

The buyers hired former U.S. Commerce Secretary Don Evans to be nonexecutive chairman of Energy Future Holdings. The investors haven't named a chief executive to replace Mr. Wilder, who will get about $270 million when he cashes in his TXU shares.

TXU shares closed Wednesday at $69.24 on the New York Stock Exchange.

Fulfilling promises

The new company said it will begin making good on commitments it made to convince lawmakers and consumers that the sale was a good idea.

TXU already cut electricity prices 10 percent for people who haven't chosen cheaper pricing plans. That's about 1 million customers.

With the closing of the deal, Texas Energy Future promised an additional 5 percent price cut for those customers.

Also, on the day in February when the investors announced their offer for TXU, they promised to kill plans to build eight of 11 coal-fired power plants. TXU was under pressure from consumers, politicians and business groups to drop the plans for the polluting plants.

Texas Energy Future said in a news release that it would yank air permit applications that are pending before the Texas Commission on Environmental Quality. As of Wednesday, applications for seven TXU coal plants were on hold at the commission.

The new company also made promises designed to protect the regulated power-line business, Oncor Electric Delivery, in case any other TXU business goes bust.

And in a case pending before the Public Utility Commission, Oncor offered a $72 million rebate to consumers and to limit certain costs it will charge customers. Those promises are part of settlement negotiations with some consumer advocates.

Still, some observers say, the buyers aren't giving Texans any net benefit. Texas Energy Future probably would have offered many of those goodies anyhow as part of a profitable business strategy, or to comply with regulations.
“They're not making substantive commitments. They're making procedural ones,” said Roger Gale, a consultant with GF Energy hired by The Dallas Morning News to assess the impact of the buyout on consumers.

He said the procedures the buyers have set up to ensure transparency and to protect Oncor are OK. But, he pointed out, the buyers haven't promised to improve the quality of service.

Mr. Gale and a number of consumer advocates such as AARP and Public Citizen say they worry that consumers will ultimately pay the $24.5 billion in debt the buyers placed on TXU to finance the deal. They say the buyers aren't sharing the spoils of the deal with Texans, only the risk.

Benefits, risks

Even Pat Wood, a former PUC chairman who helped design Texas' deregulated market, said most utility mergers don't end up benefiting consumers. He wasn't referring to any deal in particular.

"To be honest - and this is a very un-Republican thing to say, but I'm going to say it anyway because I'm out of office now - very few of these mergers ever turned out very good for folks," Mr. Wood said in an interview earlier this year.

"You know, a lot of these things don't look great a year later," he said.

That doesn't mean the buyout group necessarily wins if consumers lose.

Mr. Gale speculates the buyout group wants to use TXU as a platform to create a national utility. A poor showing in Texas might make the buyers unwelcome elsewhere, or simply make it difficult to gain more customers back home.

"It is in their economic interest to run the business the right way and to build very strong and broad constituent support in Texas," said Mr. Bilocic of Lazard.

The buyers and TXU worked hard to get the deal done. Mr. Bilocic said there were some tense weeks during the summer when he worried the loan markets might collapse and take the TXU buyout down with them.

Texas' unique deregulated market, with competitive retail and wholesale markets, made the TXU deal possible. Already, policy makers are warning Texas Energy Future not to anger consumers, or risk killing off the competitive markets that have been profitable for TXU.

"What I would ask is that these new owners would be very cognizant that it probably takes one more stupid thing to screw up this market design," PUC commissioner Barry Smitherman said during a meeting Tuesday.

He warned that many consumers are already sour on deregulation because of relatively high prices and big profits at power companies. If the situation turns into a public outcry as it has in other states, Texas lawmakers may want to change or re-regulate the market during the next legislative session in 2009.

Sen. Troy Fraser, R-Horseshoe Bay, is watching.

He proposed legislation in the spring designed to boost competition by forcing TXU to shrink or split apart. The bills, which failed, could have killed the buyout deal.

"I had concerns in session about how this would play out. But now they own it, and I'm going to give them the opportunity to perform as good neighbors," Mr. Fraser said. "The concerns haven't changed, but the circumstances have changed."

Mr. Fraser said he will keep an eye on the market. Come next session, the Senate Business and Commerce committee will decide whether to propose changes to deregulation.

ENERGY FUTURE HOLDINGS' THREE BUSINESSES

TXU ENERGY

Operations: Retail electric provider

Chief executive: Jim Burke

Biggest commitment: To cut rates by 15 percent for the 1 million customers who haven't chosen cheaper plans. TXU has cut that rate by 10 percent and promised to cut an additional 5 percent after the deal closes.

ONCOR ELECTRIC DELIVERY
Operations: Power lines and poles monopoly in North Texas

Chief executive: Bob Shapard

Biggest commitment: To give customers a credit of $72 million after the deal closes and the PUC dismisses a pending rate review. The credit amounts to about $13 for the average residential customer. But since retail electric providers pay the delivery fees on behalf of customers, Oncor would give the rebate to the providers, which may choose to keep the money.

LUMINANT

Operations: Power plants, coal mines and wholesale trading

Chief executive: Mike Greene

Biggest commitment: To kill applications for air permits for eight of 11 coal-fired power plants. As of Wednesday, seven permit applications remained on hold with the state office that is handling hearings on the application for the Texas Commission on Environmental Quality. The new owners still must officially withdraw those permits.

WHAT THE BUYOUT MEANS FOR YOU

The new owners of TXU Corp. made a slew of promises to cool opposition to the deal. But some consumer advocates complain that the deal puts Texans at risk of higher electricity prices, without offering much benefit in return. (For some key issues, see 1A.) A partial checklist of TXU's promises and progress:

Your bill

Oncor Electric Delivery will limit the costs it will pass along to customers by about $56 million when it undergoes a rate review next year.

Oncor will limit the cost of debt it passes along to ratepayers, even if Oncor's debt rating falls to junk status (which it has not.)

BUT: Rating agencies have downgraded other TXU debt to junk status, and some consumer advocates worry that customers will eventually pay the price in the form of higher rates.

The buyout group will spend $200 million on measures to help customers become more energy efficient. Of that, $100 million will be spent by Oncor, including $16 million to help low-income people use less juice. Oncor won't pass along that cost to ratepayers.

BUT: The buyers haven't said how they will use the rest of the money.

Oncor will spend at least $3.6 billion on capital improvements during the next five years.

BUT: The PUC could pass that cost to ratepayers.

Your service

Oncor will meet industry standards for electric delivery service, customer call answering time and street light maintenance.

BUT: There's no commitment to exceed industry standards, and there's no commitment by TXU Energy to a new customer service standard.

Oncor agreed to install advanced electricity meters, which can help Oncor catch grid problems before they become outages.

BUT: Oncor didn't say how advanced the meters would be. The most high-tech meters would allow retail electric providers to charge customers lower prices for using electricity in the evening, or allow people to turn appliances on or off remotely, via the Web.

There's no commitment by TXU to offer innovative products or pricing packages.

Your environment

The buyers promised to build two nuclear power plants at TXU's Comanche Peak facility.

UPDATE: TXU has chosen a reactor technology, but hasn't yet applied for licenses with the Nuclear Regulatory Commission.

The buyers promised to consider building a coal gasification plant, sometimes called a "clean coal" plant.

UPDATE: TXU hasn't yet asked vendors to bid to provide the equipment.
The buyers promised to double its purchase of wind power.

UPDATE: TXU announced in July plans to help build the world's largest wind farm. It would be TXU's first investment in a wind farm, rather than simply purchasing the wind power.

The buyers will create a Sustainable Energy Advisory Board, with representatives from national environmental groups.

UPDATE: They haven't yet announced the members of the board.

There's no commitment by the investors to meet pollution or greenhouse gas limits other than those set by the government.

Your utility

The buyers will break TXU into three units that operate separately: TXU Energy retail, Luminant wholesale and Oncor Electric Delivery power line unit. Oncor, a regulated monopoly, will have its own offices and a separate board.

The buyers will keep employment and employee benefits unchanged until the end of 2008.

BUT: There's no commitment after next year.

Oncor will limit the amount of dividends Oncor will pay to the new owners to only Oncor's profit. This prevents the investors from draining value out of the regulated assets.

BUT: The buyers didn't limit dividends to be paid by TXU's other businesses, or promise to disclose those dividends.

Oncor will file quarterly earnings reports with the PUC, including information about dividends, for five years. TXU will still file quarterly financial statements with the Securities Exchange Commission, even though the company will be private.

Ringfencing of Oncor: That's a fancy term for protecting Oncor financially in case the other TXU businesses go down the tubes. Basically, the buyout group will operate Oncor separately from TXU's retail and wholesale divisions.

BUT: Some consumer advocates had pushed for an even stricter separation, and a few lawmakers wanted TXU to sell Oncor entirely to make the regulated monopoly entirely separate from the competitive businesses.

The buyout group promised that the entity it created as a holding company for TXU, called Texas Energy Futures, will own TXU for at least five years.

Oncor will file annual reports to the PUC on the company's compliance with these commitments.